

CHAPTER 5

ACCOUNTING AND FINANCE

Simulcasting has added dimensions of complexity to pari-mutuel accounting. The accounting task for simulcasting is complicated by:

- Extended wagering networks. A Host frequently is not aware of all outlets participating in its wager because Guest sites often serve as sub-hubs for other wagering facilities in a local, regional, or wide area network. This situation has been improved with the reception of TRA Settlement Files through ITSP 5.14-b and subsequent versions. The files account for all wagering at all simulcast outlets including those coming through a tote hub.
- Widely varying takeouts and tax commissions between different jurisdictions and even within the same jurisdiction. Various wagers also have different takeouts.
- The lack of uniformity in settlement reports.
- Tote systems are programmed to provide predesignated data. Additional information or data required or desired by a Host site often cannot be retrieved.
- Absence of a complete TRA Settlement File transmission at the end of event from Guest to Host.
- Failure of pool mergers.
- Double hops in some states.
- Multiple currencies without conversion data.

Step one in any accounting for simulcasts obviously begins with obtaining the wagering data.

I. The Wagering Data

A. TRA Settlement Files

ITSP versions 5.18 and 5.19 support the transfer of the TRA Settlement File, which was developed by TRA's 2020 Committee, RCI's Tote Standards Committee, and the tote companies. It contains all settlement information from the hub and all tracks in the network. The remote track's tote system is responsible for sending the file to the Host track's tote system. All North American tracks are capable of generating, transmitting, and receiving such files. To get the file, contact your respective tote provider.

The most current listing of all source identification codes within the TRA Settlement File are at <http://www.tra-online.com/simdir.html>. The latest version of the TRA Settlement File, Version 1.6, can be found on this disc and on the TRA website.

B. Hubs

Regardless of whether the Guest is acting as a hub for a wagering network and agrees to perform the settlement for all of its satellites with the Host site, a breakdown of pool data from each of the satellites must be forwarded to the Host. With the implementation of ITSP 5.14-b (and later versions) and supporting software in place, this data can be obtained from TRA

Settlement Files. Otherwise, host tracks rely upon the hubs to provide the breakdown mutual report pool data.

TRA Settlement Files are available to be transported to Host if ITSP 5.14-b or later is employed at the Guest and Host site. Most North American tracks are using ITSP 5.18 or 5.19 to facilitate settlements.

The responsibility of the Hub site needs to be defined clearly at the time of contract not just in terms of pool data reporting and settlement, but trouble-shooting as well. A Guest site often finds itself in the peculiar position of not having a financial incentive in a Satellite's wagering with the Host, but still is the only link between the Host and another Satellite and its assistance is vital in correcting errors or problems.

C. Failure to Merge Pools

Basic handle information is automatically transmitted to the Host when pools are merged into its system.

Because of system or communication malfunctions, wagering data intended to be merged can be omitted from the Host's pools at the discretion of the Host's mutual department. The wagering data can be related to an entire race(s) or specific pools, e.g. tri, pick-3, etc.

Unless the Guest refunds the pools for omitted wagering data, the Guest must treat the pool(s) as separate wagering pool(s), even if the Guest pays Host prices. The Guest and the formal simulcasting agreement should have established procedures for reporting omitted wagering data to the Host. Host fees are normally due on **all** wagering data (handle) not refunded.

D. Separate Wagering Pools

When a Guest site conducts a separate pool, the handle is not automatically transmitted to the Host site. The Host relies on the Guest to relay an accurate report of all wagering conducted through its pool.

Guest sites conducting separate pools should have an established routine for sending that information to the Host. Although the pool is not commingled, the hub hosting it still should produce settlement files and those files should be sent along to the event Host. The Host should not have the responsibility of tracking down the information, but should be prepared to do so by having the Guest designate a contact at the time of contract. At times, Host accounting offices find themselves being shuttled back and forth between the Guest's mutual and accounting departments.

A Host's simulcast race may be used as a leg of a separate Multiple Race Pool at a Guest site. Authority for the Guest to do this should be covered in the contract, which also should address the fee and reporting obligations of the Guest.

II. The Settlement Procedure

A. Simulcast Fees

There are two primary methods of charging a Host fee for a simulcast—a set percentage of the Guest's total handle or a less prevalent contractual split of net revenue with the Guest.

i. Percentage of Handle Method

The accounting function is greatly simplified if the Host fee is a pre-determined percentage of the handle. This percentage can be calculated to be the equivalent of a split of net revenue, but without the reporting complications.

It still is necessary for the Host to receive from a Guest acting as a hub the breakdown of the Satellite handles, even if the Guest and its satellites are paying the same rates and the Guest has agreed to handle all settlements.

ii. Split of Net Revenue Method

A split of net revenue requires agreement and understanding on what constitutes the net amount. For instance, the agreement may specify a 50-50 split between the Host and Guest sites after state and local tax commissions in the Guest location are deducted. It can be difficult for a Host to identify those tax rates. In some states, the tax commissions can differ from track to track, wager to wager, from one wagering outlet to another, or be determined by a sliding scale for the day— or even the entire meeting.

