

Office of the State Auditor

Division of State Audit

Racing Commission Bismarck, North Dakota

Audit Report for the two-year
period ended June 30, 2004
Client Code 125

Robert R. Peterson
State Auditor



**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

***Representative Francis J. Wald – Chairman
Senator Randy Christmann – Vice Chairman***

Representatives

*Ole Aarsvold
Larry Bellew
Al Carlson
Jeff Delzer
RaeAnn Kelsch
Andrew Maragos
Bob Skarphol
Blair Thoreson
Mike Timm*

Senators

*John Andrist
Jerry Klein
Aaron Krauter*

You may obtain reports by contacting the
Division of State Audit
at the following address:

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060
(701) 328-2241

Reports are also available on the internet at:
www.DiscoverND.com/auditor/

Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC requests</i>	<i>2</i>
<i>Background Information</i>	<i>4</i>
<i>Audit Objectives, Scope, And Methodology</i>	<i>6</i>
<i>Discussion and Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Fund Balance Detail</i>	<i>8</i>
<i>Condensed Financial Statements</i>	<i>9</i>
<i>Statement of Net Assets</i>	<i>9</i>
<i>Statement of Revenues and Expenses</i>	<i>10</i>
<i>Internal Control</i>	<i>11</i>
<i>Controls Over Live Race License Revenue</i>	<i>11</i>
<i>Controls Over Simulcast Provider</i>	<i>13</i>
<i>Compliance With Legislative Intent</i>	<i>16</i>
<i>Operations</i>	<i>17</i>
<i>Breeders Fund Payments</i>	<i>17</i>
<i>Other Areas of Interest</i>	<i>22</i>
<i>Fargo Horse Park</i>	<i>22</i>
<i>Effects of 2005 Legislative Action</i>	<i>28</i>

Transmittal Letter

March 9, 2005

Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Dean Meyer, Director, North Dakota Racing Commission

We are pleased to submit this audit of the North Dakota Racing Commission for the two-year period ended June 30, 2004. This audit resulted from a special request by the Legislative Audit and Fiscal Review Committee asking the State Auditor to conduct an audit of the Racing Commission.

In determining the contents of the Racing Commission audit, the primary consideration was to determine if the Racing Commission's special revenue funds, including the Promotion Fund, were properly used. We determined financial accountability should play an important part of this audit. Additionally, operational accountability is addressed whenever possible to increase the efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kevin Scherbenske, CPA. Dan Cox, CPA, was the staff auditor. Gordy Smith, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Meyer and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The North Dakota Racing Commission is the regulatory body in charge of regulating live and simulcast racing in North Dakota and administers three special funds for the benefit of the horse racing industry in North Dakota. The Commission is made up of five members appointed by the Governor and has a two person staff - a Director of Racing and an Administrative Officer. The office is located at 500 North 9th Street, Bismarck, ND 58501-0450.

RESPONSES TO LAFRC REQUESTS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. *Were expenditures made in accordance with legislative appropriations and other state fiscal requirements and restrictions?*

Yes.

2. *Were revenues accounted for properly?*

Yes.

3. *Were there adequate financial controls and procedures?*

Other than our findings addressing "controls over simulcast provider" (see page 13), we determined financial controls were adequate.

4. *Was internal control adequate and functioning effectively?*

Other than our findings addressing the lack of segregation of duties regarding the Racing Commission's receipting process and controls over live race license revenue (see page 11), we determined internal control was adequate.

5. *Do financial records and reports reconcile with state fiscal offices?*

Yes.

6. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes

7. *Was there any indication of fraud or dishonesty?*

No.

8. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

Other than our work addressing “breeders fund payments” (page 18), there were no indications of lack of efficiency in financial operations and management of the Racing Commission.

9. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report of the Attorney General's Office which pertained to the Racing Commission.

10. *Were all activities of the agency encompassed within appropriations of specific amounts?*

Yes, except North Dakota Century Code section 53-06.2-11 gives the North Dakota Racing Commission a continuing appropriation relating to the distribution of funds in the breeders' fund, purse fund, and racing promotion fund.

11. *Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the cost allocation system?*

Yes. The North Dakota Racing Commission was using the SAMIS system, but is not using the cost allocation system because they do not receive any federal funds.

12. *Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared (on at least a quarterly basis) actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?*

Yes.

Background Information

The North Dakota Racing Commission is responsible for regulating live and simulcast racing in North Dakota and administering three special revenue funds that receive monies from pari-mutuel betting in North Dakota for the benefit of the horse racing industry in North Dakota.

The Racing Commission is a division of the Office of the Attorney General headed by Dean Meyer, Director of Racing, who is appointed by the Racing Commission. The Racing Commission consists of five members appointed by the Governor.

The Racing Commission is provided a general fund appropriation of approximately \$150,000 per biennium. The Racing Commission is responsible for managing the revenues deposited into the three funds discussed below.

Racing Commission funds include:

- Breeders Fund
 - Purse Fund
 - Promotion Fund
-

The Breeders Fund receives .5% of each wager on a live race or simulcast race placed in North Dakota. The Breeders Fund is used to provide additional funds to North Dakota born horses that race and win, place, or show in a race at a North Dakota track. The bonus payments are split between the runner (60%), the mare (30%), and the stallion (10%). The fund also provides additional purse money for certain races which are limited to only North Dakota born horses.

The Purse Fund receives .5% of each wager on a live race or simulcast race placed in North Dakota. The Purse Fund is used to provide additional funds to the two North Dakota racetracks for purses for their live races, including races featuring non-North Dakota born horses.

The Promotion Fund receives .5% of each exotic wager on a live race or simulcast race placed in North Dakota. Exotic wagers involve double, quinella, exacta, trifecta, or other wager combining two or more horses for winning payoffs. The Promotion Fund also receives revenue from unclaimed tickets and breakage. Breakage is money left over after the track rounds bets down to the nearest 10 cents. The Promotion Fund is used for a variety of functions. Much of the dollars spent in fiscal years 2002 and 2003 were for the construction of a new horse track in Fargo. In fiscal year 2003 and 2004 promotional funds were spent to supplement operations at the new Fargo track such as salaries, veterinarians, purses, security, and other operating expenses.

