

**ATTESTATION REPORT
OF THE
NEBRASKA STATE RACING COMMISSION
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

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Issued on May 30, 2012

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NEBRASKA STATE RACING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	1
Comments Section	
Exit Conference	2
Summary of Comments	3
Comments and Recommendations	4 - 7
Financial Section	
Independent Accountant's Report	8 - 9
Schedule of Revenues, Expenditures, and Changes in Fund Balances	10
Notes to the Schedule	11 - 14
Supplementary Information	15
Annual Pari-mutuel Handles By Racetrack	16
Annual Pari-mutuel Handles By Race Type	17
Revenue Sources	18

NEBRASKA STATE RACING COMMISSION

BACKGROUND

The Nebraska State Racing Commission (Commission) was established in 1935 to provide statewide regulation of horse racing in order to prevent and eliminate corrupt practices and fraudulent behavior and thereby maintain a high level of integrity and honesty in the horse racing industry of Nebraska.

The Commission consists of three members appointed by the Governor for three-year terms. No more than two members can belong to the same political party, no two can reside in the same congressional district, and no two can reside in the same county. They meet approximately six times per year to approve licenses for live horse racing and simulcasting, adopt administrative rules, and conduct administrative hearings. The members are not paid, but are reimbursed for their expenses.

The Commission is authorized to employ a Secretary and other employees as necessary to carry out its purpose. The Secretary is to keep a record of all Commission proceedings, preserve the books, records, and documents, and perform other duties as prescribed by the Commission.

The operations of the State Racing Commission are financed from daily track and occupational license fees. In addition, each licensed racetrack is required to remit to the Commission sixty-four one hundredths of one percent of its gross sum wagered.

NEBRASKA STATE RACING COMMISSION

EXIT CONFERENCE

An exit conference was held May 10, 2012, with the Nebraska State Racing Commission (Commission) to discuss the results of our examination. Those in attendance for the Commission were:

NAME	TITLE
Dennis Lee	Commission Chair
Tom Sage	Executive Secretary
Diane Van Deun	Administrative Assistant

NEBRASKA STATE RACING COMMISSION

SUMMARY OF COMMENTS

During our examination of the Nebraska State Racing Commission (Commission), we noted certain deficiencies in internal control and other operational matters that are presented here.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the areas as follows:

1. ***Receipt Procedures:*** One individual was able to perform all processes for receipting monies at the racetracks. During the surprise cash count, checks were not safeguarded in a locked area and were not restrictively endorsed for deposit. Furthermore, the Commission's computer system did not have adequate controls or the ability to produce logical reports. The Commission collected \$85,695 in fees at the racetracks during the calendar year ended December 31, 2011. A similar finding was also noted during the prior audit.
2. ***Payroll Procedures:*** The Executive Secretary did not maintain a timesheet or other form of documentation to show at least 40 hours were worked each week in compliance with State statute. Furthermore, racetrack employees' timesheets were not documented as reviewed by a supervisor.
3. ***Exotic Wagering Distributions:*** For the calendar year ended December 31, 2011, the Commission improperly calculated the distribution of exotic wagering withholdings. This caused the Columbus racetrack to be underpaid and the Atokad racetrack to be overpaid by \$8,870 each.
4. ***Racetrack Bonds:*** The Commission did not have supporting documentation showing which racetracks were required to file bonds or the amounts of the bond required for each racetrack. A similar finding was also noted during the prior audit.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Commission.

Draft copies of this report were furnished to the Commission to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time, but will be verified in the next examination.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

1. Receipt Procedures

A good internal control plan and sound business practice require adequate segregation of duties to ensure no one individual is in a position to both perpetuate and conceal errors and irregularities. Furthermore, a good internal control plan requires adequate procedures and system controls to ensure all monies received are adequately recorded and safeguarded.

