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Directors  
Nassau County Interim Finance Authority  
1305 Franklin Avenue Suite 302  
Garden City, NY 11530

Dear Directors:

Deloitte & Touche LLP (“Deloitte”<sup>1</sup>) has concluded the assessment of the Nassau Regional Off-Track Betting Corporation (“NROTB”) as requested by the Nassau County Interim Finance Authority (“NIFA”). The project consisted of assessing the total revenue and operating costs contributing to distributions made to Nassau County (“County”). The services were performed in accordance with the American Institute of Certified Public Accountants Statement on Standards for Consulting Services.

In accordance with the Agreement for the Services dated October 21, 2022, the objectives of the project were to understand NROTB’s total revenue and operating costs that lead to net revenue distributions to the County for 2020-2021 and the obligations for profit payouts and disbursements. NROTB’s total revenue, royalty receipts, and operating cost were analyzed to determine whether the distributions to the County met the contractual and statutory obligations.

The procedures performed did not constitute an audit, a review, or a compilation of NROTB’s financial statements or any part thereof, nor an examination of management’s assertions concerning the effectiveness of NROTB’s internal control systems or an examination of compliance with laws, regulations, or other matters. Accordingly, the performance of the procedures did not result in the expression of an opinion or any other form of assurance on NROTB’s financial statements or any part thereof, nor an opinion or any other form of assurance on NROTB’s internal control systems or its compliance with laws, regulations, or other matters.

This report is intended solely for the information and use of NIFA and is not intended to be, and should not be used, by any other party. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. NIFA may communicate specific observations included in said report in its own materials based on the information contained in this report or work product and using such NIFA-created materials without restriction, provided that the NIFA does not, expressly or by implication, in any manner whatsoever, attribute such materials to Deloitte & Touche LLP or otherwise refer to or identify Deloitte & Touche LLP in connection with such materials. Deloitte & Touche LLP acknowledges that NIFA may provide or deliver copies of this report and post it on its website as required, authorized or permitted by law. If provided, delivered, or posted, the report must be in its entirety. If altered, supplemented, or modified, written consent must be obtained from Deloitte & Touche LLP.

We sincerely appreciate the courtesy, cooperation, and assistance extended to us by NIFA personnel during the performance of our services. If you have questions or need additional information concerning this analysis, please call me at 402-203-5341.

Very Truly Yours,

Dan Kinsella  
Partner

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<sup>1</sup> As used in this document, “Deloitte” means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

# Contents

- Executive Summary ..... 3
  - Overview ..... 3
- Objectives, Scope and Approach ..... 4
  - Objectives and Scope ..... 4
  - Approach ..... 4
  - COVID Impact ..... 5
- Summary of Results ..... 6
- Recommendations ..... 8
- Appendix ..... 9

# Executive Summary

## Overview

Nassau Regional Off-Track Betting Corporation (“NROTB”) provides bettors a platform for wagering on horse racing. The organization operates as a public benefit corporation with all profits benefiting Nassau County (“County”) in the state of New York. NROTB must distribute all remaining funds to the County after paying their statutory requirements, contractual obligations, and operating expenses. The organization is not permitted to retain funds for future use or investment, except where authorized to do so by statute.

NROTB operates six branch locations within, and restricted to, Nassau County: Race Palace, Carle Place, Franklin Square, Valley Stream, Oceanside, and Levittown. In addition to branch locations, NROTB also operates additional Fast Track locations. Fast Track machines are placed in third-party establishments allowing bettors to wager through a machine at locations other than OTB operated branches. Wagers are placed in a pari-mutuel system in which wagers are placed into a pool and shared among winning bets.

We performed procedures to ascertain the financial relationship between the County and NROTB for the years 2020-2021. In conducting these procedures on behalf of NIFA, we gained an understanding of various accounting processes and quarterly financial statements from NROTB. The procedures were conducted at the request of NIFA and included participation from NROTB’s outside counsel, Harris Beach PLLC. Understanding of the relevant information was achieved by assessing quarterly financial reports, records of financial distributions, statutory language, personnel employment contract documents, third-party agreements, and other relevant documents. Multiple interviews were held with NIFA, NROTB (including authorized counsel), and the County to further our understanding of the relationship and pertinent information during the assessment period. Regular touchpoints were held with the involved parties during the engagement to maintain channels of communication. Information requests were responded to in a timely manner during the assessment.

Distributions are made to the County based on surcharges from net handle, profits after operating expenses, and funds derived from Video Lottery Terminal (VLT) agreements. For the period between January 1, 2020 through December 31, 2021 NROTB distributed \$29.75 million to Nassau County stemming from VLT royalties, \$2.22 million in surcharge distributions from winning wagers, and zero additional profit distributions.

