

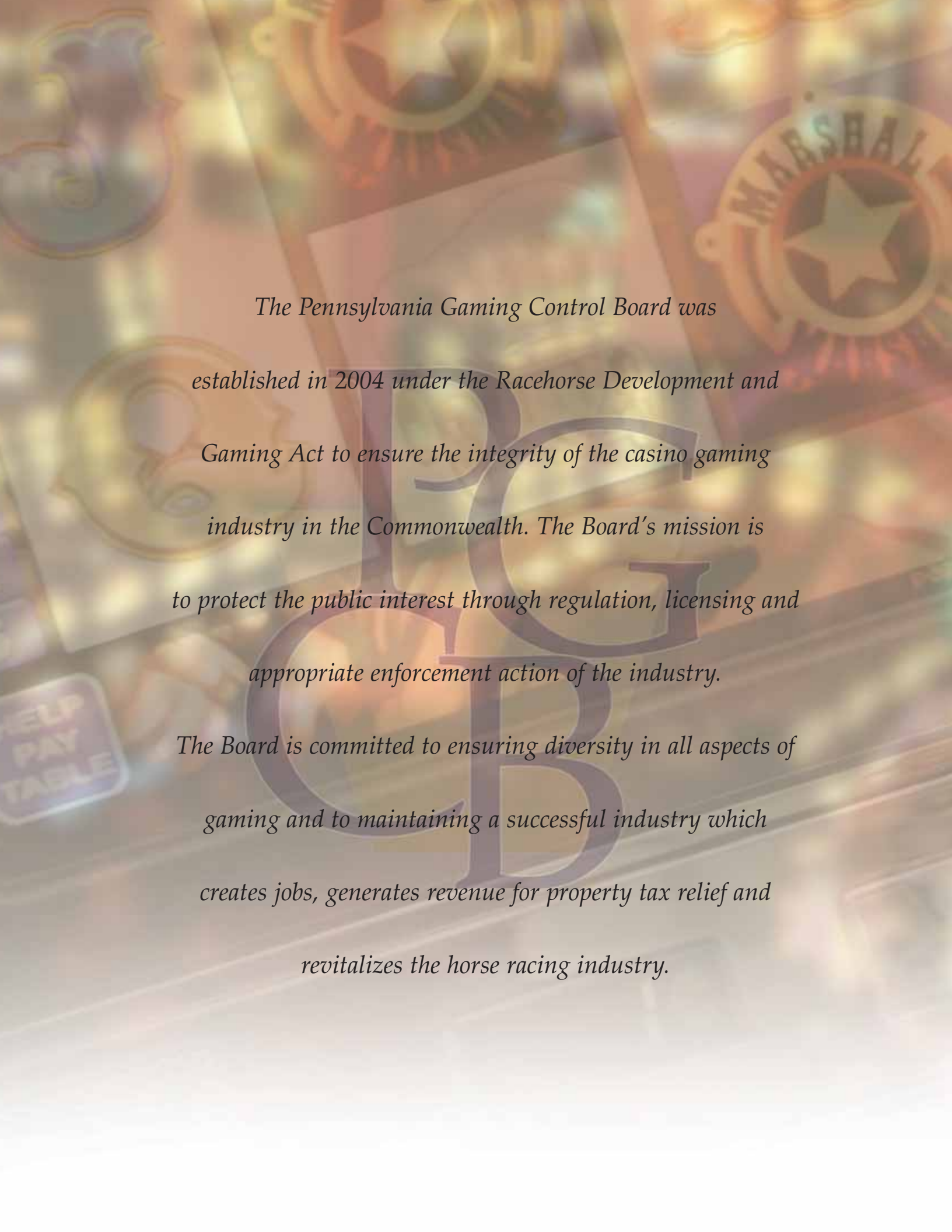
PENNSYLVANIA



GAMING CONTROL BOARD

2007 Annual Report





The Pennsylvania Gaming Control Board was established in 2004 under the Racehorse Development and Gaming Act to ensure the integrity of the casino gaming industry in the Commonwealth. The Board's mission is to protect the public interest through regulation, licensing and appropriate enforcement action of the industry.

The Board is committed to ensuring diversity in all aspects of gaming and to maintaining a successful industry which creates jobs, generates revenue for property tax relief and revitalizes the horse racing industry.

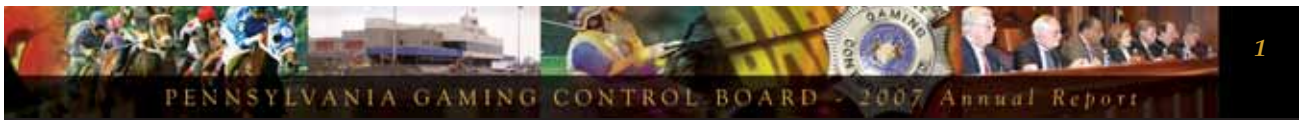


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Judge Mary
DiGiacomo Collins

From the Chairman

It has now been just over one year since the first slot machine casino opened in Pennsylvania. Since that historic occasion, this new industry has begun to return significant tax revenues and create thousands of jobs, each of which will continue to increase in the months and years to come.

Through the end of 2007, legalized slots gaming contributed more than \$590 million of new tax revenues directly from the play of the machines and an additional \$550 million in licensing fees. The Budget Secretary has announced that creation of these revenues will assure that general property tax relief is realized by all Pennsylvania homeowners in 2008.

The Gaming Act also mandates that revenues produced by this new industry help in other important areas. Already, gaming revenues have saved a hockey team in Pittsburgh, contributed to grant programs for volunteer firefighter units and added valuable new dollars to county and local governments in which these facilities operate. In addition, Pennsylvania's once-struggling horse racing industry has received an injection of more than \$100 million producing a new era that has seen track improvements, higher purses to attract better horses, additional jobs, and needed benefits for horsemen.

The ability of the Gaming Control Board to get these facilities up and running has also led to the creation of thousands of new living wage jobs. As of today, there are approximately 4,700 licensed, permitted and registered employees working at gaming facilities around the state.

The Board is working diligently toward its mission of opening and regulating 14 world-class slot machine facilities. By the end of 2007, six of these facilities had opened, with a seventh poised to begin operation in early 2008. Priorities for the new year are to hold hearings to gauge the suitability of a slots facility at a new race track in Lawrence County, award two limited slot machine licenses at existing resorts, and move closer to the openings of four stand alone casinos in Pittsburgh, Bethlehem and Philadelphia.

Be assured that our work will continue to be conducted with the priority of protecting the people of Pennsylvania by licensing and overseeing only reputable gaming operations. We will continue to provide the public with the confidence that our agency is dedicated to a strict regulatory process that assures that these facilities remain safe, enjoyable and profitable into the future.



Anne LaCour Neeb

From the Executive Director

In 2007, the Pennsylvania Gaming Control Board continued to expand in terms of both staff and the industry that it regulates. By building on our strengths, and reflecting on our vision to protect the public interest through regulation, licensing and enforcement action of the gaming industry, we at the Board took many great strides in establishing a strict but fair regulatory framework that will both serve Pennsylvania and allow a new industry to grow.

In last year's report, I noted the leadership position that the Gaming Control Board is assuming in the field of gaming. That statement is even truer this year and reflects on the skill, commitment, and professionalism of the Gaming Control Board Staff. On page 14, in fact, you will read about the recognition that this agency received from a national gaming industry publication for its work in getting this industry up and running, producing significant tax revenues, and assuring patrons that their visits will be to facilities that are operating in the compliant manner expected under the Gaming Act.

I appreciate your interest and support of the work of the Gaming Control Board. For my part, I reaffirm my commitment to ensuring that the highest standards of excellence continue as we increasingly focus on the job of regulating this new industry.