B. Hub/Processing Fees

Depending on tote agreements, either the Host, Guest or both are billed for the wagering data communication and processing.

Several tracks are implementing direct download from the tote system to their management information system for purposes of billing and record keeping.

Guest sites acting as hubs create settlement problems unless certain information is specified at the time of contract:

- Is the Hub or the Satellite responsible for the settlement?
- How will the handle data for the Satellite be transmitted to the Host, if in addition to the TRA Settlement File? Who is the Satellite contact and what are the phone, fax, cell numbers, and e-mail addresses?
- Who is responsible for the Satellite's settlement, with phone and fax numbers?
- How is breakage determined by the Satellite? What rounding formula is utilized?

C. Interface Fees

Guest or Host sites are billed for interface fees by tote companies depending on contractual obligations. They usually are charged when the connection between Host and Guest involves two different tote companies. Financial responsibility for these fees should be covered in the contract, and the implications on the Host if a Guest is not current to the Host tote vendor.

D. Transfer of Dollars

In merged pool wagering, the imbalance between winning and losing dollars at respective Host and Guest sites will require periodic transfers of funds. Who is responsible with Guest sites acting as hubs should be covered at time of contract. Some hubs may settle for both host fees and money room, while others only settle for one or the other.

Those transfers usually are triggered when the imbalance reaches a pre-determined amount or at set time intervals. Simulcast fees often are netted from this money room imbalance when payments are made.

Payments should always be accompanied by an invoice or a written description.

E. Analysis

Maximizing revenue from simulcasting requires a complete and comprehensive understanding of its impact on the bottom line.

Revenue and expenses easily can be analyzed, but more extensive analysis is vital. It is important to quantify the effect simulcast handle has upon live handle, as well as the potential effect on churn associated with an imbalance of losing dollars on simulcast races wagered by your customers.

The accurate analysis of new methods and opportunities for utilizing simulcasting will determine the welfare of the pari-mutuel industry in the future.

(See Exhibit: Sample Settlement Sheet from Churchill Downs)

SAMPLE SETTLEMENT SHEET

CHURCHILL DOWNS SIMULCAST NETWORK (CDSN)

Beginning Date: 7/1/2004
 Ending Date: 7/31/2004 Settlement Hub MR Hub
 Payment Ending Date: 8/25/2004 Guest Track Guest Track

EXPORT	<u>Handle</u>	<u>Host Fees</u>	<u>Money Room</u>	<u>Total Due</u>	<u>Total Paid</u>	<u>Net Balance</u>
Track A	\$961,000.00	\$31,232.00	\$24,151.76	\$55,383.76	\$0.00	\$55,383.76
Track B	\$546,000.00	\$24,570.00	\$14,742.09	\$39,312.09	\$0.00	\$39,312.09
Track C	\$1,175,000.00	\$41,125.00	\$52,360.22	\$93,485.22	\$0.00	\$93,485.22
Track D	\$784,000.00	\$23,520.00	\$66,709.31	\$90,229.31	\$0.00	\$90,229.31
Track E	\$940,000.00	\$42,300.00	\$32,274.43	\$74,574.43	\$0.00	\$74,574.43
Track F	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Export	\$4,406,000.00	\$162,747.00	\$190,237.81	\$352,984.81	\$0.00	\$352,984.81

Settlement Hub MR Hub
Host Track Host Track

IMPORT	<u>Handle</u>	<u>Host Fees</u>	<u>Money Room</u>	<u>Total Due</u>	<u>Total Paid</u>	<u>Net Balance</u>
Track A	\$823,000.00	(\$20,575.00)	(\$34,593.79)	(\$55,168.79)	\$0.00	(\$55,168.79)
Track B	\$10,000.00	(\$250.00)	(\$335.35)	(\$585.35)	\$0.00	(\$585.35)
Track C	\$984,000.00	(\$29,520.00)	(\$42,431.64)	(\$71,951.64)	\$0.00	(\$71,951.64)
Track D	\$179,000.00	(\$5,370.00)	(\$1,021.79)	(\$6,391.79)	\$0.00	(\$6,391.79)
Track E	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Track F	\$144,000.00	(\$3,600.00)	(\$4,349.39)	(\$7,949.39)	\$0.00	(\$7,949.39)
Total Import	\$2,140,000.00	(\$59,315.00)	(\$82,731.96)	(\$142,046.96)	\$0.00	(\$142,046.96)

Grand Total **\$7,268,000.00** **\$78,162.00** **\$201,458.40** **\$279,620.40** **\$0.00** **\$279,620.40**