During our review of the Commission's receipt procedures we noted the following:

- One employee at the racetracks collected monies, issued receipts, entered receipt information into the computer system, issued licenses and badges, processed and approved voids and/or deletions, generated system reports, and deposited money at the bank. There were no controls in place to ensure all money received at the racetracks was properly recorded and deposited.
- During the surprise cash count we noted six of ten checks at the Grand Island racetrack had not been restrictively endorsed for deposit to the State Treasurer. One of the six checks had a blank payee line and was lying on a desk in an unlocked office. Furthermore, we noted several checks and also cash on hand were not secured in a locked safe or file cabinet and no staff were present to safeguard the items.
- The Commission could not provide information on their licensing system's basic controls or whether the controls were operational. This included; password security, whether passwords must be changed on a regular basis, and individual employee's access to system processes and information. It appeared the system's password security was not operational.
- The Commission could not generate a listing of information on all license and fine collections entered but later voided or deleted.

During the calendar year ended December 31, 2011, the Commission collected and deposited \$85,695 in fees at the racetracks. Without adequate controls over these collections, there is an increased risk of loss of the Commission's funds. This finding is considered a significant deficiency.

A similar finding was noted in the last report for the fiscal year ended June 30, 2005.

We recommend the Commission review their receipt procedures and system controls to ensure receipts are adequately recorded and safeguarded.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Receipt Procedures** (Concluded)

Commission's Response: Although the agency is not funded to adequately segregate duties, between the track offices and headquarter office staff, money received is properly recorded and deposited. The Commission has addressed the issue noted in the second bullet and will make policy changes. The Commission has taken steps to improve password security. The Commission is in the process of taking steps to update our database system to help address findings in this report. The Headquarter office has an internal control policy in place to make sure all fees collected at the racetrack are properly collected.

2. **Payroll Procedures**

Neb. Rev. Stat. § 84-1001(1) (Reissue 2008) states, "All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur." In addition, a good internal control plan requires hours actually worked to be adequately documented, for example, via timesheets, time logs, etc. and that such documentation be kept on file to provide evidence of compliance with the requirements of § 84-1001. Furthermore, a good internal control plan requires employees that accrue vacation and sick leave have adequate support that the employees "earned" the amounts recorded in the leave records.

During testing of the Commission's payroll we noted the Executive Secretary did not maintain a timesheet or other form of documentation to show at least 40 hours were worked each week. Instead he submitted only leave hours used. Furthermore, racetrack employees' timesheets were not documented as reviewed by a supervisor. According to the Commission, the staff assistant working at the racetracks did review the timesheets prior to processing payment.

Without adequate records to support hours worked and approved, there is an increased risk for fraudulent or inaccurate payment of regular hours worked or accumulation of leave.

We recommend the Commission ensure compliance with State statute and require all staff earning leave document time worked on a timesheet or through certification. Furthermore, we recommend the Commission ensure a documented review is performed by a supervisor of all staff timesheets to ensure time worked is proper.

Commission's Response: The Commission has changed its payroll procedures to adequately address state statute and the concerns expressed by the auditor.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Exotic Wagering Distributions

Neb. Rev. Stat. § 2-1208.04, (Reissue 2007) states, “(1) Racetracks shall separately account for their gross exotic daily receipts...each racetrack shall withhold an amount equal to one-fourth of one percent of such receipts, which amount shall be deducted from purses at the withholding track. Such amount withheld shall be paid to the State Racing Commission on the last day of each month during each race meeting for deposit in the Track Distribution Fund... (2) The fund shall be distributed monthly to recipient racetracks which conduct wagering by the parimutuel method on thoroughbred horseracing. Such racetracks shall receive the percentage which the total number of days of horseraces run at such racetrack in the year of distribution bears to the total number of days of horseraces run at all such racetracks in the year of distribution.” Furthermore, a good internal control plan requires adequate policies and procedures to ensure distributions are proper.

The Exotic wagers are daily double, exacta, quinella, trifecta, pick six, and other similar types of bets. During testing of the Commission’s distribution of the exotic wagering withholdings, we noted the Commission improperly calculated the distribution by using 27 total live race dates for the Columbus and Atokad racetracks. However, there were only 24 total live race dates during the year, 23 for Columbus and 1 for Atokad. Therefore, the Commission improperly distributed the withholdings, causing an underpayment to Columbus and an overpayment to Atokad of \$8,870 each.

We recommend the Commission establish adequate policies and procedures to ensure withholding distributions are properly calculated and paid in accordance with State statute. We further recommend the Commission properly adjust the improper payment to the racetracks.