Board Members



Mary DiGiacomo Colins
Chairman
Designated by the Governor



Sanford Rivers
Board Member
Designated by the Governor



James B. Ginty
Board Member
Designated by Governor



Jeffrey W. Coy
Board Member
Designated by the
Speaker of the House of
Representatives



Gary A. Sojka
Board Member
Designated by the Minority
Leader of the House of
Representatives



Kenneth T. McCabe
Board Member
Designated by the President
Pro Tempore of the Senate



Raymond S. Angeli
Board Member
Designated by the Minority
Leader of the Senate



The Honorable
Thomas W. Wolf
Ex-Officio Member
Secretary of Revenue



The Honorable
Robin L. Wiessmann
Ex-Officio Member
State Treasurer



The Honorable
Dennis C. Wolff
Ex-Officio Member
Secretary of Agriculture

Bureau of Licensing



Susan Hensel
Director, Bureau of Licensing

In 2007 the Bureau of Licensing shifted its focus from processing initial applications for licensure of slots facilities to assisting in the opening of slots facilities, assisting in the staffing of these facilities through the granting or renewing of licenses and

permits, regulating licensees, and refining and developing internal operating procedures. At the same time, the Bureau of Licensing accepted new applications for two Category 2 (resort) licenses and the final Category 1 (horse race track) license. The following milestones have been achieved throughout the year:

- Issued the Commonwealth's first ever permanent slots facility licenses to Downs Racing, L.P.; Mount Airy #1, LLC; Sands Bethworks Gaming, LLC; PITG Gaming, LLC and Greenwood Gaming and Entertainment Inc.. Issued conditional Category 1 licenses to Chester Downs and Marina, LLC; Presque Isle Downs, Inc.; and Washington Trotting Association, Inc. The licenses authorize the facilities to operate up to 5,000 slot machines at their facilities.
- Played a key role in the opening of four slots facilities in 2007, including Pennsylvania's first stand alone slots facility. For several months prior to the facility openings, Bureau of Licensing staff worked to ensure that all facility employees filed applications and were approved for licensure, registration or permitting. Bureau of Licensing staff also served as integral members of the slots facility opening team to ensure all employees were properly credentialed prior to the doors opening to the public.
- Analyzed and processed approximately 2,000 applications for slot operators, manufacturers and suppliers. These applications are the first step to licensure for the main entities, their principals and key employees.
- Deployed a web-based version of SLOTSlink, the State Licensing Online Tracking System, enabling the Bureau to streamline the application submission and review process for gaming and non-gaming employees. Through SLOTSlink, the Bureau was able to receive and process more than 9,000 gaming and non-gaming employee applications for slots facilities, manufacturers, suppliers and certified vendors. In addition, the Bureau assisted in the creation of a SLOTSlink gaming employee renewal application and enhanced the workflow tool, allowing for faster processing of applications. Testing also commenced on an additional SLOTSlink module to be used by registered vendors.
- Approved the Commonwealth's first certified and registered vendors. Vendors are those companies that provide non-gaming related goods or services to slots facilities. By the end of 2007, nearly 1,000 vendors from Pennsylvania and across the United States filed vendor applications and filled numerous vendor-related jobs at slots facilities.
- Implemented a new unsponsored vendor classification to allow registered vendors that do not have an existing business relationship with a slot machine licensee or applicant to submit applications to the Board. The unsponsored vendor classification is designed to encourage small businesses to get involved in the gaming industry.
- Produced more than 10,000 credential badges which are worn by employees working in slots facilities including temporary, non-gaming registration credentials to assure that facilities were adequately staffed as background investigations were completed.
- Approved the Board's first manufacturer and supplier renewal applications.
- Accepted four applications for two Category 3 licenses to be awarded to resorts and participated in eligibility hearings for these applicants in order to determine which applications would move forward in the licensing process.
- Accepted an application for the final Category 1 license to be located at a licensed harness racing track.

Number of Applications:	2006	2007
Received	3575	9106
Approved	1416	8433
Denied	369	153
Surrendered	0	15
Withdrawn	273	499
Applications Approved by Type:		
	2006	2007
Facility - Category 1	6	0
Facility - Category 2	5	0
Facility - Category 3	0	0
Manufacturer	14	12
Supplier	19	2
Management Company	0	1
Affiliate	44	58
Key Employee	41	104
Principal	204	314
Principal Entity	7	31
Gaming Employee	417	3671
Non-Gaming Employee	659	3901
Certified/Registered Vendor, Vendor Affiliate, Employee	0	339

Pennsylvania Gaming Control Board Offers Speakers Bureau



New to the PGCB in 2007 was the addition of a Speakers Bureau. This addition makes it possible for professional, educational and service organizations to request a speaker from the PGCB for meetings and conferences.

The PGCB Speakers Bureau makes available board members and seasoned professionals who can present on various topics including the history and operation of the PGCB, compulsive gambling, gaming and the

horse-racing industry, enforcement, legal and regulatory matters, human-resource issues and technology.

Organizations interested in requesting a speaker can gain additional information and make their requests by visiting the PGCB web site, www.pgcb.state.pa.us, then choosing the Request a Speaker option on the home page under the About PGCB tab.

Bureau of Gaming Laboratory Operations

The primary function of the Bureau of Gaming Laboratory Operations is to ensure the performance and integrity of the slot machines and associated equipment that are used by patrons in Pennsylvania casinos. All products are thoroughly tested in a state-of-the-art lab (see separate article) at the Harrisburg office to certify regulatory compliance with all minimum design standards regarding security and an 85 percent minimum payback.

In addition to testing machines in the Harrisburg lab, the Bureau is also responsible for compliance of the slot machine floor, the IT room, the count room, and the cashier's stations of every casino. The bureau also works closely with other state agencies such as the Department of Revenue, whose central control system is used to perform vital tests such as the daily authentication of every machine on the slot floor.

The Bureau of Gaming Laboratory Operations consists of four units:

Slot Certification:

Responsible for evaluating gaming devices for compliance with the minimum design standards,

modifications to gaming devices, ancillary equipment and conducting investigations of regulatory violations.

Systems and Kiosks:

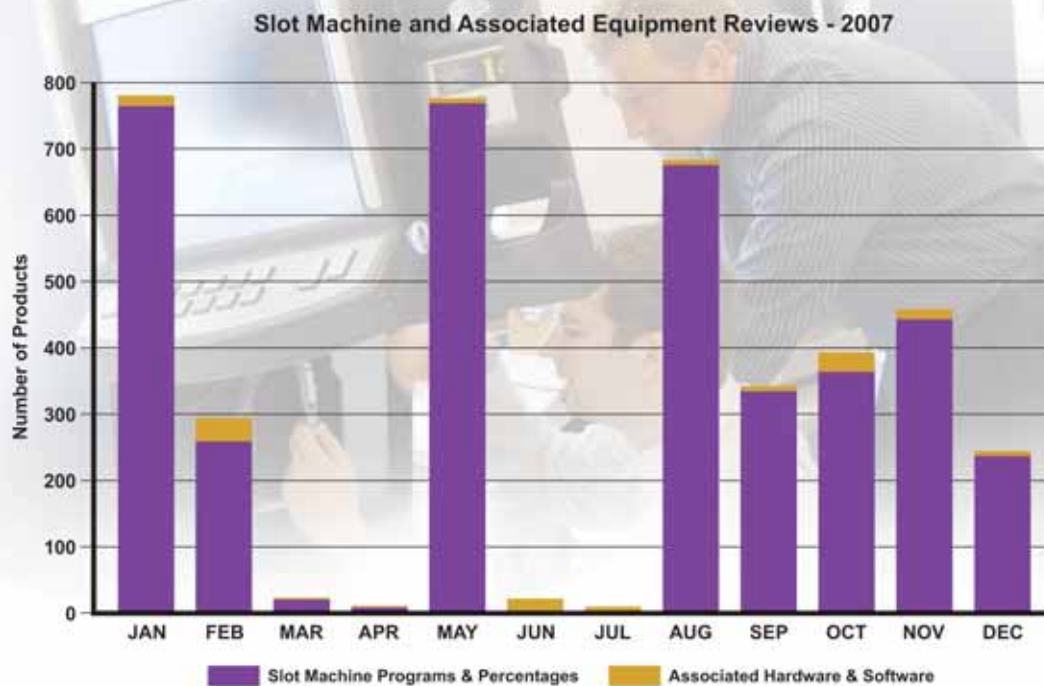
Responsible for evaluating communication between every slot machine and the Central Control Computer System as well as with a slot facility's in-house monitoring system, analysis of voucher redemption machines and evaluation of the count room equipment.