The procedures identified variance in actual distributions to required and projected distributions as follows:

- \$10,509 positive variance of funds to Nassau County from winning bet surcharge collections
- \$10,250,000 negative variance of projected profits to Nassau County from VLT royalty payments due to COVID impact

As a public benefit corporation, all remaining operating profits of NROTB must be distributed to the County. The review did not identify any remaining elements of profit at year-end of 2020-2021 that should have been distributed to the County.

# Objectives, Scope and Approach

## Objectives and Scope

The objective of the analysis was to assess whether the Nassau Regional Off-Track Betting Corporation (“NROTB”) satisfied the requirements for distribution of funds to Nassau County (“County”) for the period between January 1, 2020 through December 31, 2021.

During the assessment, we tested distributions owed to the County:

- Surcharge: NROTB is required to distribute 5% of winning bets to the County on a monthly basis.
- Video Lottery Terminal (VLT): Revenue Royalty Payments as defined by the Hosting Agreement between NROTB and Resorts World Casino New York City (“Resorts”). NROTB projects distributions of \$20M annually to the County stemming from the royalty payments.
- Profit: After payment of all the costs of NROTB’S functions, including VLT funds, net revenue remaining to the corporation is required to be distributed to Nassau County on a quarterly basis. Calculations are reconciled annually.

The assessment sought to understand the determination of revenues distributed to the County. The testing assessed adherence to statutory and contractual requirements. During the period of evaluation, the total net handle of the six branches within NROTB was \$121,761,822. Additional net handle was generated outside of the branches from internet, telephone, and Fast Track locations. The Section 516 Net Revenue for Distributions in 2020 and 2021 to Nassau County totaled \$10,912,199 and \$18,601,450 respectively.

## Approach

The following activities were performed during the assessment:

### Planning

- Developed an understanding of the control environment and expectations for the distribution analysis
- Met with NIFA management to discuss overall project and areas in-scope for the analysis
- Discussed the background relationship between the County and NROTB and the current state of the relationship
- Examined documentation provided by NROTB and NIFA, including applicable contracts and statutory language
- Discussed NROTB’s interpretation of the relevant sections of the statute
- Identified key personnel, established the reporting strategy, and scheduled interviews
- Assessed NROTB’s financial reports to better understand the overall activity associated with the relationship
- Customized the work plan and confirmed the schedule and budget with NIFA management
- Prepared a detailed data request and submitted to NROTB
- Assessed available data produced by NROTB

### Fieldwork

- Gained an understanding of the processes and assessed data
- Gained an understanding of the distribution processes through the performance of walkthroughs with NROTB (including legal counsel on behalf of NROTB)
- Read associated documents and submitted detailed data request to NROTB

- Conducted interviews and met with NROTB representatives in order to answer questions regarding the data request and supporting documentation provided
- Received electronic data from NROTB, and reconciled the data to assess the completeness
- Performed testing designed to assess whether the distributions were made in accordance with the relevant statutory and contractual requirements
- Assessed processes used for the determination of distributions to Nassau County during 2020-2021
- Perform completeness testing, compliance testing, and cost analysis on information received based on required compliance. Additionally, analyzed data and documentation to gain an understanding of potential cost or operational inefficiencies
- Analyzed the financial statements to evaluate whether they represented an accurate distribution based on statutory requirements and represented appropriate operating costs
- Obtained further data from NROTB as required, based on the results of the analysis performed

### Reporting

- Developed a draft report of findings noting any potential areas of non-compliance
- Shared the draft report of findings with NIFA and NROTB and obtained additional supporting documentation and commentary where needed
- Upon alignment on the draft report, Deloitte provided NIFA with this written report detailing the procedures performed and the results of the procedures, including quantification of monetary findings (if any), and recommendations on remediation.
- Final report includes a schedule of observations where transactional testing or sample testing of financial reconciliations, etc. are required to support observations in this final report

## COVID Impact

The impact of the COVID-19 Global pandemic caused significant economic disruption. Widespread government mandated business shutdowns and restrictions extended to the horse racing industry and by extension the business of NROTB. The branches of the corporation are in an area of the country widely considered to be the epicenter of the pandemic in the United States.

This proximity resulted in some of the earliest facility closures of any geographic region of the country. Executive Order #202 declaring a state of emergency in New York State mandated the closure of NROTB's branches and third-party facilities containing Video Lottery Terminals. Mandatory closures were enforced beginning on March 16, 2020. Beginning in June 2020, phased reopening began with limitations on capacity and operating hours.