The general fund receives 2% on any win, place, and show bet on a live race or simulcast race placed in North Dakota, for the first \$35.5 million dollars in bets per biennium, after which the general fund receives .5%. The general fund receives 2.5% on any exotic bet on a live race or simulcast race placed in North Dakota, for the first \$102.4 million dollars per biennium, after which the general fund receives .25%.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the North Dakota Racing Commission for the two-year period ended June 30, 2004 were to provide reliable, audited financial statements and to answer the following questions:

1. Has the Racing Commission used funds from their three special revenue funds as required?
2. Has the Racing Commission adequately addressed the issues that lead to the “stealth” site at Racing Services, Inc. (RSI)?
3. What is the effect of the loss of the “big bettors” on the Racing Commission revenues and commission projects?

Audit Scope

This audit of the North Dakota Racing Commission for the two-year period ended June 30, 2004 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared financial statements from the data used in the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures and journal vouchers.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed North Dakota Racing Commission written plans and meeting minutes.
- Observed North Dakota Racing Commission's processes and procedures.
- Reviewed North Dakota Century Code chapter 53-06.2 and 2001 and 2003 Session Laws.

Discussion and Analysis

The accompanying financial statements have been prepared in a condensed form to present the North Dakota Racing Commission's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. All fund types are condensed and reported in one column. Accordingly, the accompanying summary financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the two-year period June 30, 2004, operations of the North Dakota Racing Commission were primarily supported by fees credited to the Commission's special revenue funds. This is supplemented by a general fund appropriation.

FINANCIAL SUMMARY

Revenues consisted primarily of fees collected on the bets placed on live or simulcast races placed in North Dakota. Other revenues during the audited period include interest on the fund balances and licenses issued to tracks, simulcast sites, and individuals involved in the live races (jockeys, trainers, etc.). Total revenues were \$6,771,575 for the year ended June 30, 2003 as compared to \$2,628,186 for the year ended June 30, 2004.

The reason for the large drop off in fees collected by the Racing Commission is the loss of the "big bettors." These were individual bettors that were wagering up to \$170 million dollars per year on simulcast racing through a North Dakota charity. For various reasons these individuals have chosen to leave the state and place their bets elsewhere. As a result of the loss of these bettors, the total amounts currently wagered in North Dakota are approximately \$5 million dollars per year.

Total expenditures, excluding transfers to the state general fund for the Racing Commission, were \$3,174,101 for the year ended June 30, 2003 as compared to \$2,509,925 for the year ended June 30, 2004. This decrease is the result of fewer funds spent in fiscal year 2004 for construction costs of the Fargo horse track. The Racing Commission realized that with the loss of their main revenue stream, they would need to place some constraints on the amount of funds spent out of the three special revenue funds.

FUND BALANCE DETAIL

The table below illustrates the effect of the big bettors on the fund balances of the three special revenue funds at the Racing Commission on a calendar year basis. The increased revenue stream from Racing Services, Inc. (RSI) ended near the end of calendar year 2003.

Table 1

<u>Breeders Fund 278</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Beginning Fund Balance	\$ 1,723,172	\$ 2,179,879	\$ 2,369,555
Income	731,155	593,129	30,136
Expenses	274,448	403,453	460,240
Ending Fund Balance	<u>\$ 2,179,879</u>	<u>\$ 2,369,555</u>	<u>\$ 1,939,451</u>

<u>Purse Fund 290</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Beginning Fund Balance	\$ 1,710,890	\$ 2,247,388	\$ 2,415,584
Income	732,402	591,593	30,755
Expenses	195,904	423,397	436,211
Ending Fund Balance	<u>\$ 2,247,388</u>	<u>\$ 2,415,584</u>	<u>\$ 2,010,128</u>

<u>Promotion Fund 339</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Beginning Fund Balance	\$ 3,258,133	\$ 2,778,429	\$ 1,943,744
Income	1,288,624	1,003,420	80,170
Expenses	1,768,328	1,838,105	601,244
Ending Fund Balance	<u>\$ 2,778,429</u>	<u>\$ 1,943,744</u>	<u>\$ 1,422,670</u>

It appears if current trends in revenue and expenditures continue the Racing Commission has monies to continue current funding levels for less than 5 years for the Breeders and Purse Fund and less than 3 years for the Promotion Fund.

Condensed Financial Statements

STATEMENT OF NET ASSETS

	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<u>Assets:</u>		
Cash and Cash Equivalents	\$ 6,915,166	\$ 5,998,346
Taxes Receivable	8,066,774	808,485
Less: Allowance for Doubtful Accounts	(6,329,463)	(777,767)
Interest Receivable	2,266	2,213
Capital Assets (Net)	2,000	2,000
Total Assets	<u>\$ 8,656,743</u>	<u>\$ 6,033,277</u>
<u>Liabilities:</u>		
Accounts Payable	\$ 60,794	\$ 609,771
Accrued Payroll	6,122	9,033
Due to Other State Agencies	510	
Due to Other General Fund	969,719	23,010
Compensated Absences Payable	8,711	6,428
Total Liabilities	<u>\$ 1,045,856</u>	<u>\$ 648,242</u>
<u>Net Assets:</u>		
Invested in Capital Assets	\$ 2,000	\$ 2,000
Restricted	7,608,887	5,383,035
Total Net Assets	<u>\$ 7,610,887</u>	<u>\$ 5,385,035</u>

STATEMENT OF REVENUES AND EXPENSES

	<u>June 30, 2003</u>	<u>June 30, 2004</u>
<u>Revenues and Other Sources:</u>		
Taxes – General Fund Share	\$ 3,996,890	\$ 1,645,223
Taxes – Breeders Fund Share	726,910	249,830
Taxes – Purse Fund Share	726,910	249,830
Taxes – Promotion Fund Share	1,256,003	432,176
Interest Earnings	51,309	27,292
Licenses	13,735	23,835
Total Revenues and Other Sources	<u>\$ 6,771,757</u>	<u>\$ 2,628,186</u>
<u>Expenses and Other Uses:</u>		
Salaries and Benefits	\$ 73,043	\$ 95,020
Grants from Breeders Fund	517,701	546,194
Grants from Purse Fund	181,000	805,000
Grants from Promotion Fund	2,353,010	993,680
Professional Services	14,983	48,645
Travel	13,716	8,141
Other Operating Expenses	20,648	13,245
Transfers to the General Fund	4,010,625	1,669,058
Total Expenses and Other Uses	<u>\$ 7,184,726</u>	<u>\$ 4,178,983</u>

INTERNAL CONTROL

In our audit for the two-year period ended June 30, 2004, we identified the following areas of the Racing Commission's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the Statewide Accounting and Management Information System (SAMIS).