Gaming Equipment Inspections:

Responsible for monitoring the day-to-day operations of licensed slot operators with regard to software and systems at all slot facilities, including proper connectivity to the Central Control Computer System.

Statistical Review:

Responsible for evaluating the theoretical return for every gaming theme submitted for review, analysis of progressive reward payouts and random number generator analysis.



Spotlight On... State-of-the-Art Gaming Laboratory Established



Executive Director Neeb and Chairman Colins Cutting the Ribbon at the Gaming Laboratory Dedication.

The Pennsylvania Gaming Control Board marked the completion of a new state-of-the-art slot machine testing and certification laboratory in September 2007.

The 5,100 square foot facility currently houses more than 75 of the latest slot machines and associated pieces of gaming equipment, and is connected to the state's Central Control Computer System, allowing the Board staff to conduct rigorous tests to ensure the performance and integrity of the slot machines at licensed facilities.

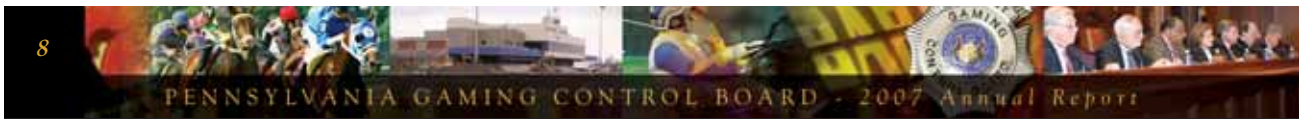
The establishment of the laboratory is a mandate of Act 71 of 2004, the Pennsylvania Horse

Race Development and Gaming Act, which required the Board to create this type of slot machine testing and certification facility.

The state-of-the-art laboratory capabilities will make certain that as new types of slot machines are developed, the Board will have the ability to quickly test them for compliance with regulatory standards.

The Gaming Laboratory is operated at no cost to taxpayers, as is the Gaming Control Board as a whole. The Gaming Act requires licensed manufacturers to reimburse the Board for the cost of establishing and operating the gaming lab.





Office of Compulsive and Problem Gambling

Pennsylvania has demonstrated its commitment to understanding and lessening the devastating effects of pathological gambling by establishing an Office of Compulsive and Problem Gambling (OCPG). The OCPG is dedicated to ensuring that every slot machine operator has established, and maintains meaningful compliance with, an approved compulsive and problem gambling plan. The OCPG also:

- Creates problem gambling materials;
- Heightens public awareness of the dangers of compulsive, problem, intoxicated and underage gambling through outreach programs;
- Researches and develops prevention programs and harm reduction tools for gamblers;
- Establishes education programs for residents of all ages;
- Directs problem gamblers and their families to compulsive gamblers assistance organizations' toll-free helplines for crisis counseling, referral services and treatment.

2007 proved to be a year of development, planning and implementation in the OCPG. Participation in National Problem Gambling Awareness Week (NPGAW), a grassroots public awareness and outreach campaign that was held March 5-11, was a key endeavor. This office created informational documents to hand out during NPGAW and posted these documents on the PGCB website. OCPG, along with the PA Lottery and the Department of Agriculture, set up displays in Strawberry Square and in the Capitol Complex to promote NPGAW and to reach out to problem gamblers in Pennsylvania. The OCPG facilitated a Joint Statement of the Chairman of the

PGCB and the Secretaries of Health, Revenue and Agriculture recognizing NPGAW. Several licensed gaming facilities in Pennsylvania also sponsored NPGAW activities.


In its outreach efforts, the OCPG created informational packets regarding compulsive gambling that were sent to state and county probation and parole offices, Pennsylvania prisons for their libraries, and to Pennsylvania racetrack Chaplains.

The Director of the OCPG has participated on several panels contributing to discussions on compulsive gambling, citing Pennsylvania for its proactive measures, and has been invited to speak at media events, training seminars for problem gambling treatment counselors, undergraduate and graduate level courses and various government "round table" discussions.

The OCPG has given a number of presentations to the Pennsylvania State Police's Member's Assistance Program. These presentations focused on the PGCB's Self-Exclusion Program (see separate report), the signs and symptoms of compulsive gambling and how an individual can obtain help.

The OCPG participates in a monthly multi-agency compulsive and problem gambling consortium that discusses compulsive gambling policies, practices and programs.

During 2007, the OCPG was expanded to include a Program Coordinator position to administer the Self-Exclusion Program, including training of BIE and Casino Enforcement Agents to do self-exclusion intakes, the dissemination of the Self-Exclusion List and data collection on the self-excluded individuals.



IF YOU OR SOMEONE YOU KNOW HAS A GAMBLING PROBLEM, CALL

Council on Compulsive Gambling	or	Pennsylvania Department of Health's information line
1-800-848-1880		1-877-565-2112

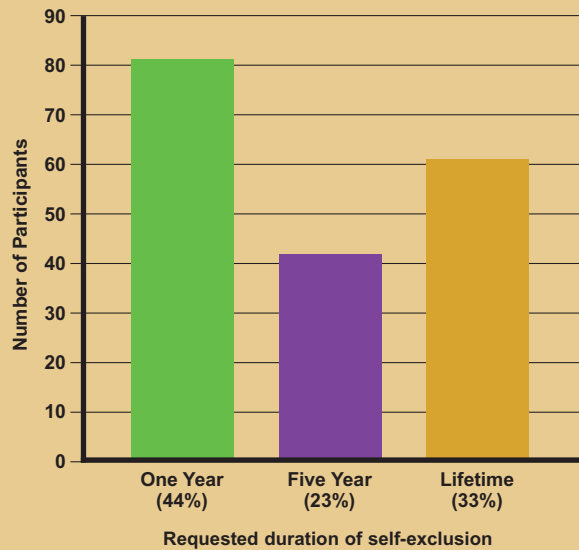
Spotlight On...The PGCB Self-Exclusion Program Helping Many in PA with Gambling Problems

The Self-Exclusion Program is an effective and proven tool to assist a problem gambler in removing himself or herself from the temptation of gambling. Since the introduction of the program, 184 people with gambling problems have voluntarily requested to be excluded from gaming activities at all licensed facilities within the Commonwealth of Pennsylvania for one year, five years or a lifetime. Once a person is placed on the list, licensed Pennsylvania gaming facilities must:

- Refuse wagers from and deny gaming privileges to any self-excluded person;
- Deny check cashing privileges, player club membership, complimentary goods and services, junket participation and other similar privileges and benefits to any self-excluded person;
- Ensure that self-excluded persons do not receive junket solicitations, targeted mailings, telemarketing promotions, player club materials or other promotional materials relating to gaming activities at its licensed facility;
- Notify the Pennsylvania State Police in instances of violations of the ban. A self-excluded individual who violates the ban will be charged with trespassing.