Shutdowns resulted in significant financial impacts to NROTB and corresponding distributions to Nassau County. NROTB experienced a decrease in net handle of 37.7% in 2020 as compared to 2019, or \$88 million compared to \$141.3 million in 2019. The decrease can be directly attributed to the impact of the COVID closures. Reduction in net handle had a direct impact to surcharge owed to Nassau County. In response to COVID, a Material Adverse Event (MAE) occurred as defined by the VLT agreement. The MAE necessitated NROTB and Genting to execute a negotiated reduction in royalty payments to NROTB related to the VLT Agreement. The amendment was approved by the New York State Gaming Commission. With the reduction in royalty payment obligation to NROTB as well as reduced wagering volume, Nassau County experienced a drop in distributions as a result of COVID.

# Summary of Results

The assessment identified instances of variance between the quarterly financial statements provided by NROTB and the distributions received by Nassau County.

| Surcharge Distribution Variance Summary |            |           |          |
|-----------------------------------------|------------|-----------|----------|
| Period                                  | NROTB Data | NIFA Data | Variance |
| February 2020                           | \$116,767  | \$116,721 | (\$46)   |
| April 2020                              | \$642      | \$1,477   | \$835    |
| May 2020                                | \$734      | \$1,610   | \$876    |
| June 2020                               | \$26,344   | \$35,188  | \$8,844  |
| April 2021                              | \$128,409  | \$128,391 | (\$18)   |
| June 2021                               | \$136,852  | \$136,870 | \$18     |
| Total Variance                          | -          | -         | \$10,509 |

Data provided by NROTB and NIFA independently regarding the distribution of Surcharge funds contains variance across six individual months of the assessment period. In total, the variance represents a \$10,509 positive variance to Nassau County. The most significant variance occurred in June of 2020, this month accounts for 84% of the total variance.

| Profit Distribution Variance Summary |              |                             |             |
|--------------------------------------|--------------|-----------------------------|-------------|
| Period                               | NROTB Profit | County Profit Distributions | Variance    |
| Q1 2020                              | -\$1,152,642 | \$0                         | \$0         |
| Q2 2020                              | -\$2,446,493 | \$0                         | \$0         |
| Q3 2020                              | -\$2,986,113 | \$0                         | \$0         |
| Q4 2020                              | \$917,806    | \$0                         | \$917,806   |
| Q1 2021                              | -\$2,604,145 | \$0                         | \$0         |
| Q2 2021                              | -\$413,464   | \$0                         | \$0         |
| Q3 2021                              | \$1,384,866  | \$0                         | \$1,384,866 |
| Q4 2021                              | -\$832,307   | \$0                         | \$0         |
| Total                                | -\$8,132,492 | \$0                         | \$2,302,672 |

NROTB is required to distribute remaining profits to Nassau County on a quarterly basis, with an annual reconciliation process in place. COVID impact and other challenges contributed to operating deficits during the review period in six out of eight quarters. Periods showing a deficit result in zero distribution to the County. The two quarters showing profit amount to approximately \$2.3 million. While the distributions are required to be made quarterly, the reconciliation process for year-end profitability still results in zero funds for distribution to the County. The County did not receive any distributions of profit during the review period, including the two quarters of profitability.

| Video Lottery Terminal Distribution Variance Summary |                  |             |               |
|------------------------------------------------------|------------------|-------------|---------------|
| Period                                               | NROTB Projection | NIFA Data   | Variance      |
| Q1 2020                                              | \$5,000,000      | \$4,800,000 | (\$200,000)   |
| Q2 2020                                              | \$5,000,000      | \$2,400,000 | (\$2,600,000) |
| Q3 2020                                              | \$5,000,000      | \$1,800,000 | (\$3,200,000) |
| Q4 2020                                              | \$5,000,000      | \$2,750,000 | (\$2,250,000) |

|                |             |             |                |
|----------------|-------------|-------------|----------------|
| Q1 2021        | \$5,000,000 | \$3,000,000 | (\$2,000,000)  |
| Q2 2021        | \$5,000,000 | \$5,000,000 | -              |
| Q3 2021        | \$5,000,000 | \$5,000,000 | -              |
| Q4 2021        | \$5,000,000 | \$5,000,000 | -              |
| Total Variance |             |             | (\$10,250,000) |

NROTB projected to distribute \$20 million annually to Nassau County on a quarterly basis stemming from Video Lottery Terminal (VLT) royalty revenues. Records indicate distributions of \$11.75 million in 2020 and \$18 million in 2021. The total of \$29.75 million during the assessment period represents a reduction in distribution of \$10.25 million from pre-COVID projections. During the assessment period, COVID triggered a Material Adverse Event, resulting in a reduction in royalty payments between Genting and NROTB. Following an amendment to the hosting agreement being executed and duly approved by the NY State Gaming Commission, Nassau County received distributions lower than the original projections.