Commission’s Response: This issue was first observed by the Commission staff in September of 2011. The calculation of the distribution was changed starting on January 1, 2012. The Commission will create a policy so the Exotic Wagering Distribution will be reviewed once a year after the assigning of race dates in the fall. The Commission has distributed all funds but will discuss the issue with the tracks involved.

4. Racetrack Bonds

Neb. Rev. Stat. § 2-1206 (Reissue 2007) states, “Every corporation or association licensed under sections 2-1201 to 2-1218 shall, before said license is issued, give bond to the State of Nebraska in such reasonable sum as the commission shall fix, with surety or sureties to be approved by the commission, conditioned to faithfully make the payments prescribed by said sections, to keep its books and records and make reports as herein provided, and to conduct its racing in conformity with the provisions of said sections and the rules and regulations prescribed by the commission.” Furthermore, a good internal control plan requires policies to ensure bonds filed are appropriate and in accordance with State statute.

NEBRASKA STATE RACING COMMISSION

COMMENTS AND RECOMMENDATIONS

(Continued)

4. **Racetrack Bonds** (Concluded)

During testing of licensee bonds we noted the Commission did not have supporting documentation showing which racetracks were required to provide a bond or the amount of the bond required for each racetrack. The following bonds were on file:

Racetrack	Bond Amount
Columbus	\$ 50,000
Fonner	10,000
Atokad	1,000
Lincoln	1,000
Omaha	1,000
Hastings	-

Without documentation of the Commission's approval of bond amounts, the needed bonding requirements may not be appropriate, resulting in an increased risk of loss of Commission funds.

A similar finding was noted in the last report for the fiscal year ended June 30, 2005.

We recommend the Commission establish policies to ensure bonds are appropriate and in compliance with State statute.

Commission's Response: The Commission will seek advice from the Nebraska Attorney General on this issue.



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NEBRASKA STATE RACING COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska State Racing Commission
Lincoln, Nebraska

We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska State Racing Commission (Commission) for the calendar year ended December 31, 2011. The Commission's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Commission for the calendar year ended December 31, 2011, based on the accounting system and procedures prescribed by the State of Nebraska Director of the Department of Administrative Services as described in Note 1.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the schedule of revenues, expenditures and changes in fund balances and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the schedule of revenues, expenditures, and changes in fund balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the schedule of revenues, expenditures, and changes in fund balances or on compliance and other matters; accordingly we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of management, are described in the Comments Section of the report.

This report is intended solely for the information and use of management, the Commission, others within the Commission, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

SIGNED ORIGINAL ON FILE

May 18, 2012

Mike Foley
Auditor of Public Accounts

NEBRASKA STATE RACING COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Calendar Year Ended December 31, 2011

	Racing Commission Cash Fund 23610	Track Distribution Cash Fund 23620	Common School Fund 61270	Totals (Memorandum Only)
REVENUES:				
Taxes	\$ 531,080	\$ 127,730	\$ -	\$ 658,810
Sales & Charges	65,520	-	-	65,520
Miscellaneous	3,244	357	20,175	23,776
TOTAL REVENUES	599,844	128,087	20,175	748,106
EXPENDITURES:				
Personal Services	476,984	-	-	476,984
Operating	130,948	-	-	130,948
Travel	59,217	-	-	59,217
Government Aid	-	117,903	-	117,903
TOTAL EXPENDITURES	667,149	117,903	-	785,052
Excess (Deficiency) of Revenues Over (Under) Expenditures	(67,305)	10,184	20,175	(36,946)
OTHER FINANCING SOURCES (USES):				
Sales of Assets	72	-	-	72
Deposit to/from Common Fund	-	-	(20,175)	(20,175)
TOTAL OTHER FINANCING SOURCES (USES)	72	-	(20,175)	(20,103)
Net Change in Fund Balances	(67,233)	10,184	-	(57,049)
FUND BALANCES, JANUARY 1, 2011	142,393	6,909	-	149,302
FUND BALANCES, DECEMBER 31, 2011	<u>\$ 75,160</u>	<u>\$ 17,093</u>	<u>\$ -</u>	<u>\$ 92,253</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ 74,833	\$ 17,093	\$ -	\$ 91,926
Petty Cash	150	-	-	150
Deposits with Vendors	177	-	-	177
TOTAL FUND BALANCES	<u>\$ 75,160</u>	<u>\$ 17,093</u>	<u>\$ -</u>	<u>\$ 92,253</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