Word of mouth and media coverage have heightened awareness of the program and, as a result, the numbers of those desiring to utilize this tool are steadily climbing.

Self-Exclusion Program
(184 participants since inception)



Additional data from Pennsylvania's program, which is based upon responses from individuals during the self-exclusion intake interview, shows that:

There are
104 males
and
80 females
on the
Self-Exclusion
List

Individuals range
between
22 and **79**
years of age.

40%
of the
self-excluded
individuals are
currently involved
in a treatment
program
(including Gamblers
Anonymous)
or have sought
treatment in the
past.

23%
have been
self-excluded in
other jurisdictions
such as New
Jersey and
Delaware.

73%
of the
self-excluded
persons
participated in
gambling in a PA
casino prior to
signing up for
the Board's
Self-Exclusion
Program.

Office of Gaming Operations



Kevin Hayes
Director, Gaming Operations

Since the opening of Mohegan Sun at Pocono Downs on November 14, 2006, Pennsylvania's gaming market has emerged at a rate which is unparalleled in the U.S. commercial casino gaming industry. Cognizant of this remarkable expansion of gaming in the Commonwealth, the Gaming Control Board established the Office of Gaming Operations (OGO) to oversee the construction, opening, and ongoing operations of the state's new casinos.

Casino Openings

In 2007, the OGO managed the openings of three (3) racetrack casinos and the state's first stand-alone casino resort. The OGO performed pre-opening inspections of the casinos to ensure that the facilities were prepared in all respects to receive the public. These month-long inspections included a rigorous review of the casinos' surveillance and security systems, cashiers' cages, count rooms, main vaults and other secured areas of the facilities. In addition, the OGO observed the casino's employee training sessions and interviewed department heads to make certain that all employees understood their respective duties as set forth in the PGCB's regulations. Prior to each casino opening, the OGO worked in collaboration with the Bureau of Gaming Laboratory Operations to ensure that all slot machines were fully-

communicating with the state's central control computer system – the apparatus by which slot activity is reported to the Department of Revenue for determining tax liability.

Internal Controls

The OGO is responsible for ensuring that each licensed operator develops and maintains a written system of internal control which conforms to the requirements set forth in the Gaming Act and the PGCB's regulations. As a licensed operator's plan for safeguarding and accounting for its assets, internal controls are considered by the PGCB to be a critical component to a casino's operations. As such, prior to recommending that the Board authorize a casino's opening, the OGO required each licensed operator to submit internal controls which described in detail all casino operations and accounting protocols. The OGO developed an efficient system for tracking the review of all proposed changes to internal controls submitted by the licensed operators, which has allowed for the approval/denial of hundreds of proposed amendments to the casinos' internal control systems.

Casino Operation Liaisons

Upon the opening of a casino, the OGO continues to monitor its day-to-day operations to ensure compliance with the Gaming Act and the PGCB's regulations. Any changes to the casino's gaming floor or operating procedures must be approved by the OGO prior to implementation. Each of the Casino Operations Liaisons has developed an expertise in the various gaming operational issues, including casino design, security, surveillance, casino accounting, and cash storage box drop and count procedures. The OGO strives to be proficient in emerging trends and innovations in gaming and works with the Director of Regulatory Review in developing regulations which will allow Pennsylvania's casinos to be at the forefront of the gaming industry in terms of technology.

Licensed Operator	Number of Slot Machines	Size of Gaming Floor (square feet)
Mohegan Sun at Pocono Downs	1,203	33,171
Philadelphia Park Casino & Racetrack	2,402	68,374
Harrah's Chester Casino & Racetrack	2,796	76,377
Presque Isle Downs & Casino	2,000	48,074
The Meadows Racetrack & Casino	1,816	47,226
Mount Airy Casino Resort	2,523	57,261
TOTAL	12,740 Slots	303,483

Office of Racetrack Gaming



Recognizing the importance of a strong relationship between gaming and the horse and harness racing industry, the Gaming Control Board established the Office of Racetrack Gaming to serve as the primary liaison between the two industries. To further this objective, the Office of Racetrack Gaming:

- Regularly participates in monthly meetings of the Horse and Harness Racing Commissions, including providing a monthly revenue report;
- Provides oversight of the distribution of funds from the Pennsylvania Racehorse Development Fund (PRHDF) to the horsemen;
- Prepares and retains financial reports which detail the impact of gaming revenue on purses, breeders' and sire stakes awards and health and pension benefits for horsemen, and reports to the Board;
- Assures that the horsemen comply with all reporting requirements, including an annual audit and quarterly report on the receipt and distribution of funds received from the PRHDF;
- Requires racetrack operators to submit quarterly reports detailing upgrades to the backside area of the racetracks as statutorily mandated (4 Pa. CS 1404);
- Implements any necessary regulations to further the objectives of Act 71;
- Works with the Bureau of Gaming Operations to ensure a smooth interface between the gaming and racing venues at each facility.

Five racetrack casinos, also known as racinos, are currently in operation: Mohegan Sun at Pocono Downs in Wilkes-Barre, Philadelphia Park Casino and Racetrack in Bensalem, Harrah's Chester Downs Racetrack and Casino in Chester, Presque Isle Downs and Casino in Erie, and The Meadows in Washington County. In addition to these five racetrack casinos currently in operation, the Hollywood Casino at Penn National in Grantville is expected to open in early 2008, and Valley View Downs in Lawrence County is expected to begin operations in 2009 pending licensing approval by the PGCB this year.



NEW GAMING INDUSTRY LAUNCHED...

MOHEGAN SUN
AT POCONO
DOWNS

Opened
November 14, 2006



PHILADELPHIA
PARK CASINO
& RACETRACK

Opened
December 19, 2006



HARRAH'S
CHESTER CASINO
& RACETRACK

Opened
January 23, 2007



PRESQUE
ISLE DOWNS
& CASINO

Opened
February 28, 2007



THE MEADOWS
RACETRACK &
CASINO

Opened
June 11, 2007



MOUNT AIRY
CASINO
RESORT

Opened
October 22, 2007



Bureau of Investigations and Enforcement



David Kwait
Director, Bureau of Investigations
and Enforcement

The primary mission of the Bureau of Investigations and Enforcement (BIE) is to ensure the integrity of the Commonwealth's gaming industry through suitability and regulatory investigations of gaming operators, along with their key employees and principals. In addition to the investigations of

operators, BIE also investigates casino employees, and the manufacturers, suppliers, and vendors interested in conducting business within the Commonwealth's gaming industry. BIE performs this function in cooperation with the Pennsylvania State Police, Department of Revenue and private investigative background companies.

In order to provide the board with comprehensive reports to supplement any gathered criminal history, BIE interviews all applicants at length, as well as employers, neighbors, and personal references. Additional elements of these business and personal background investigations are inquiries concerning the applicant's regulatory history in other jurisdictions, tax record examinations and database checks regarding both political contributions and court

records for pending and concluded civil litigation.

As more licensed casinos have opened, BIE has increased its staff and responsibility to assure that proper on-site enforcement is in place. Casino enforcement agents are present at each facility to ensure an immediate response to patron complaints and to swiftly initiate investigations. These agents are present or available at all times while the casinos are open, which allows them to ensure compliance with state law and PGCB regulations.

Throughout 2007, BIE investigators began to investigate casino employees, registered vendors and certified vendors, along with new manufacturers, suppliers and Category 3 applicants. To date, BIE has received applications for investigation from 493 registered vendors and 135 certified vendors .