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Racing Commission's operations or ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements. We noted a reportable condition due to a lack of segregation of duties in regards to receipting revenue received at the Racing Commission for license revenue and Breeders Fund registration revenue. However, no recommendation will be made, as it is not feasible to obtain proper segregation of duties due to the size of this entity. Other reportable conditions are described below.

CONTROLS OVER LIVE RACE LICENSE REVENUE

Finding 04-1

During our review of the procedures used to license individuals at the track for the two North Dakota racing sites, we noted a lack of controls. Individuals requiring licenses include jockeys, trainers, owners, groomers, as well as others. The Racing Commission has contracted with two people to handle the licensing of individuals before they are allowed to participate in the live races. These two people receive the money for the license, write up a receipt from a receipt book, issue the license, and compile a hand-written report of all individuals licensed for the weekend.

Those same contracted individuals distribute the actual licenses. They take the licensee's picture, which is uploaded into a computer, and then a software program formats the picture into a license that is printed and laminated. The Chief Steward, who oversees all race activities, ensures everyone is licensed by

inspecting all applicable personnel to ensure they have an appropriate license.

The list of licensed individuals, along with the money collected is sent to the Racing Commission at the conclusion of the racing weekend. The number of licenses issued is reconciled to the amount of monies collected. Our concern is the individuals could issue a license and keep the money for personal use if a receipt is not requested. The Racing Commission would not detect this as they are only able to compare the monies received to the written report or receipts written. If the compiled report of licensed individuals could be inputted into the computer instead of hand-written then it could be alphabetized and provided to the Head Steward at his discretion. This list would serve as a means for the Head Steward to ensure that everyone had a properly issued license and as a deterrent to issuing a license without receipting the payment. At the end of the racing season this listing could be sent to the Racing Commission by the Head Steward, to be reconciled to the total monies received for the year.

Audit Recommendation
and Agency Response

Recommendation:

We recommend the North Dakota Racing Commission ensure procedures are in place for someone independent of issuing the licenses to verify that all licenses and license revenue are properly reported to the Racing Commission.

North Dakota Racing Commission Response:

Licensing of participants in the races takes place at the track. Last year we licensed approximately 250 owners or owner/trainers, 100 grooms, 30 trainers only, 6 veterinarians, 6 photographers, 5 exercise riders, 25 jockeys, and 10 others (jockey agents, helpers, etc.). We also licensed 75 simulcast employees, 10 simulcast sites, one tote company, one simulcast provider, and two live tracks.

The concern of the auditors deals with the licensing at the track, and the possibility that the contract person issuing the licensing could abscond with some of the fees. Their recommendation is that, instead of a handwritten list, the applicants be downloaded into a database as the licenses are sold. That list could be given to the track manager or steward, and it could be verified that all persons displaying a license are on that list. We are going to check and see if our laptop has the capability to handle that type of data base. We also want to be able to sort by occupation as we develop the database. If our current software is not able to accomplish this, we will work with IT to download the proper software. This will be done before live racing begins this summer. In addition to our contract personnel at the track, we plan on

attending both the Belcourt and Fargo meets where we can witness the procedure and make any changes warranted.

CONTROLS OVER SIMULCAST PROVIDER

Background Information:

Finding 04-2

Para mutual simulcast horse betting refers to when an individual goes to a site and places a bet on a horse race being shown live though a video feed from a horse track located elsewhere.

Approximately 20-25% of the initial wager is used to cover administrative costs, which are split between the track, the simulcast provider Racing Services, Inc. (RSI), the charity, the Racing Commission, and the state general fund. Each charity has an account which is used to deposit betting revenues and pay winning tickets. On a weekly basis, the simulcast provider will balance the account and take the additional funds in the account if the bettors had a losing week or reimburse the fund if the bettors had a winning week. If the bettors won more than the total wagered, the account would have a negative balance and the simulcast provider would transfer funds into the account to bring the balance back to even. If the bettors won less than the total wagered, the account would have a positive balance and the simulcast provider would take the additional funds to bring the balance back to even.

RSI had contracts with individual race tracks from which they provide the signal. Each track, depending on demand for the signal, will receive 3-7% of the handle (total dollars wagered). Each charity also had a specific contract with RSI and would retain a percentage of the administrative costs. Per discussion with Lien Games, the current simulcast provider, the charities typically get 4% of the handle. Approximately 1.5% would be paid to the Racing Commission for their three special revenue funds and 2–2.5% would be paid to the Racing Commission for the state's general fund. The remaining amount was kept by RSI for operating costs. From this remaining amount, RSI began the practice to give large bettors a refund of their initial amounts wagered to entice them to keep wagering at an RSI provided charity.

RSI set up a non-licensed (stealth) site, which, while still hooked into the national hub (Amtote), was not being reported as part of any state's handle. They were required to be connected to the national hub to ensure the tracks and bettors still received their funds. Only the state and charitable organizations were shorted by the stealth site. RSI used the amounts which should have

gone to the charity and the state to enhance its refund program and increase profits.