| Operating Expense Summary |                          |             |                       |                             |
|---------------------------|--------------------------|-------------|-----------------------|-----------------------------|
| Period                    | NROTB Branch Net Handle* | NROTB OPEX  | OPEX Quarterly Change | OPEX % of Branch Net Handle |
| Q1 2020                   | \$19,659,214             | \$5,552,781 | -                     | 28%                         |
| Q2 2020                   | \$766,920                | \$3,692,056 | (\$1,860,725)         | 481%                        |
| Q3 2020                   | \$6,957,332              | \$4,907,431 | \$1,215,375           | 71%                         |
| Q4 2020                   | \$13,271,901             | \$4,262,985 | (\$644,446)           | 32%                         |
| Q1 2021                   | \$18,886,552             | \$4,996,480 | \$733,495             | 26%                         |
| Q2 2021                   | \$21,677,115             | \$5,834,170 | \$837,690             | 27%                         |
| Q3 2021                   | \$22,750,898             | \$4,821,591 | (\$1,012,579)         | 21%                         |
| Q4 2021                   | \$17,791,890             | \$5,414,259 | \$592,668             | 30%                         |

\*Note: This column represents NROTB net handle for wagers placed at branches. Overall net handle realized quarterly by NROTB also includes handle from wagers placed at NROTB Fast Track facilities, as well as via internet and telephone wagering.

In addition to assessing the accuracy of distributions to the County, we evaluated the reasonableness of operating expense and other areas of potential compliance concerns. The analysis reviewed relevant documentation and conducted walk-through calls to assess adherence to applicable controls, policies and procedures. The analysis did not identify any areas of concern related to NROTB's operating expense or union liabilities that would impact their financial performance.

Analysis of Operating Expenses as a function of Net Handle shows the negative impact of the COVID shutdowns concentrated in Q2-Q3 of 2020. We assess this to be a reasonable impact given the unprecedented impact of the pandemic. When assessed on a quarter-to-quarter basis, operating expenses fluctuated within reason based on net handle and other contributing factors.

# Recommendations

Based on procedures performed, we identified the following opportunities for improvement:

1. Nassau County and NROTB should conduct quarterly reviews of distributions made to confirm their accuracy and make adjustments as necessary in a timely manner. The quarterly reviews should produce an acknowledgement that both parties are in agreement that the distributions have been accurately calculated and funds have been received by the County.
2. Review response protocols and contractual obligations in the event of future disruptive events. A robust business continuity plan may benefit both parties in the event of a natural disaster, future pandemic, or otherwise unforeseen risk event that would result in a negative impact to the County.
3. NROTB should consider a more granular level of actual expense allocation to each branch for the benefit of management that would account for personnel rotating between branches as necessary.
4. Nassau County and NROTB should review the quarterly financial performance of NROTB for profitability. The parties should document the elements of profit that result in distribution. The parties should document the role of the projection process and how actual profits are determined including such factors as the revenue generated from the VLT Agreement.



# Appendix

Figure 1: Full data set for surcharge distribution as shown by NROTB and NIFA respectively for all 24 months in the analysis period.

| Surcharge Distribution Summary |                    |                    |                 |
|--------------------------------|--------------------|--------------------|-----------------|
| Period                         | NROTB Data         | NIFA Data          | Variance        |
| January 2020                   | \$116,721          | \$116,721          | \$0             |
| February 2020                  | \$116,767          | \$116,721          | (\$46)          |
| March 2020                     | \$64,578           | \$64,578           | \$0             |
| April 2020                     | \$642              | \$1,477            | \$835           |
| May 2020                       | \$734              | \$1,610            | \$876           |
| June 2020                      | \$26,344           | \$35,188           | \$8,844         |
| July 2020                      | \$52,783           | \$52,783           | \$0             |
| August 2020                    | \$60,116           | \$60,116           | \$0             |
| September 2020                 | \$67,590           | \$67,590           | \$0             |
| October 2020                   | \$92,783           | \$92,783           | \$0             |
| November 2020                  | \$77,633           | \$77,633           | \$0             |
| December 2020                  | \$80,699           | \$80,699           | \$0             |
| January 2021                   | \$97,991           | \$97,991           | \$0             |
| February 2021                  | \$89,602           | \$89,602           | \$0             |
| March 2021                     | \$117,971          | \$117,971          | \$0             |
| April 2021                     | \$128,409          | \$128,391          | (\$18)          |
| May 2021                       | \$170,457          | \$170,457          | \$0             |
| June 2021                      | \$136,852          | \$136,870          | \$18            |
| July 2021                      | \$133,245          | \$133,245          | \$0             |
| August 2021                    | \$141,148          | \$141,148          | \$0             |
| September 2021                 | \$122,897          | \$122,897          | \$0             |
| October 2021                   | \$122,950          | \$122,950          | \$0             |
| November 2021                  | \$99,282           | \$99,282           | \$0             |
| December 2021                  | \$88,028           | \$88,028           | \$0             |
| <b>Total</b>                   | <b>\$2,206,222</b> | <b>\$2,216,731</b> | <b>\$10,509</b> |