The suitability procedure for applicants and casino employees is an ongoing process. BIE has been involved in the renewal process for applicants, which require suitability investigations on all applicants up for renewal. Working with the Bureau of Licensing, and in conjunction with the Office of Information and Technology, BIE has streamlined the licensing process by receiving pertinent information through the SLOTSlink computer system.

The BIE Investigations Unit currently has offices in Scranton and Harrisburg, which are referred to as BIE Central, a Regional Office in Conshohocken referred to as BIE East and a Regional Office in Pittsburgh, or BIE West. The BIE Enforcement Unit also has six offices, one at each casino, with an additional office to open in January or February of 2008. The BIE staff has grown to a complement of 109.



Office of Chief Counsel



Frank Donaghue
Chief Counsel

The Office of Chief Counsel (OCC) serves as legal counsel to the Pennsylvania Gaming Control Board on issues of policy and procedure including administration, personnel, budget, operations, gaming, licensing, enforcement, and all other matters that may emerge

in the course of regulating slot machine gaming.

With the guidance of the OCC during 2007, the agency matured from its infancy with a fully operational body of regulations, successfully defended the Board's Category 2 licensing decisions against eight appeals, withstood legal challenges to its authority to operate and site casinos, and has participated in the successful opening of gaming venues.

Licensing:

In early 2007, the OCC took the lead role in drafting adjudications for the formal Category 2 licensing decisions of the Board. Thereafter, OCC has been vital to the review and analysis of various licensing petitions and other matters by providing legal counsel to the Board. The OCC takes the lead in preparing suitability reports on each applicant for licensure to assure the applicant meets the Commonwealth's criteria and expectations to participate in the slot machine industry. In addition, applications for Category 3 Slot Machine licenses have been filed by four entities seeking to establish gaming facilities at well-established resort hotels, and OCC has engaged in the careful examination of each application and has advised the Board during Category 3 Eligibility Hearings.

Regulatory Review:

July 5, 2007 marked the expiration of the Board's temporary regulations which had been drafted by

OCC to guide the Board's operations. To fill that void, OCC undertook the daunting task of preparing and promulgating 11 separate rulemakings throughout the last year, encompassing a total rewrite of 36 chapters of the Board's regulations. As a result of OCC's efforts, all of those rulemakings successfully traversed the regulatory review process under the Regulatory Review Act, and were published as final regulations between June and December of 2007. The scope of this project, as well as the speed in which it was accomplished, is unprecedented in the Commonwealth.

Diversity:

The Deputy Chief Counsel of Administration also serves as the PGCB's Chief Diversity Officer, and is charged with the responsibility of promoting and ensuring diversity in all aspects of gaming as authorized under Act 71. Consistent with this duty, the Chief Diversity Officer also monitors the internal diversity initiatives of the PGCB.

Litigation:

The OCC has the responsibility of defending statutory and regulatory challenges related to the Gaming Act as permitted within the confines of the Commonwealth Attorneys Act. Additionally, OCC defends administrative law claims against the Board.

During 2007, OCC was instrumental in defending and coordinating the defense of eight separate appeals to the Board's Category 2 slot machine facility licensing decisions before the Supreme Court. The outstanding efforts of the litigation team assembled for this purpose culminated in the Supreme Court upholding each and every decision made by the Board. Additionally, the OCC successfully defended other challenges to Board actions and licensing decisions in both State and Federal Courts.

Administration:

The OCC drafts internal policies of the Gaming Control Board to assure compliance with applicable federal and state laws. In 2007, this included updates to the Board's Ethics Code, Employee Handbook, and other forms and policies utilized by the PGCB.

Office of Hearings and Appeals

The Office of Hearings and Appeals (OHA) functions as the independent judiciary branch of the Board. OHA is the division of the Board that has the authority to conduct hearings and issue reports and recommendations on those matters for the Board's consideration. OHA's Hearing Officers routinely conduct hearings involving the following:

- Denial of licenses, gaming permits and registrations;
- Enforcement Actions filed by the Board's Office of Enforcement Counsel;
- Petitions filed by licensed entities and others;
- Other matters that come before the Board that may require an evidentiary hearing.

The Board's Clerk is part of the OHA staff with primary responsibilities to receive, docket, and distribute to Board staff all filings that are required to also be maintained under the Gaming Act and PGCB regulations.

OHA grew in 2007 with the addition of a Director of Hearings and Appeals, a Law Clerk, a Hearing

Officer and an Administrative Assistant. In June, OHA's offices were moved from the Board's downtown Strawberry Square location to office space at One Penn Center on North Third Street in Harrisburg. The move to Penn Center now provides adequate hearing room space and better access for members of the public when they wish to view the Board's public documents.

The OHA staff has been diligently establishing processes and procedures comporting with Pennsylvania's laws in order to ensure that all hearings are conducted in a fair manner and comply with the due process rights of the parties, and that those involved in the hearing process receive timely reports and recommendations.

At the end of 2007, OHA began providing those requesting a hearing the option of participating by videoconference from the Board's Conshohocken or Pittsburgh Offices, thereby allowing individuals an easier opportunity to participate in the hearing process.

During 2007 the OHA received over 1,900 filings to be processed and responded to, including the following:

Petitions Received: **648**

Enforcement Actions Filed: **12**

Requests for Oral Administrative Hearings: **203**

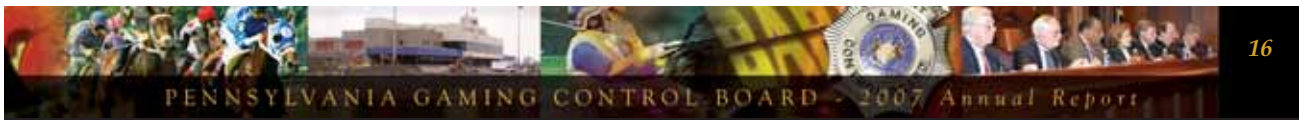
Hearings Conducted: **51**

Reports and Recommendations Issued: **58**

Exceptions Filed: **3**

Disposed Hearing Files: **176**

Orders Processed: **642**



Office of Enforcement Counsel

The Office of Enforcement Counsel (OEC) was established within the Bureau of Investigations and Enforcement (BIE) to act as the prosecutor in all non-criminal enforcement actions initiated by the Bureau and to advise the Bureau on all matters, including the granting of licenses, permits or registrations, the conduct of background investigations, audits and inspections and the investigation of potential violations of the Act.

The Office of Enforcement Counsel has over 94 years of combined legal experience, which includes approximately 20 years of gaming law, 28 years of general administrative law, 25 years of criminal law, 24 years of civil litigation, 3 years of environmental, 3 years of ethics law, 1½ years of construction law and 2 clerkships.

In 2007, the Office of Enforcement Counsel continued to assist the BIE with suitability investigations, including the review of over 308 reports regarding suitability of applicants while assisting in various legal matters that arose throughout the course of the investigations. Further in its duties, Enforcement Counsel established internal operating procedures regarding the conduct of its various types of investigations and with training all personnel on such procedures.

Additionally, the Office acted as the prosecutor in over 152 hearings in 2007 regarding recommendations

of denial for gaming and non-gaming employees who failed to disclose information in their applications. In addition to reviewing suitability reports and prosecuting employee denial hearings, the Office of Enforcement Counsel also reviews all withdrawal petitions for validity prior to submission to the Board for its approval. In all, 235 denial letters for gaming and non-gaming employees were issued during 2007.

