



## **Audit Committee Charter**

### **Churchill Downs Incorporated Audit Committee Charter**

*Rev. March 1, 2010*

#### **Purpose**

The Audit Committee (the "Committee") assists the Board of Directors (the "Board") in fulfilling its responsibility in monitoring Churchill Downs Incorporated (the "Company") management in their conduct of the Company's financial reporting process, including monitoring the integrity of the financial reporting process, systems of internal controls and financial statements and other financial reports provided by the Company to any governmental or regulatory body, the public or other users thereof. The Committee shall also monitor the performance of the Company's internal audit function and be directly responsible for the appointment, compensation and oversight of the Company's independent auditors employed by the Company for the purpose of preparing or issuing audit opinions on the Company's financial statements and its internal controls. In addition, the Committee will also oversee and monitor the Company's compliance with legal and regulatory requirements as well as the Company's Code of Conduct and Compliance Program. Further, the Committee is responsible for oversight of the Company's risk management practices. "Risk management practices" means the process by which the Company: (1) identifies, assesses and prioritizes risks to the Company; (2) identifies and implement ways to eliminate or minimize those risks; and (3) monitors and reports on the effectiveness of ways to eliminate or minimize those risks.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel, auditors or other experts for this purpose. The Board and the Committee are in place to represent the Company's shareholders; accordingly, the external auditor is ultimately accountable to the Board and the Committee.

The Committee shall review the adequacy of this Charter on an annual basis.

#### **Membership**

The Committee shall be comprised of not less than three members of the Board, in good standing, and the Committee's composition will meet the independence and other requirements of the rules and regulations promulgated by the Securities and Exchange Commission ("SEC") and the rules of the National Association of Securities Dealers, Inc. ("NASD"), as determined by the Board. In addition, one member of the Committee shall be designated as a "financial expert" as defined by the SEC.

Accordingly, all of the members of the Committee will be directors:

- Who have no relationship to the Company that may interfere with the exercise of their independence from management and the Company; and
- Who meet the financial literacy standards of the NASDAQ and any financial literacy standards of applicable federal law

#### **Key Responsibilities and Authority**

The Committee's responsibility is one of oversight and it recognizes that the Company's management is responsible for preparing the Company's financial statements and that the independent auditors are responsible for auditing those financial statements. Additionally, the Committee recognizes that financial management, as well as the independent auditors, have more time, knowledge and detailed information on the Company than do Committee members; consequently, in carrying out its oversight duties, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditor's work.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate given the circumstances. The Committee shall report to the Board no less than annually on its activities.

- Review the Committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the Board. Consider changes that are necessary as a result of new laws or regulations.

- The Committee shall meet at least four times per year, coincident with the filing of the quarterly Form 10Q's and annual filing of the Form 10K. These meetings may be combined with regularly scheduled meetings, or more frequently as circumstances may require. The Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- Conduct executive sessions with the independent auditors, CEO, CFO, Chief Compliance Officer, internal auditors, outside counsel, VP Finance and Controller, and anyone else as desired by the Committee.
- The Committee shall be authorized to hire outside counsel or other consultants as necessary, which may take place any time during the year.
- Review and concur in the appointment, replacement, reassignment, or dismissal of any member of the internal audit staff.
- Appoint the independent auditors to be engaged by the Company, establish the audit fees of the independent auditors, pre-approve any non-audit services provided by the independent auditors, including tax services, before the services are rendered.
- Review and evaluate the performance of the independent auditors and review with the full Board of Directors any proposed discharge of the independent auditors.
- Ascertain that the lead (or concurring) audit partner from any public accounting firms performing audit services, serves in that capacity for no more than five fiscal years of the Company. In addition, ascertain that any partner other than the lead or concurring partner serves no more than seven years at the partner level on the Company's audit.
- Consider, with management, the rationale for employing audit firms other than the principal independent auditors.
- Discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company's exposure to risk and review any significant financial risk exposures facing the Company and management's plans to monitor, control and/or minimize such exposures. Inquire of management, internal audit, and the independent auditors about significant risks or exposures, including those related to fraudulent activities, facing the Company; assess the steps management has taken or proposes to take to minimize such risks to the Company; and periodically review compliance with such steps.
- Review with the independent auditor, financial officers of the Company, and internal audit, the audit scope and plan of the internal auditors and the independent auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Review with management and internal audit:
  1. Significant findings on internal audits during the year and management's responses thereto
  2. Any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work or access to required information
  3. Any changes required in the scope of their internal audit
  4. The internal auditing department budget and staffing
  5. The internal auditing department charter
  6. Internal Audit's compliance with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing (Standards)
- Inquire of the CEO and CFO regarding the "quality of earnings" of the Company from a subjective as well as an objective standpoint.
- Review with the independent auditors and internal audit:
  1. The Company's internal controls including computerized information system controls and security
  2. Any related significant findings and recommendations of the independent auditors and internal audit services together with management's responses thereto
  3. The Company's procedures for fraud detection and review any reported instances of fraud or suspected fraud
- Review with management and the independent auditor the effect of any regulatory and accounting initiatives, as well as off-balance-sheet structures, if any.
- Review with each public accounting firm that performs an audit:

1. All critical accounting policies and practices used by the Company
  2. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, the ramifications of each alternative, and the treatment preferred by the Company.
- Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.
  - Review with management and the independent auditors:
    1. The Company's annual and quarterly financial statements and related footnotes
    2. The independent auditors' audit of the financial statements and their report thereon
    3. The independent auditors' judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting
    4. Any significant changes required in the independent auditors' audit plan
    5. Any serious difficulties or disputes with management encountered during the audit
    6. Matters, which are required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communication With Audit Committees (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended, related to the conduct of the audit.
  - Obtain on an annual basis a formal written statement from the independent auditors delineating all relationships between the auditors and the Company consistent with Independence Standards Board Standard No. 1, and review and discuss with the independent auditors all significant relationships the accountants have with the Company, which may affect the auditors' independence. The Committee is responsible for ensuring the independence of the independent auditors.
  - Review with the Chief Compliance Officer and internal audit any legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related company compliance policies, and programs and reports received from regulators.
  - Periodically review the Company's Code of Conduct to ensure that it is adequate and up-to-date. Review with internal audit and the Company's Chief Compliance Officer the results of their review of the monitoring of compliance with the Company's Code of Conduct.
  - Review the procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, current status, and resolution if one has been reached.
  - Review procedures for the confidential, anonymous submission by employees of the organization of concerns regarding suspected fraud, questionable accounting or auditing matters. Review any submissions that have been received, the current status, and the resolution if one has been reached.
  - The Committee will perform such other functions as assigned by law, the Company's charter or bylaws, or the Board of Directors.
  - The Committee will evaluate the independent auditors and internal auditors.
  - Annually undertake an evaluation of the Committee's effectiveness.
  - Oversee the preparation, review and approve the annual report of the Committee as required by the rules of the SEC. Include in the annual Proxy Statement for the Company a report of the Committee in accordance with the Proxy Rules promulgated by the SEC.
  - Review and approve all related-party transactions.
  - Periodically assess the effectiveness of the Company's Compliance Program with the Chief Compliance Officer.
  - Oversee compliance with the Company's Anti-Money Laundering policies and procedures.