

2011 NHBPA WINTER CONVENTION

“Working With Your Track Partner To
Monitor and Verify The Purse
Account”

Craig S. Gegorek, CPA

“Who is Watching the Hen House??”

Gross Purses Paid in the United States in 2010

\$1,031,317,175.00

(per The Jockey Club Statistics)

\$600,000,000.00

Purses Paid by HPBA Affiliates

(Jockey Club Statistics less TOC and THA's)

How Does Your Purse Account Operate?

- Administered by Track?
- Administered by Horsemen's Organization?
- Administered by a Third Party?

How are the Purse Account Funds Held?

- Comingled with the Track's Funds
- Held by the Track in a Segregated Account
- Held by the Track in a Trust Account
- Held by a Third Party

Why Are These Questions So Important?

- *Security of the Purse Account Funds*

Familiar News Headlines:

- *NYRA Seeks Bankruptcy Protection from Court.* November 2, 2006, by Tom Precious
- *Horse Racetrack Operator, Magna Entertainment, Files Bankruptcy and Begins Sell-Off of Assets.*
March 13, 2009 by Jason Cornell
- *New York City OTB Files for Chapter 9 Bankruptcy.* September 2, 2009 by Paul Post

Racetracks Filing for Bankruptcy Protection 2006 - 2010

Santa Anita Park

Gulfstream Park

Pimlico

Laurel Park

Remington Park

Golden Gate

Hoosier Park

Saratoga

Belmont Park

Aqueduct Racetrack

Portland Meadows

Thistle Downs

Lone Star

The Meadows

Dates to Remember:

November 2, 2006

NYRA files for Chapter 11 Bankruptcy Protection

March 5, 2009

MEC files for Chapter 11 Bankruptcy Protection

December 3, 2009

NYC OTB files for Chapter 9 Bankruptcy Protection

March 3, 2010

Hoosier Park Parent files for Chapter 11 Protection

News Going From Bad to Worse...

Horsemen Sue NYRA Over Handling Of Purse Accounts. December 6, 2006, Associated Press

“Owners and trainers at the New York Racing Association tracks have sued the track operator, claiming it diverted \$15 to \$20 million to operational costs that should have gone to winnings.”

Security of Purse Account Funds:

- Timely payment of funds from track to account
- Protection of Funds – What's best for your Organization
- Establish a Trust for all funds held by the track

The Good, the Bad & the Ugly

Real Life Client Issues...

Initial Analysis Showed:

- Purse funds were held by the track
- Purse funds were comingled with the track's operating account
- Operating account was \$2.5 million overdrawn

Initial Analysis Showed:

- *Purse funds were held by the track*
- *Funds held in a separate checking account identified as Purse Account*
- *Additionally funds were in a separate corporation owned by the track*
- *Track only nominally funded the purse account to cover immediate cash flow needs of the account*
- *Approximately \$8 million short fall to purse account*
- *Track's position, they had a \$10 million line of credit to cover the short fall*
- *The purse account was audited by the track's accounting firm*

Initial Analysis Showed:

- Complex statutory revenue distribution of funds
- Very difficult wording of statute
- Statute stated a date specific change in allocation of revenue distribution; i.e. increasing the percentage to the purse account
- Track did not make the allocation adjustment
- Cumulative effect of error...\$10 million charge to track and a \$8 million increase to the purse account

What is the Good?

Present Day Situations – Bankruptcy Effects:

- Client's purse account was charged for it's share of a \$100K bad debt from Track A
- Track A did not pay as another related track on the West Coast did not pay them due to the bankruptcy
- Client's track paid Track A 100% of amount due from bankruptcy
- Currently dealing with client's track president for resolution

Bankruptcy Effects Part 2:

- Client's purse account (a track in bankruptcy) was charged for its share of a \$250K bad debt
- Bad debt expense is from two related tracks in bankruptcy
- Group of tracks filed Chapter 11 on different dates
- The \$250k bad debt was a post petition event for client's purse account but was a prepetition liability for two related tracks
- Still resolving issue with track's president

Gegorek & Company...what we do

A Professional Approach to:

Analysis of pari-mutuel revenue distributions
Financial audits of purse accounts and horsemen's organizations

Slot analysis and negotiations with management

Drafting and review of legislative language

Analysis of slot revenue distributions

Representation before racing commissions

Financial analysis of proposed legislation and education of legislators

Racetrack acquisitions

Our Clients, Past & Present

Maryland THA

New York THA

Oklahoma HPBA

Illinois THA

Delaware THA

MD State Fair (Timonium)

MD Racing Commission

MD-Standardbred Race Fund

MD Thoroughbred Purse Ac.

Florida SBOA

Cloverleaf SOA

MD Million

THG

Chicago TB Foundation

Chicago Benefit Trust

MD-Bred Race Fund

MD Racing Writers

MD Stallion Station

So...

Who is Watching the Hen House for
Your Members?

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