Also in 2007, the Office of Enforcement Counsel began to focus on enforcement matters as each licensed facility opened its doors. For potential regulatory and statutory violations, OEC established an escalation process wherein warning letters, compliance conferences and enforcement action complaints are utilized depending on the severity and/or quantity of the offense(s) involved. This process enabled the Office of Enforcement Counsel to monitor continued compliance by each licensed facility and licensed individuals with the requirements of the regulations and the Act by allowing each the opportunity to take corrective action(s) before fines and penalties are sought.

As the Office of Enforcement Counsel moves forward into the year 2008, expect to see continued growth in the gaming industry and an increased understanding of the regulatory process by licensees and applicants.

OEC's Statistical Data

Requests for Emergency Orders Filed	5
Complaints Filed	15
Consent Agreements Reached	4
Warning Letters Issued	25
Compliance Conferences Conducted	3
Responses to Petitions	22
Petitions for Withdrawal	493
Petitions to Surrender	4
Revocations Ordered	4
Suspensions Ordered	7



Bureau of Administration



Michael Walsh
Director, Bureau of Administration

The Bureau of Administration provides operational support and policy direction for the Pennsylvania Gaming Control Board. A dedicated staff with both public and private sector experience assists with the information technology,

human resources, document management and office services support that is necessary to aid nearly 250 agency employees carry out their duties in a highly visible regulatory environment.

Human Resources:

The Office of Human Resources (HR) establishes, maintains and administers effective and comprehensive classification and compensation programs/policies while coordinating a highly competitive benefits program to ensure that all employees work in a safe and fair environment. HR

staff also support the PGCB in achieving its goals and objectives by assisting managers in recruiting, developing and maintaining a competent workforce through the coordination of training programs, while providing assistance to managers on personnel management issues.

Information Technology:

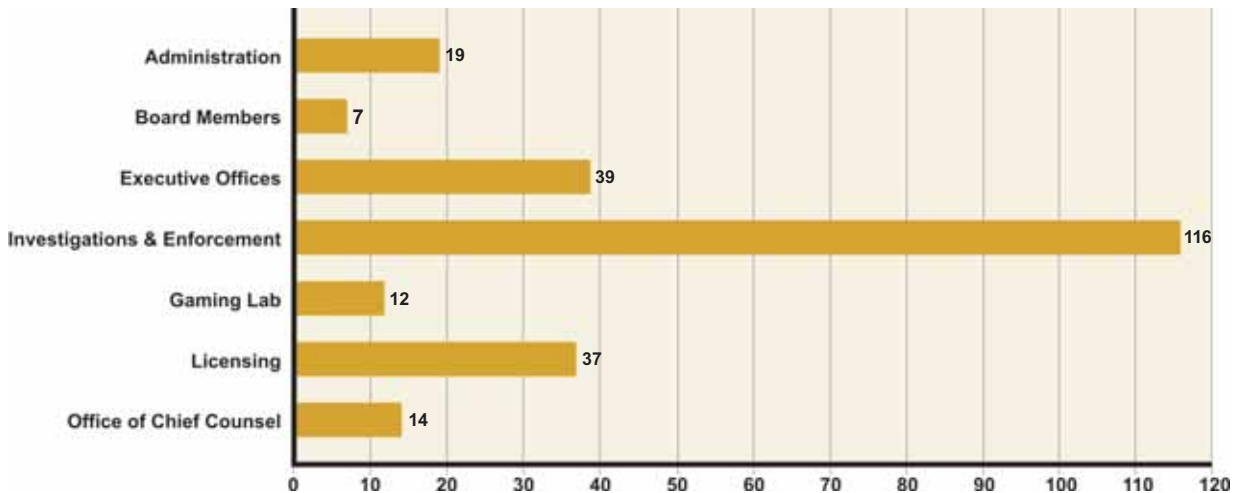
In addition to the daily desktop and telecommunications support for agency employees, the Office of Information Technology (OIT) has networked three regional offices, the Office of Hearing and Appeals, and seven casino locations with the main offices in Harrisburg. OIT staff continue to develop applications to assist staff and casinos with the licensing and enforcement of gaming in Pennsylvania.

Office Services:

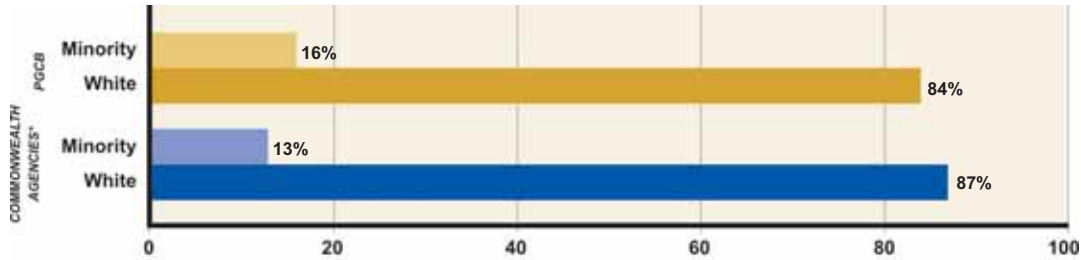
In 2007, the Pennsylvania Gaming Control Board opened a new office in Scranton, and created another Harrisburg presence with the addition of space for the Office of Hearings and Appeals. Added to the already existing offices in Philadelphia and Pittsburgh, these locations give the PGCB a statewide presence with offices near each of the licensed gaming facilities. Office Services staff are responsible for agency procurement, fleet operations, and travel/conference planning. They also provide training to all PGCB staff engaged in these activities for their respective bureaus.

2007 Workforce Report

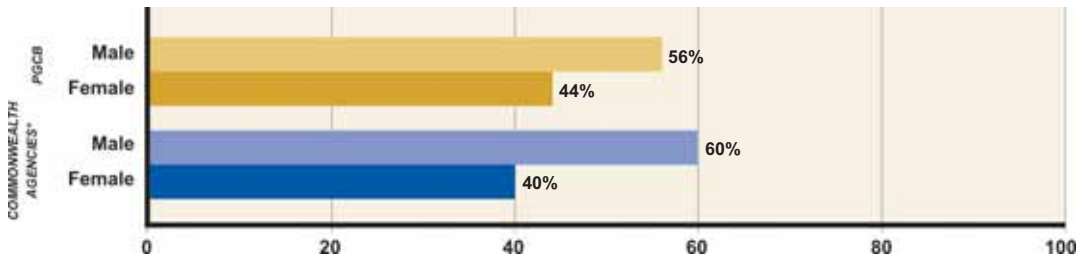
Employee by Bureau
(as of December 31, 2007)



Minority Representation
(as of December 31, 2007)



Gender Representation
(as of December 31, 2007)



*Governor's Annual Workforce Report - 2007



PA Gaming Control Board Recognized as "People of the Year" by *Casino Journal* Magazine

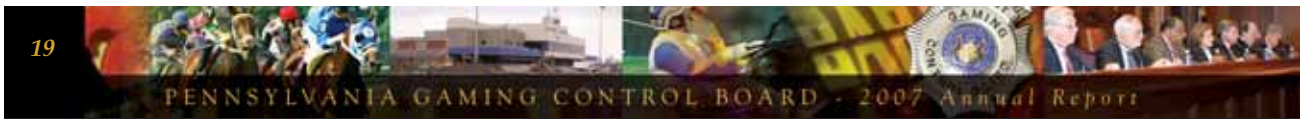
Casino Journal magazine, a publication that covers the entire North American gaming industry, has lauded the Pennsylvania Gaming Control Board as one of their "People of the Year" for 2007.

The yearly list is compiled by Casino Journal to single out individuals who made an impact in the gaming industry. In the article, Editor Andy Holtmann specifically commended both Board members and staff for creating a comprehensive gaming code and regulation from scratch, then applying it thoughtfully and efficiently to a somewhat contentious application and approval process for the coveted licenses.