For the Calendar Year Ended December 31, 2011

1. Criteria

The accounting policies of the Nebraska State Racing Commission (Commission) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2008), the State of Nebraska Director of the Department of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2008), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. As such, certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The expenditures and related accounts payables recorded in the general ledger as of December 31, 2011, include only those payables posted in the general ledger before December 31, 2011, and not yet paid as of that date. The amount recorded as expenditures as of December 31, 2011, **does not** include amounts for goods and services received before December 31, 2011, which had not been posted to the general ledger as of December 31, 2011.

The Commission had no accounts receivable at December 31, 2011. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State that are used by the Commission are:

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

The major revenue account classifications established by State Accounting used by the Commission are:

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Taxes recorded as revenue for the Commission consists of pari-mutuel gross sum wagering taxes and exotic wagering taxes.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income and fines for violations of the Commission’s rules and regulations.

The major expenditure account classifications established by State Accounting used by the Commission are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Commission.

Operating – Expenditures directly related to a program’s primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant accounting classifications and procedures established by State Accounting and used by the Commission include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts and deposits with vendors. Cash accounts and deposits with vendors are also included in fund balance and are reported as recorded in the general ledger.

Other Financing Sources – Proceeds of fixed asset dispositions and deposits of fines into the Common School Fund. See additional information in Note 6.

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE

(Continued)

2. Reporting Entity

The Nebraska State Racing Commission is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all funds of the Commission included in the general ledger.

The Nebraska State Racing Commission is part of the primary government for the State of Nebraska.

3. Totals

The Totals “Memorandum Only” column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State’s Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Commission takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Commission to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an

NEBRASKA STATE RACING COMMISSION

NOTES TO THE SCHEDULE
(Continued)

5. Capital Assets (Concluded)

expected useful life of two or more years is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of two years.

Capital asset activity of the Commission recorded in the State Accounting System for the calendar year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Equipment	\$ 22,934	\$ -	\$ 2,127	\$ 20,807
Less accumulated depreciation for:				
Equipment				<u>17,438</u>
Total capital assets, net of depreciation				<u>\$ 3,369</u>

6. Deposits to Common Funds

As defined in Nebr. Const. Art VII Sec. 5, fines and penalties are to be paid to the County Treasurer where the fine was levied. The Commission assesses fines and they are recorded in the Common School Fund.