The difficulty in discovering the stealth site was RSI had sites in several states and the reports from Amtote indicated the amount wagered in total through RSI (community) as well as the amount by source, which is a RSI designation on a state by state or tribal basis. RSI did not include the stealth site in any source (state), so the report from Amtote for each state correctly showed the amount wagered at the legitimate sites for the state in total as well as the information from the entire RSI community (several states). As each state is not privy to information on total wagers in the other states in the RSI community, the states were not aware the amount reported in total for each state did not add up to the amount reported for the RSI community. Additionally, some of these sources included tribal areas, which would not share their information.

What happened:

By law, RSI had a 30-day period to remit the tax monies owed the state's general fund and the Racing Commission's special funds. In October 2001, RSI was initially given a 60-day extension due to the slowdown to the whole system after the September 11, 2001 tragedy. This extension was for the special fund payment only; the general fund payment was always submitted within the allotted 30-day period. The extension was allowed to continue because several big bettors had moved into the state and were winning, so extra time was needed for RSI to collect the winnings from the tracks since their money pool wasn't large enough to pay off both the bettors and the state. Additionally, RSI was having troubles collecting winnings from several tracks that were having financial difficulties.

It was noted in the December 2002 meeting minutes that RSI's payments of special funds had been running 30-45 days behind the deadline and the Executive Director brought it to the Commission's attention because he was concerned that the late payments had continued for so long. The Racing Commission has the authority to charge a penalty and interest after the 30-day payment period had passed, but counsel for the Commission advised that if the delay was excusable then all or part of the penalty/interest could be waived. The Racing Commission was protected by a \$450,000 bond posted by RSI and since RSI had always been on time with the general fund payment, further action against RSI was tabled until a future meeting when more information on the need for the payment extension could be obtained.

It was noted in the July 2003 meeting minutes that the RSI issue had not been addressed so the Racing Commission gave RSI a

45-day deadline to bring current all special fund monies owed the Racing Commission or risk having their license revoked. Later in July it was confirmed that RSI was under federal investigation. In August 2003, the State Attorney General appealed to the Racing Commission not to revoke RSI's license at this time, as his office in conjunction with the FBI, had not completed their investigation. RSI only fell behind the extension and the general fund payment obligation when the pari-mutuel taxes from the non-licensed site were factored in.

The big bettors were already planning to leave the state because they were not receiving as large of a refund as they could elsewhere, as the state tax rates were too high. In order to cut the big bettors a higher rebate, a non-licensed site was created by RSI. This site's handle was not reported as part of any state source, although it was included as part of the community (RSI bets from all states served). The Director of the Racing Commission noted an irregularity in the reports and subsequently helped the U.S. Department of Justice with their investigation. In a letter of commendation to the prior Racing Director, it was noted that, "Ms. Bala and RSI were convicted by a jury on all 12 counts of the federal indictment, and ordered to forfeit \$99 million, an amount equal to the bets run through the illegal 'stealth' site."

What can be done:

The Racing Commission contracts with a certified public accountant to conduct audit work. The Racing Commission's auditor receives the source reports for all bets placed in North Dakota, which includes a weekly handle report and a monthly summary report from Amtote and compares them to the reports received from RSI (now Lien Games Inc.). These source reports cannot be altered. However, this will only verify that the dollars bet at legal sites in North Dakota are properly reported.

Stealth simulcast sites are not just a North Dakota problem but an issue on a national level as well. A new technology (wagering transaction protocol or WTP) is in the process of being implemented by the racing industry and national regulators, which will allow the tracks to know where the bets are coming from. It is still under discussion how this will be funded, and who will oversee and regulate this new technology.

Currently, the only assurance the Racing Commission or the state of North Dakota has that the new source provider, Lien Games Inc., could not set up a stealth simulcast site would be for the Racing Commission's auditor to log into Amtote's national hub to see every dollar wagered through Lien Games Inc. Access would be needed to the entire Amtote database for the whole community (Lien Games Inc. bets from all states served) not just the source (Lien Games Inc. bets from North Dakota) because

Lien Games Inc. also submits the handle from other states. It could be verified that the amounts bet match the reports received from Amtote and Lien Games Inc. To date the Racing Commission's auditor has not yet logged onto Amtote's hub in Maryland.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that the Racing Commission arrange with its auditor to access the national database at Amtote. Consideration should be given to what training, if any, is required for the auditor to be able to access the necessary information and be able to read it so as to determine that all bets originating from a simulcast site in North Dakota are properly reported in the Racing Commission's monthly reports.

North Dakota Racing Commission Response:

A main concern of our office, and also one of the auditors, was the auditing of our simulcast sites and simulcast provider. Currently, our auditor is contracted to conduct audit work. He is paid by the commission, and we are reimbursed by the simulcast provider. Our concern has been that we are only able to audit the figures the provider gives us. If a "phantom" site was established, we may not be able to pick up on it unless we saw a decline in other sites.

Besides the audit that is done, we carefully track each weeks handle at the simulcast sites. Each Thursday, we receive the figures from the previous week. Those figures are then compared with the previous week, and the previous year. On the times we have noted a discrepancy, such as a drop off in wagering, we have called to find out the reason.

At the February commission meeting, the commission approved travel expenditures to send our auditor to the hub in Maryland. There we will express our need for a method to track the dollars from the hub into each site, and an actual location of each site. The travel is tentatively planned to take place in May.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2004, we identified and tested North Dakota Racing Commission's

compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected
To Testing

- Bet Payoff Formulas – Determine that the correct amount was remitted to the general fund, breeders fund, purse fund, and promotion fund from all betting in North Dakota (North Dakota Century Code section 53-06.2-11).
- Proper limitation of funds for operations to \$50,000 from each special revenue fund (2001 North Dakota Session Laws chapter 3, section 9).
- The use of the following special revenue funds:
 - Promotions Fund
 - Breeders Fund
 - Purse Fund

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Operations

Our audit of the North Dakota Racing Commission identified the following areas of potential improvements to operations:

BREEDERS FUND PAYMENTS

Background:

Operational
Improvement 04-1

Each year the Racing Commission determines the amount of monies to be disbursed from the Breeders Fund. The Racing

Commission has recently set a policy of awarding 1/8 of the breeders fund balance each year. This policy was established to ensure funds will be available in future years for currently registered horses in the Breeder's Fund program. Generally, horses registered in the current year will not race or have offspring that will race for several years.