"And, the entire Board should be commended for not just getting the job done, but setting an example for what dedicated regulatory oversight is all about," Holtmann wrote.

The article praises present and former Board members who, with PGCGB executive staff and all employees, worked tirelessly to review proposals and approve plans for each of the state's standalone and racetrack-affiliated casinos. Currently, six of the eleven licensed slots casinos are in operation in Pennsylvania and together have already contributed more than \$1 billion in revenue for the Commonwealth.

"If you want an example of how hard work and dedication can overcome sizeable challenges and result in true, measurable progress, you'd be hard pressed to find a better example than the Pennsylvania Gaming Control Board," Holtmann states in the article. "The present (and past) members of the Board over the last year have put forth blood, sweat and tears to ensure that the nation's most significant new gaming market is securely regulated and fair to everyone involved."



Office of Financial Management

In November of 2006 Pennsylvania's first slots casino opened at Mohegan Sun at Pocono Downs in Wilkes-Barre. Since then, five more facilities have opened. By the end of calendar year 2007, the slots industry had already generated more than \$1 billion in revenue for job creation, economic development, revitalization of the horse racing industry and property tax relief. In addition to the direct benefit of revenues to state and local governments, more than 4,000 people are licensed and working in this new Pennsylvania industry. Thousands of others are employed in construction firms and with contractors providing goods and services to the gaming industry.

The pie charts on the following page present an overview of the sources and uses of revenues generated by the gaming industry from inception through the end of 2007. Tables following the charts

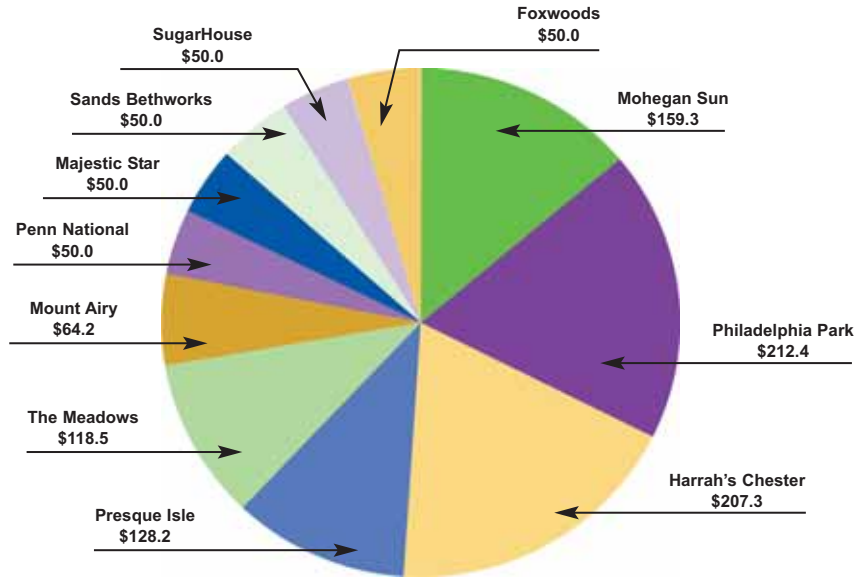
provide more detailed information on the amounts wagered and paid out at each licensed facility as well as the tax and license fee revenues collected from each slot machine licensee. Distribution of gaming revenues to local governments are detailed below.

The Pennsylvania Gaming Control Board approves its annual budget as well as the gaming oversight budget of the State Police, the Department of Revenue and the Office of Attorney General. The approved budgets are forwarded to the Governor's Budget Office for submission to the General Assembly. Beginning in fiscal year 2007-2008, all expenditures of the Pennsylvania Gaming Control Board must be appropriated annually by the General Assembly. During fiscal year 2006-2007 PGCB funds came from a variety of sources that are delineated in the Statement of Revenue and Expenditures included in this report.

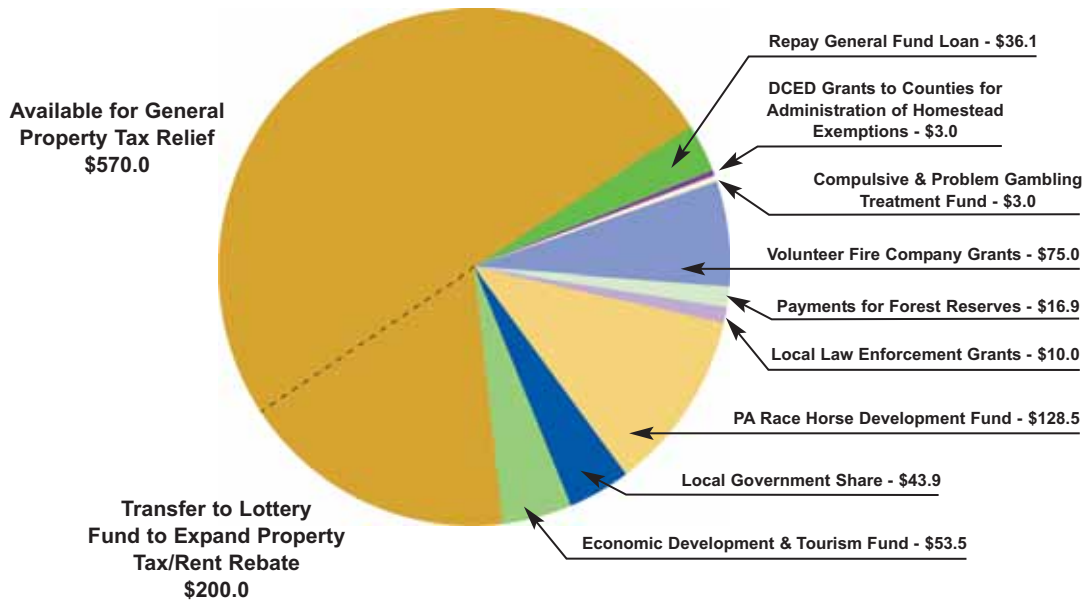
2007 Local Share Distributions:	Share of Gross Terminal Revenue	Catch-Up Payment Required to Achieve \$10 Million Minimum Prorated	Grand Total
Bucks County	\$ 4,418,578		\$ 4,418,578
Bensalem Township	\$ 4,576,485	\$ 157,907	\$ 4,734,391
Luzerne County - DCED	\$ 4,549,698	\$ 881,968	\$ 5,431,666
Plains Township	\$ 2,619,596		\$ 2,619,596
Delaware County	\$ 4,182,375		\$ 4,182,375
Chester City	\$ 4,182,375		\$ 4,182,375
Erie County	\$ 3,262,018		\$ 3,262,018
Summit Township	\$ 973,505		\$ 973,505
Washington County - DCED	\$ 1,706,002		\$ 1,706,002
North Strabane Township	\$ 1,198,306		\$ 1,198,306
Totals	\$31,668,937	\$1,039,874	\$32,708,811

These figures reflect payments actually distributed to the appropriate local jurisdiction from January 1, 2007 through December 31, 2007.