7. Track Distribution Fund – 23620

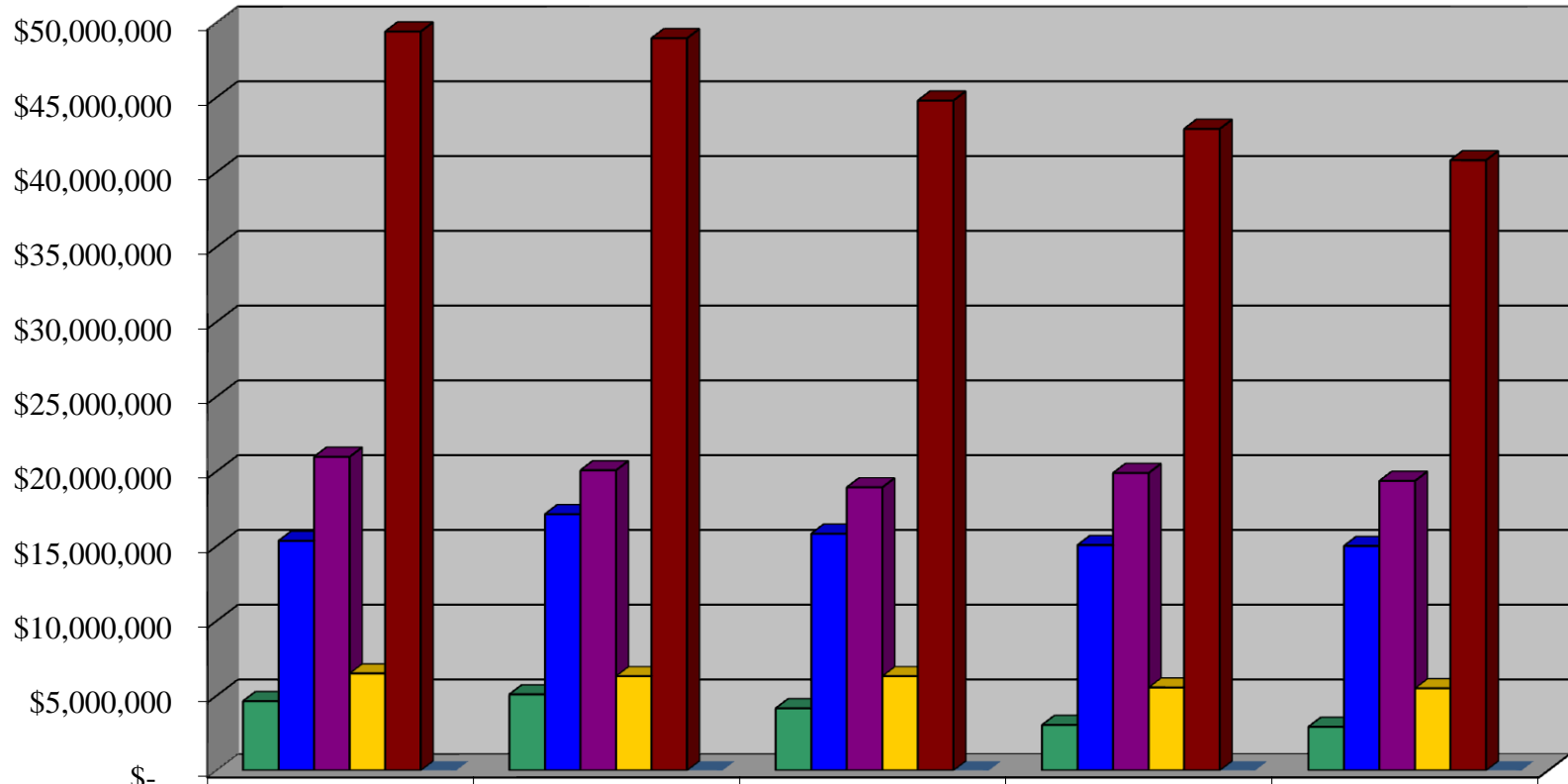
Neb. Rev. Stat. § 2-1208.04 (Reissue 2007), states each racetrack shall withhold an amount equal to one-fourth of one percent of their gross exotic daily receipts and remit the amount withheld to the Commission. The Commission records these payments in the Track Distribution Fund – 23620 as taxes. The following month, the Commission then distributes the taxes to those recipient racetracks which conduct wagering by the pari-mutuel method on thoroughbred horseracing. A recipient racetrack is a racetrack with a total annual pari-mutuel handle of less than twelve million dollars. This distribution is recorded as aid in the Track Distribution Fund.