Awards were \$283,000 for fiscal year 2003 and \$230,000 for fiscal year 2004. This amount is paid annually to all registered North Dakota bred horses that win, place, or show (take 1st, 2nd, or 3rd) in the races held either at Belcourt or Fargo. Breeders Fund monies are only paid for in-state race results and only in cases where the race purses are at least \$1,000. Monitoring this fund includes registering the horses (foal, mare, or sire), accumulating race results, and determining which horses are eligible to receive Breeder Fund disbursements.

The Breeders Fund is getting more complex and difficult to maintain since more owners have registered their horses due to the larger payouts. According to the Racing Commission, the manual process of registering horses can consume up to 12 weeks per year. However, it was determined to be cost prohibitive for the Attorney General's Office to develop a new IT system to run the Breeders Fund. The Racing Commission currently has approximately \$20,000 set aside for the purchase of a software package if one that will fit their needs can be found. Most states do not distribute their funds like North Dakota, and instead have used the breeders fund monies to supplement the purse amounts for in-state bred horse winners or eliminated the Breeders Fund altogether.

Process:

In order to be eligible for Breeders Fund monies, a horse must be registered into the fund. The cost to register a foal or mare into the Breeder's fund is \$10; the cost to register a stallion is \$20. These registration fees are currently deposited into the state's general fund. The application is reviewed to determine if the mare is already in the fund by looking up the mare's owner on the computer. For every horse owner a separate Word[®] file table is created for all foals/mares/sires owned by that individual. If a foal is re-registered as a mare/sire then it will be included on both lists. Once the national certificate is received from the applicable organization (i.e.–National Foundation Quarter Horse Association) confirming the name of the horse, it is matched with the filed application. The file is not considered complete until this certification is received and the horse will not be paid if their file is incomplete.

Annual letters are sent to the horsemen to submit applications for Breeders Fund disbursements. The horse owners have until January 15 to request funds from the Breeders Fund. A separate Breeders Fund application form must be completed for each registered horse that placed 1st, 2nd, or 3rd in a North Dakota race. This application is primarily used to update addresses and to obtain the social security number for inclusion on the IRS 1099-MISC (Miscellaneous Income Form). All North Dakota bred horses receiving monies (approx. 540 in 2004) are checked against the Racing Commission records to verify the horse was eligible and properly registered. The race (win/place/show) results are separately compiled (on the North Dakota Breeders Fund Race Winners worksheet) and compared to the information submitted by the horse owner. These results are checked against the data compiled by Equibase Co. and TruForm Inc. to verify race results and that the purse amounts are greater than \$1,000. These hand-written worksheets are then typed up and forwarded to the Racing Commission's auditor to determine each horse's winnings. A point system allocates points for each foal's win, place, or show. The total amount of Breeders Fund monies available for distribution are then allocated to the foals based on their percentage of points to the total points awarded to North Dakota bred horses. The foal receives 60% of the monies, while the mare and sire of the winning foal receive 30% and 10%, respectively. If the mare or sire is not registered, their portion goes to the foal. A copy of the worksheet is sent with each check so that each horse owner can see how their foal's winnings were distributed.

Solution:

The following operational improvements would help considerably in streamlining the process of allocating monies from the Breeders Fund.

The fee (\$10) to get into the fund is too low and a higher amount (such as \$25) should be considered to offset the cost of maintaining the fund. This recommendation will only be effective if Senate Bill 2344, introduced in the 2005 Legislative Session, becomes law and allows the Racing Commission the ability to use license fees collected for operating purposes.

The Racing Commission should consider either outsourcing Breeders Fund distribution duties or develop/purchase a software program to streamline the process. Although the amount of dollars disbursed in 2004 decreased and may continue to

decrease, the amount of time incurred to manage the fund has not decreased, as it is based on the number of horses registered.

The race winner worksheets are prepared because the breeders fund application forms do not include a place to indicate the foal's mare/sire and respective owners. The worksheet prepared by hand is subsequently typed up on the computer. These three forms, with virtually contain the same information, should be combined into one form. The breeders fund application form could be modified to include the necessary data from the race winner worksheets. These forms could then be verified against the race results, forwarded on to the auditor, and a copy returned to the horse owners with their calculated allocation. The only change needed would be to get the social security number, which could be added to the registration form for submitting a horse into the Breeders Fund.

To conclude, rather than having each horse owner with a separate table set up in a Word[®] document for foals, mares, and sires, there should be one database that holds all necessary and relevant information. This database could be set up in Access[®] or in a spreadsheet format such as in Excel[®]. This would facilitate verifying whether a horse is already registered in the Breeders Fund, or who the mare/sire of a particular foal is and would also save time from looking up several Word[®] documents or going through file cabinets. The Racing Commission currently has approximately \$20,000 available in the Breeders Fund Administrative fund, which could be used to purchase or develop a software program.

North Dakota Racing Commission Response:

In response to the streamlining of the breeder's fund, we are looking at several alternatives. We have been in contact with surrounding states, but are having a difficult time finding a program that we can use. This search is ongoing, but if we find none, we will develop our own.

Beginning with the 2005 colt crop, we will enter them into a database. By doing this for the next several years, by year six, we will have all eligible runners on a database that will allow us simpler access to all needed material. We are currently discussing the number of fields that would be necessary. Ms. Tessman has worked extensively with the development of such a database when she was employed by FEMA and is confident this can be done.

Upon the passage of SB 2344, the commission will review all license and registration fees. We realize there are several that should be raised to cover actual cost of administration.

Other Areas of Interest

Our audit of the North Dakota Racing Commission identified the following areas which should be brought to the attention of the Legislative Audit and Fiscal Review Committee, Racing Commission board members, and management of the Racing Commission:

FARGO HORSE PARK

Background:

Area of
Interest 04-1

The Racing Commission was given the authority to adopt rules for the administration, implementation, and regulation of activities conducted pursuant to Chapter 53-06.2 of NDCC. Within the rules adopted, the Racing Commission has the express authority to use promotion fund dollars for developing racetracks in the state as noted in Section 69.5-01-12-03 of the Administrative Code.