Where Did the \$1.14 Billion in Revenue Come From?
November 14, 2006 through December 31, 2007



Where Did the \$1.14 Billion in Revenue Go?
Through December 31, 2007



2007 Gaming Revenue & Results

January 1, 2007 through December 31, 2007

	Mohegan Sun	Philadelphia Park	Harrah's Chester
Wagers	\$1,933,394,904	\$3,523,775,836	\$3,334,281,033
Payouts	\$1,757,297,019	\$3,217,826,113	\$3,026,120,139
Promotional Plays (Internal)	\$ 793,444	\$ 20,918,297	\$ 22,211,752
Promotional Plays (External)	\$ 0	\$ 0	\$ 0
Adjustments	\$ 199,152	\$ 719	\$ 29,521
Gross Terminal Revenue	\$ 175,503,593	\$ 285,032,144	\$ 285,978,663
State Tax (34%)	\$ 59,671,282	\$ 96,910,929	\$ 97,232,745
Local Share Assessment (4%) ¹	\$ 7,020,151	\$ 11,401,286	\$ 11,439,146
Local Share - Catch-Up to Achieve \$10m Minimum	\$ 881,968	\$ 157,907	
Economic Development & Tourism Fund (5%)	\$ 8,775,189	\$ 14,251,607	\$ 14,298,933
PA Race Horse Development Fund	\$ 21,060,452	\$ 34,203,857	\$ 34,317,440
Taxable Slot Win Per Day	\$ 423	\$ 356	\$ 299
Slot Machines as of December 31, 2007	1,203	2,428	2,790
	Presque Isle	Meadows	Mount Airy
Wagers	\$1,629,925,462	\$1,468,690,393	\$ 372,132,673
Payouts	\$1,481,650,245	\$1,344,102,481	\$ 345,282,464
Promotional Plays (Internal)	\$ 6,092,664	\$ 0	\$ 1,104,376
Promotional Plays (External)	\$ 0	\$ 345,383	\$ 0
Adjustments	\$ 0	\$ 0	\$ 0
Gross Terminal Revenue	\$ 142,182,554	\$ 124,587,912	\$ 25,745,832
State Tax (34%)	\$ 48,342,068	\$ 42,359,890	\$ 8,753,583
Local Share Assessment (4%) ¹	\$ 5,687,302	\$ 4,983,516	\$ 1,029,833
Local Share - Catch-Up to Achieve \$10m Minimum			
Economic Development & Tourism Fund (5%)	\$ 7,109,128	\$ 6,229,396	\$ 1,287,292
PA Race Horse Development Fund	\$ 17,061,906	\$ 14,950,549	\$ 3,089,500
Taxable Slot Win Per Day	\$ 230	\$ 346	\$ 140
Slot Machines as of December 31, 2007	2,000	1,816	2,523

2007 Gaming Revenue & Results

January 1, 2007 through December 31, 2007

	Grand Total
Wagers	\$12,262,200,301
Payouts	\$11,172,278,461
Promotional Plays (Internal)	\$ 51,120,533
Promotional Plays (External)	\$ 345,383
Adjustments	\$ 229,391
Gross Terminal Revenue	\$ 1,039,030,698
State Tax (34%)	\$ 353,270,498
Local Share Assessment (4%) ¹	\$ 41,561,235
Local Share - Catch-Up to Achieve \$10m Minimum	\$ 1,039,874
Economic Development & Tourism Fund (5%)	\$ 51,951,544
PA Race Horse Development Fund	\$ 124,683,705
Slot License Fees (9 facilities, \$50,000,000 each)	\$ 450,000,000
TOTAL	\$ 1,022,506,856
Slot Machines as of December 31, 2007	12,760

¹ These figures include revenues collected but not yet paid to the appropriate local jurisdictions. The Department of Revenue forwards these payments to the local jurisdictions on a quarterly basis.

PGCB
Statement of Revenue and Expenditures
 Fiscal Year 2006-07

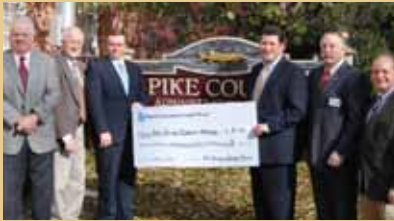
Beginning Balance			
FY2005-06 Carryover		\$	3,052,877
Revenues			
1401 Account Drawdowns	\$10,690,563		
Investigative Fees	\$10,517,932		
Transfer from DOR	\$ 6,600,000		
Transfer from PSP	\$ 3,847,404		
Licenses Fees	\$ 1,310,000		
Application Fees/Investigative Deposits	\$ 549,610		
Gaming Lab Reimbursements	\$ 345,610		
Filing Fees and Motions	\$ 40,225		
Other	\$ 17,889		
Problem Gaming Donations	<u>\$ 15,000</u>		
Total Revenue		\$	<u>33,934,232</u>
Available			\$36,987,109
Expenditures			
Personal Expenditures			
Salaries and Wages	\$12,894,952		
Benefits	\$ 4,790,272		
Payouts and Allowances	<u>\$ 116,598</u>		
Total Personnel Expenditures		\$	17,801,822
Operating Expenditures			
Services	\$ 5,515,382		
Other Operating Expenses	\$ 3,808,024		
Equipment (NFA)	\$ 1,365,695		
Rentals/Leases	\$ 1,318,742		
Utilities/Comm	\$ 693,936		
Travel	\$ 667,461		
Supplies	\$ 307,125		
Inventory Expenses	\$ 287,325		
Training	<u>\$ 5,172</u>		
Total Operating Expenditures		\$	<u>13,968,861</u>
Total Expenditures			\$31,770,683
Revenues Over (Under) Expenditures			<u>\$ 5,216,427</u>

Spotlight On...Local Law Enforcement Grants

During 2007, the Board awarded 14 grants totaling \$1.8 million to local law enforcement agencies statewide.

Grant funds may be used for the purpose of attending or conducting education and training events, to defray the costs associated with assigning officers or investigators to prevent, deter, enforce or investigate the illegal use of slot machines, or the prosecution of these crimes. A maximum award of \$250,000 can be sought by any single organization.

The Board may award up to \$5 million annually in grants to local law enforcement agencies for the sole purpose of enforcing and preventing the unlawful operation of slot machines in the Commonwealth.



Local Law Enforcement Grants Awarded

Recipient	City	County	Amount
Approved October 2, 2007:			
Lower Saucon Township Police Department	Bethlehem	Northampton	\$ 9,570.00
Allegheny County District Attorney	Pittsburgh	Allegheny	\$ 250,000.00
City of Philadelphia Police Department	Philadelphia	Philadelphia	\$ 250,000.00
Washington County District Attorney	Washington	Washington	\$ 153,749.90
Northern Regional Police Department	Wexford	Allegheny	\$ 43,836.76
Lower Paxton Township Police Department	Harrisburg	Dauphin	\$ 48,822.40
Pike County District Attorney	Milford	Pike	\$ 22,166.00
Approved November 8, 2007:			
Montgomery County District Attorney	Norristown	Montgomery	\$ 250,000.00
Pittsburgh Bureau of Police	Pittsburgh	Allegheny	\$ 181,129.08
Erie County District Attorney	Erie	Erie	\$ 199,698.00
Armstrong County District Attorney	Kittanning	Armstrong	\$ 41,278.00
Lebanon County District Attorney	Lebanon	Lebanon	\$ 140,000.00
Susquehanna County District Attorney	Montrose	Susquehanna	\$ 35,000.00
Allegheny County Police Department	Pittsburgh	Allegheny	\$ 160,568.00
TOTALS			\$1,785,818.14

Three New Facilities Under Construction

Hollywood Casino at
Penn National
Grantville, PA



Scheduled opening
February, 2008

Majestic Star
Casino
Pittsburgh, PA



Scheduled opening
Mid-2009

Sands Bethworks
Casino
Bethlehem, PA



Scheduled opening
Mid-2009

Pennsylvania Gaming Control Board
303 Walnut Street
Verizon Tower, 5th Floor
P.O. Box 69060
Harrisburg, PA 17106
Phone: (717) 346-8300
Fax: (717) 346-8350
www.pgcb.state.pa.us