NEBRASKA STATE RACING COMMISSION

SUPPLEMENTARY INFORMATION

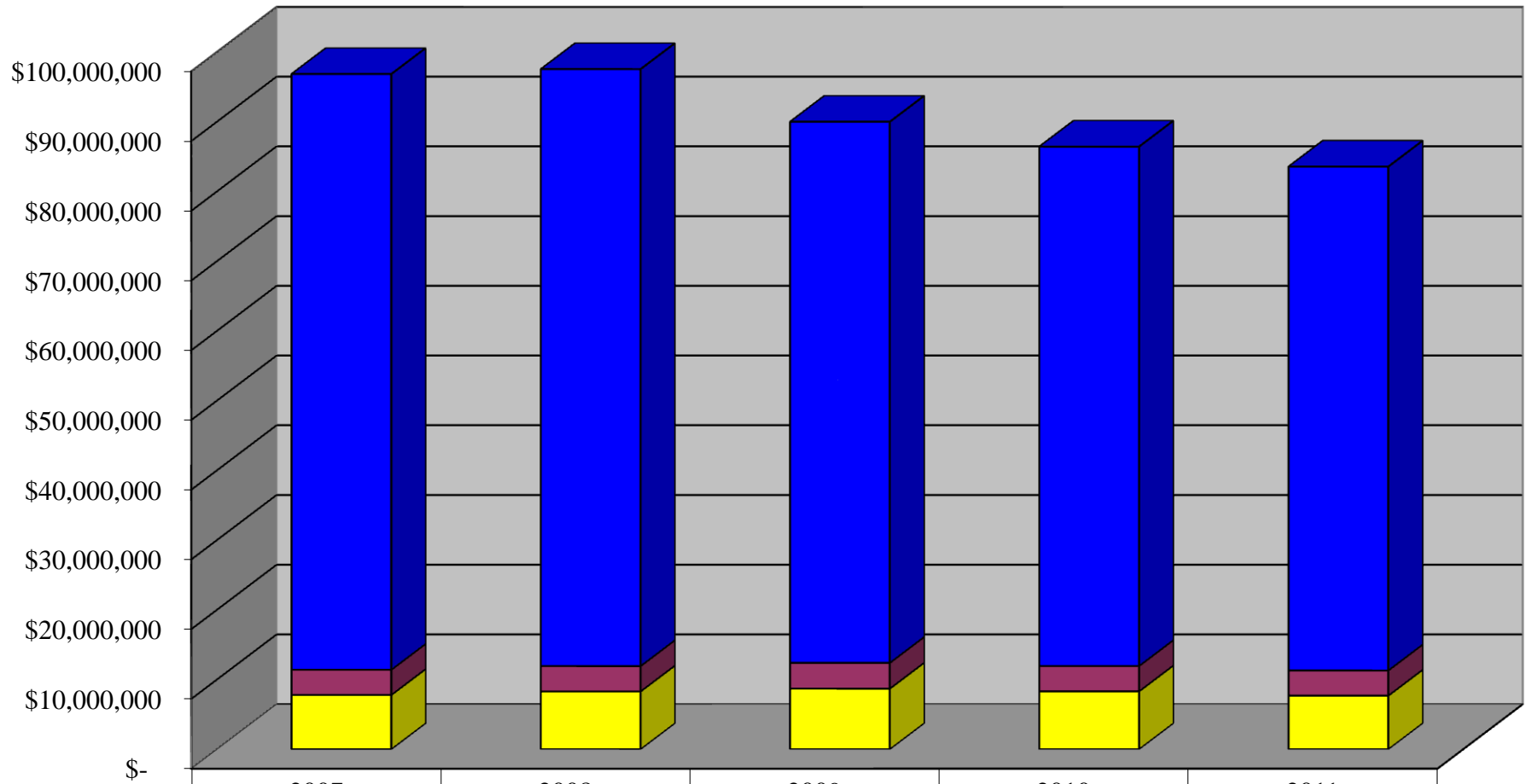
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA STATE RACING COMMISSION
ANNUAL PARI-MUTUEL
HANDLES BY RACETRACK
For Calendar Years 2007 through 2011