Racetrack Bid Award:

Initial meetings for building a new track were held in Mandan, Minot, and Fargo during February 2000 while Fessenden was also interested in holding races. The deadline to submit proposals to the Racing Commission was October 2000 and only Mandan and Fargo submitted bid proposals by the deadline. In November 2000, the Racing Commission dedicated \$1,000,000 from the promotion fund for building a new track along with \$500,000 from the purse fund and \$500,000 from the promotion fund for keeping the new track running for 5 years.

In December 2000, the Racing Commission reviewed the primary concerns they had with the project plans submitted by both Fargo and Mandan.

Although not all of the commissioners were in agreement as to where and what type of track to construct, a motion was made to award the track to Fargo and allow the North Dakota Horse Park Foundation (NDHPF) to proceed with conducting a land survey and putting together a final construction plan and financing arrangement. The motion was approved unanimously.

In April 2001, the NDHPF submitted a revised site plan at a new location that was approved by the Racing Commission. In June 2001, NDHPF submitted a total project cost of \$7 million but the commissioners were concerned with what the actual cost would be due to changes to the project and expected costs. Additionally,

the NDHPF couldn't itemize where the contributions discussed in their proposal would come from. The Racing Commission voted 4-1 to turn down the NDHPF proposal and moved to provide Mandan and Fargo the chance to resubmit a proposal by their August deadline.

In August 2001, both Mandan and Fargo resubmitted bids with Fargo's bid totaling \$2.1 million for Phase I of a 3-phase project. Mandan resubmitted their same bid of \$1.2 million. The Racing Commission felt that Mandan could not adequately address all previous concerns raised at that site. There was an ideological difference between the commissioners on whether construction should be for a standard track or a state of the art ¾ mile track. The Racing Commission voted 4-1 to give final approval to NDHPF for the construction of a race track in the Fargo area.

Racetrack Construction:

Sheyenne development, LLP donated 114.5 acres of farmland to initiate the process of developing the North Dakota Horse Park for a cost of \$250,000 paid by the city of Fargo. The city of Fargo provided in-kind materials of fill dirt and sand at a cost of approximately \$84,000.

An estimated 14.5 acres were set aside and deeded to the NDSU Development Foundation (Foundation). They received State Board of Higher Education approval to construct a \$3.2 million equine facility for the teaching of an equine studies program. The Foundation also assumed responsibility for raising monies to pay for and maintain that facility. Approximately 65 acres was leased on a 99-year lease to the NDHPF with the responsibility of maintaining the racetrack and the grounds on the east end of the NDSU facility. The NDHPF planned to raise funds to build additional stall barns to serve the needs of area horsemen and 4-H groups during the non-racing season. Another non-profit organization serving the interests of horsemen, Horse Race North Dakota, has a 99-year lease to the area on which the grandstand, bathrooms, parking lots, temporary offices, and adjacent grounds reside (approximately 35 acres).

A total of \$2,816,430 was given towards the construction of the North Dakota Horse Park from the North Dakota Racing Commission Promotion Fund. This includes the initial \$1 million allocated at the beginning of the project, an additional \$1.5 million granted in April 2002 due to cost overruns, a final payment in October 2003 of \$231,430 for outstanding contract payments owed and a last request, by Horse Race North Dakota, for \$85,000 to construct a bathroom facility. All monies given were supported by actual invoices that were approved by the project manager, Racing Commission, and the Attorney General's office. Additional funding received by the Horse Park Foundation

includes: City of Fargo tax increment financing district (\$1,000,000); Cass County economic development loan (\$250,000); and Fargo-Moorhead Convention and Visitors Bureau (\$100,000).

Phase I was to include construction of a 6-furlong ($\frac{3}{4}$ mile) track, parking for 400 cars, parking for horsemen, underground utilities, grandstand and facilities for pari-mutuel betting, restrooms, and additional barns for off-season use. Phase II was to include an indoor arena with stalls, restaurant infrastructure, and landscaping. Phase III was to build a museum, expand the current infrastructure, expand the parking, and further grounds development.

The total cost of the North Dakota Horse Park to date is \$3,598,000 plus an additional \$1,122,487 in land value. This total book value (\$4,720,487) belongs in part to Horse Race North Dakota which has \$511,287 on their books while the North Dakota Horse Park Foundation has \$4,209,200 on their books. These figures do not include the value of the land owned by the NDUS Development Foundation or the cost of the building (approx. \$3,000,000) constructed by the Foundation. Phase I is not complete as they do not have a permanent grandstand, barns, and facilities for pari-mutuel betting (currently metal bleachers are used for grandstands and the pari-mutuel betting is set up in a large tent).

On page 25, Table 1 shows the costs of constructing the Fargo Horse Park. In that table, the amounts from the "Initial Bid" column came from the 3-phase projected budget submitted by the North Dakota Horse Park. Amounts from the "Actual Cost" column came from the Book Asset Detail obtained from the North Dakota Horse Park accountant. The grandstand/facilities cost only includes a bathroom facility and metal bleachers. Amounts from the "Estimate to Complete" column came from a request submitted to the Racing Commission, dated October 31, 2003, from the North Dakota Horse Park. This estimate is what it will take to complete Phase I, plus the necessary landscaping from Phase II. As noted in the table on page 25, the initial estimate for Phase I was \$2,100,000 and the actual plus estimated costs to complete Phase I has now risen to \$5,920,000.

Table 2

	Initial Bid (3 Phases)	Actual Cost (Phase I)	Completion Est. (Phase I)
Phase I			
Race Track	\$ 475,000	\$ 2,234,000	
Railing/Fencing	130,000	312,000	
Underground Utilities	30,000	443,000	\$ 15,000
Barns	400,000		250,000
Parking	100,000	174,000	
Grand Stand/Facilities	400,000	178,000	2,000,000
Other	565,000	161,000	153,000
<i>Subtotal</i>	\$ 2,100,000	\$ 3,502,000	\$ 2,418,000
Phase II			
Indoor Stall/Arena	\$ 750,000		
Restaurant Infrastructure	100,000		
Landscaping	100,000	\$ 96,000	\$ 30,000
Other	150,000		
<i>Subtotal</i>	\$ 1,100,000	\$ 96,000	\$ 30,000
Phase III			
Museum	\$ 650,000		
Expanded Infrastructure	150,000		
Backside Facilities	250,000		
Grounds Development	150,000		
Other	80,000		
<i>Subtotal</i>	\$ 1,280,000	\$ 0	\$ 0
TOTAL	\$ 4,480,000	\$ 3,598,000	\$ 2,448,000

This table does not include any costs associated w/the Equine Complex constructed by NDSU Foundation.

Other Racetrack Information:

The first season for the Fargo track was the fall of 2003. This season consisted of 16 days of actual racing (approximately 9 races per day) with an estimated total attendance of 41,000. The total of all the bets placed on the races run at the Fargo track for the 2003 race season was \$453,849, which resulted in a return of \$15,944 in taxes to the Racing Commission's special revenue funds and \$10,043 in taxes to the state general fund.

The 2004 race season consisted of 19 days of actual racing with an estimated total attendance of 36,500. The total of all the bets placed on the races run at the Fargo track for the 2004 race

season was \$377,519, which resulted in a return of \$13,458 in taxes to the Racing Commission's special revenue funds and \$8,203 in taxes to the state general fund. The racing season generally runs from the beginning of August through Labor Day, running on Friday, Saturday, and Sunday.

As noted previously, the Racing Commission initially pledged \$500,000 from the Purse Fund and \$500,000 from the Promotional Fund to assist with the operations of the new track for 5 years. This initial pledge (November 2000) amounted to an annual contribution from the Racing Commission to the Fargo track of \$200,000 per year for the five-year period. As noted in Table 3 below, the actual contribution from the Racing Commission has been much higher.

Horse Race North Dakota is the charitable organization in charge of conducting the live races at the Fargo track. Per review of the Income Statement (unaudited) for Horse Race North Dakota for the years ended December 31, the following was noted:

Table 3

	<u>2003</u>	<u>2004</u>
Revenue		
Pari-Mutuel Revenue	\$ 91,000	\$ 103,999
Other Grants	100,269	108,704
Operating Revenue	79,324	80,731
Other Misc Rev.	4,283	1,302
Grants from North Dakota Racing Commission	900,000	718,400
Total Revenue	<u><u>\$ 1,174,876</u></u>	<u><u>\$ 1,013,136</u></u>
Expenses		
Purses	\$ 504,919	\$ 481,204
Operating Expenses	506,054	488,382
Total Expenses	<u><u>\$ 1,010,973</u></u>	<u><u>\$ 969,586</u></u>

The funds above in the "Grants from North Dakota Racing Commission" are taken from the three special revenue funds at the Racing Commission and exclude any payments made for construction (a total of \$2,816,430 to date has been given by the Racing Commission for track construction). As noted on page 8, these funds are being rapidly depleted and it appears the Racing Commission will only have the funds to maintain this level of support to the Fargo track for a two to three year period.

It should also be noted the Racing Commission has pledged \$799,000 for the 2005 racing season in Fargo and \$130,000 for the 2005 racing season in Belcourt. (NOTE: The Belcourt track pays taxes to the three Racing Commission funds, but does not pay taxes to the state general fund)

While the track in Fargo was built as a state-of-the-art track with the latest in safety features, one concern is whether or not it will be able to compete against the other facilities in close approximation to the Fargo track. These include the Assiniboia Downs (224 miles) in Winnipeg and Canterbury Park (245 miles) in Minnesota, which both run horse races from May to September.

Both of those tracks also feature more than live horseracing to pay for operations as both tracks feature simulcast racing seven days per week. Those horse parks are also supported by other revenue from broadcasting their races to other tracks for simulcast betting, slot machines, poker rooms, corporate sponsorship, restaurants, hosting concerts, and snowmobile races.

We believe there may be concerns relating to the future of the Fargo track. These concerns relate to the ability of the Racing Commission to continue to provide the monetary support it currently provides. As noted above, the revenue generated by the Fargo track is insufficient to cover the operating expenses without a significant amount of additional revenue as received by other tracks or the return of the big bettors.

North Dakota Racing Commission Response:

As a new director, I appreciated very much the overview of the development of the track at Fargo. The commission is also very concerned with the future. The handle (total wager on racing) has dropped from \$173 million to \$5.2 million. This year, we are on pace to drop even farther. Hopefully, the passage of HB1389 will stop this downward spiral and bring about an increase in wagering.

The audit report does mention what other successful tracks are doing to succeed, or even expand. I believe we will need three things to happen to ensure the future of live racing. We will need an increase in wagering, corporate sponsorships, and the development of an entertainment center at the track. This could include card rooms, historic racing machines, or simulcasting.

At the current rate of expenditure, we can fund our tracks for two more years, then our promotion fund will be depleted. That gives us enough time to develop some legislative changes that should be made to make us competitive for the entertainment dollar.

EFFECTS OF 2005 LEGISLATIVE ACTION

Racing Commission Agency Status (SB2340):

Area of
Interest 04-2

Senate Bill 2340 was introduced in the 2005 Legislative Session to remove the Racing Commission from under the Office of the Attorney General and establish it as a separate state agency. There is no fiscal note attached to this bill. The Racing Commission would be funded primarily from their special funds and partly from the state's general fund.

In the 2001 Legislative Assembly the Racing Commission operations were completely supported by the state's general fund while the 2003 Legislative Assembly funded half the Racing Commission with general funds and half with special funds. Currently proposed in the 2005 Legislative Assembly, the Racing Commission will receive approximately one-third of its appropriation in general funds and must use its special funds for the remaining costs. The move towards making the Racing Commission more self-funded is coming at a time when the tax revenue from bets placed on pari-mutuel and simulcast racing is decreasing. This has resulted in declining special fund balances within the Racing Commission. See analysis on these fund balances on page 8 of this report.