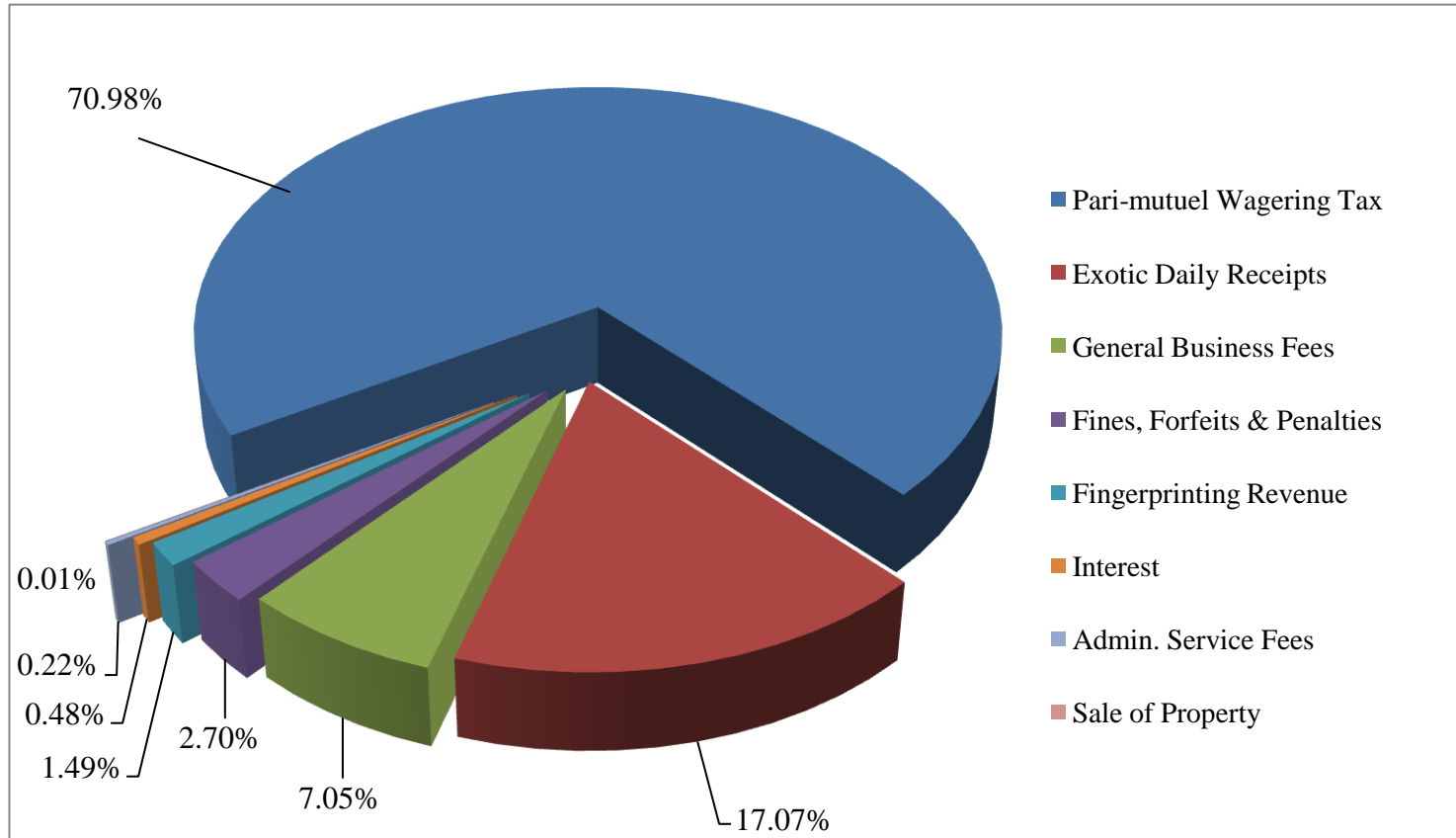
	2007	2008	2009	2010	2011
■ Horsemen's Atokad	\$4,632,834	\$5,085,627	\$4,153,314	\$3,036,635	\$2,911,289
■ Fonner	\$15,351,572	\$17,133,599	\$15,827,194	\$15,068,759	\$15,005,947
■ Lincoln	\$20,968,513	\$20,068,257	\$18,925,530	\$19,885,334	\$19,357,631
■ Columbus	\$6,487,692	\$6,299,932	\$6,299,916	\$5,545,268	\$5,488,042
■ Horsemen's Park Omaha	\$49,400,690	\$48,954,792	\$44,787,443	\$42,892,843	\$40,799,597
■ Hasting Quarter Horses	\$2,487	\$2,084	\$356	\$400	\$254

NEBRASKA STATE RACING COMMISSION
ANNUAL PARI-MUTUEL HANDLES BY RACE TYPE
 For Calendar Years 2007 through 2011



	2007	2008	2009	2010	2011
■ Interstate Simulcasting	\$85,434,015	\$85,610,017	\$77,592,532	\$74,477,366	\$72,251,894
■ Intrastate Simulcasting	\$3,610,061	\$3,637,383	\$3,698,877	\$3,637,080	\$3,613,396
■ Live Meets	\$7,799,712	\$8,296,891	\$8,702,344	\$8,314,793	\$7,697,470

NEBRASKA STATE RACING COMMISSION
REVENUE SOURCES
 For Calendar Year 2011



Note 1: Track Distribution Fund - Each race track submits .25% of their exotic daily receipts and they are deposited in the Track Distribution Fund which is distributed to tracks with a pari-mutuel handle of less than twelve million dollars in the previous year.

Note 2: Fines, forfeits, and penalties - All fines and penalties collected are returned to the County Treasurer where the fine was levied.