The current special fund tax revenue is not sufficient to fund the present level of distribution from the special funds for purse money, breeders fund payments, or promotion dollars, plus the increased burden of paying for operating costs of the Racing Commission. Therefore, it will be only a few years before the special fund balances are depleted or the Racing Commission will not be able to support racing activities as it has the past 5 years.

The Racing Commission currently has 2 FTE's but most of the accounting functions are run through the Attorney General's office. These include handling the fixed asset and payroll records, payment of bills, and deposit of receipts. It is not known how the present staff could assume these additional accounting duties. The Racing Commission needs to contact OMB about helping them with their accounting work until they are able to get trained on PeopleSoft (the state's new accounting system).

Furthermore, if the Racing Commission were to do any monitoring of the charitable organizations running the simulcast sites as discussed below, this would place additional strain on both the financial and human resource aspects of the Racing Commission.

The Racing Commission currently licenses 6 charities to provide simulcast racing services. These sites are located as follows: 2 in Fargo, and 1 in Bismarck, Jamestown, Williston, and Grand Forks. There were 16 licensed sites during calendar year 2003 and 11 licensed sites during calendar year 2004.

Per review of the weekly report provided by the simulcast provider (RSI in 2003 and Lien Games in 2004) for the year ended December 31, 2003 and 2004, it was noted the total amount wagered was \$153,587,835 and \$5,237,935, respectively.

Per review of the reports for calendar year 2004, it appears there are two main simulcast sites that handle 2/3 of the total wagers. These sites are the Turf Club (Fargo) and Rumors (Grand Forks). The Turf Club's total wagers for 2004 were \$2,139,177. Rumors total wagers for 2004 were \$1,268,199. These appear to be the only sites that show a substantial profit from the simulcast sites, while the other sites are breaking even or losing money in providing simulcast betting.

Additionally, the Racing Commission has not been reviewing financial information to determine whether the charities have only spent operating profits for eligible uses and that only allowable expenses have been deducted in determining profits. NDCC 56-06.2-11 #5 states, "After paying qualifying expenses, the licensee shall use the remainder of the amount so withheld only for eligible uses allowed to charitable gambling organizations." The Gaming Division of the Office of the Attorney General reviews this information for charities that have other forms of gaming (blackjack, pull-tabs, etc.), but does not review revenue and expense information regarding pari-mutuel betting. Five of the 6 sites that provide simulcast betting also have other forms of gaming which are subject to review by the Gaming Division.

While monitoring of the charitable organizations is not a requirement of the Racing Commission, they do have the authority to request financial information and audits if needed. The last review of financial records was in 2001 for the Team Makers site in Fargo. Reviewing the charities expenses for proper use would not result in any additional funds received for the state of North Dakota or the Racing Commission. However, it is important that all organizations involved in any form of gaming receive scrutiny, as any improprieties discovered have a negative impact on current and future gaming interests. Since it appears no other organization is reviewing this information relative to the pari-mutuel betting, it would seem the Racing Commission is the logical choice to do so.

Bet Payoff Formula for Racing (HB1389):

House Bill (HB) 1389, will change the amount sent to each of the 3 Racing Commission special revenue funds to 1/16 of 1% (.000625) after the total amounts wagered for the biennium exceed \$11 million. The general fund would also receive 1/16 of 1% of the wagers in excess of \$11 million. (See page 4-5 for current tax breakdown between funds)

It should be noted the current biennium total amounts wagered is expected to be around \$10 million. The change was made to try to entice the "big bettors" back to North Dakota, due to the possibility of rebating them a percentage of the amount that previously was received by the state and the Racing Commission.

HB 1389 would also change the way "breakage" is allocated. Breakage is the funds left over after the winning bets have been paid. All winning bets are rounded down to the nearest 10 cents. For example if your \$2 winning bet calculates to a win of \$4.28 you would get paid \$4.20 and the \$.08 is the breakage. All bets are calculated as if the original bet was made in \$2 increments – if you make a \$1,000 wager, you have effectively made 500 \$2 wagers, each of which would be subject to the breakage rounding.

Breakage on the first \$11 million is deposited in the Promotional Fund. After the \$11 million threshold is met, the breakage is split as follows: 1/3 to the Racing Commission; 1/3 to the charity where the bets were placed; and 1/3 to the service provided (Lien Games).

The following table is provided to calculate the amount of wagering necessary to allow the Racing Commission to continue at their current funding levels based on the revenue structure discussed above. It should be noted our expense information provided does not include any additional funds for continued construction at the Fargo track.

Table 4

Estimated Yearly Expenses based on Fiscal Year 2003, 2004,
and 2005 actual or pledged expenses:

Operating / Salaries	\$ 150,000
Breeders Fund Disbursements	250,000
Funds Provided to Fargo Track	800,000
Funds Provided to Belcourt Track	130,000
Total Expenditures	<u>\$ 1,330,000</u>

Yearly Revenue:

1/2 General Fund Appropriations	\$ 73,000
1/2 of 1.5% of first \$11,000,000 wagered	83,000
Breakage - 1/2 of 1% of first \$11,000,000 wagered	55,000
Remaining Revenue Needed	<u>1,119,000</u>
Total Revenue	<u>\$ 1,330,000</u>

In our estimation, to raise the required revenue of \$1,119,000, based on the 1/16 of 1% each fund will receive and the 1/3 of 1% of breakage the Racing Commission will receive, we have calculated the amount wagered would need to be \$227 million per year (includes the initial \$11 million).

As noted previously, the current amount wagered is approximately \$5 million per year. The largest amount wagered while the big bettors were in North Dakota was approximately \$170 million per year. For each \$1 million in increased wagering over \$11 million, the Racing Commission will receive approximately \$5,175 and the general fund will receive \$625.

Racing Commission Fee Collections (SB2344):

Senate Bill 2344 would allow the Racing Commission to retain all license fees and fines collected and to use those monies to cover operating costs. These license fees are currently approximately \$30,000 per biennium.