

Richard Levin (RL 1651)
CRAVATH, SWAINE & MOORE LLP
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
Telephone: (212) 474-1000
Facsimile: (212) 474-3700

*Attorneys for the New York City Off-Track
Betting Corporation*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re NEW YORK CITY OFF-TRACK BETTING CORPORATION, Debtor. ¹	Chapter 9 Case No. 09-____(____)
--	---

**DECLARATION OF ROBERT J. GARRY IN SUPPORT OF THE CHAPTER 9
PETITION AND THE STATEMENT OF QUALIFICATIONS**

I, Robert J. Garry, declare as follows:

Background

1. I am the Executive Vice President and Chief Financial Officer for New York City Off-Track Betting Corporation (“**NYC OTB**”). I make this declaration in support of NYC OTB’s voluntary petition under chapter 9 of the Bankruptcy Code initiating this chapter 9 case and the statement of qualifications under section 109(c) of the Bankruptcy Code filed concurrently herewith. Except as to those

¹ NYC OTB’s address is 1501 Broadway, New York, NY 10036. The Debtor’s tax identification number is 13-2664509.

matters set forth on information and belief, I have personal knowledge of the facts set forth herein and if called as a witness herein I could testify competently to such facts.

2. I attended Iona College where I obtained a Bachelors of Business Administration in Accounting. I have over forty years of professional experience, with two years experience in municipal financial accounting. I have worked as the Chief Financial Officer of NYC OTB since November 19, 2007. For the five years prior to working for NYC OTB, I was the Corporate Controller of Yonkers Racing Corporation. Prior to my tenure at Yonkers Raceway, I served as the Executive Vice President and Chief Financial Officer of the National Thoroughbred Racing Association for two years. I served as the Director of Finance and Administration for over 27 years for the United States Tennis Association.

3. I am familiar with the historical situation that NYC OTB has faced, and I have personal knowledge of NYC OTB's finances, the situation that led to the 2008 Closure Plan (as defined below) and NYC OTB's current and projected financial situation.

Exhibits Attached To This Declaration

4. Attached to this declaration are the following documents: Exhibit A - Audited Financial Statements, Years Ended June 30, 2008 and 2007; Exhibit B - Audited Financial Statements and Supplementary Information, Nine-Month Period Ended March 31, 2009; and Exhibit C - Unaudited Financial Statements, Six-Month Period Ended September 30, 2009. Each exhibit attached hereto is a true and correct copy of the document described herein.

NYC OTB Accounting and Finances

5. NYC OTB maintains its records, prepares its budget and issues its audited financial statements in accordance with generally accepted accounting principles (GAAP) as promulgated in the Governmental Accounting Standards, issued by the Comptroller General of the United States.

NYC OTB's Operations

6. Pari-mutuel wagering is a betting system in which all bets of a particular type on a particular race are placed together into a commingled pool, a certain amount (the “**Wagering Commission**”) is removed for the benefit of the “house”, in this case, the tracks and the off-track betting corporations (the “**OTBs**”), and the payoff is calculated by allocating the remaining pool among all winning wagers. In the pari-mutuel system, wagering customers determine the payoff odds, and the bettors are not wagering against “the house”, as is the case with most fixed-odds gambling, in which the final payout is determined before the wager is placed.

7. NYC OTB receives a percentage (the “**Wagering Commission Rate**”) of the total dollars wagered through its services on a race (the “**Handle**”), as well as a statutorily imposed surcharge on certain bets. While the Wagering Commission Rate varies for different types of bets, it does not vary based on the number of wagers placed or the number of winning or losing customers. The winning bettors receive approximately 80% of the amounts wagered on each race before consideration of surcharge. In addition, NYC OTB must distribute certain percentages of the Handle to local governments, New York State (“**New York**” or

the “**State**”) and the State’s horse racing industry, composed of various horse race tracks and horse breeding funds. NYC OTB also makes payments to certain horse race tracks, both in- and out-of-state, under its negotiated simulcast contracts. All mandatory distributions made to these various entities come from the Wagering Commission actually received by NYC OTB, based on a percentage of the higher Handle figure. In addition payments are made to local governments from the surcharge.

8. For the last audited 12-month period, ended June 30, 2008, NYC OTB processed a total Handle of \$998.2 million. The winning bettors received \$760.9 million of this amount, leaving NYC OTB with \$244.7 million in Wagering Commission as its actual revenue after including \$7.4 million for surcharge, uncashed tickets and other operating revenues. NYC OTB made the following mandatory distributions for the same period: \$93.2 million to the State’s horse racing industry, \$20.2 million to New York City (the “**City**”) and other local governments, and \$15.2 million to the State. This left \$116.1 million for NYC OTB to cover \$133.9 million (excluding certain non-cash expenses) in operating expenses. Consequently, it incurred an operating deficit of \$17.8 million for the year, despite an operating profit margin of approximately 45%.

Deterioration of NYC OTB’s Finances Over the Past Few Years

9. Over time, higher mandatory distributions required by the State Legislature, combined with increases in the cost of operating in New York City, left NYC OTB with no residual income to turn over to the City. In 2001, the Legislature reduced the Wagering Commission Rate for races conducted at

racetracks operated by the New York Racing Association (“NYRA”), reducing NYC OTB’s Wagering Commissions by \$5.5 million annually. Between 2003 and 2005, additional legislatively imposed payment obligations increased NYC OTB’s mandatory distributions by an average of \$7.8 million annually. These additional payment obligations included the introduction of a regulatory fee (2003) and an increase in the regulatory fee (2005) to support the operations of the New York State Racing and Wagering Board (the “**Racing and Wagering Board**”) and “maintenance of effort” payments (also known as “hold harmless” payments) (2003) to support and protect the harness racing industry from new competition created by the nighttime simulcasting of out-of-state thoroughbred races.

10. As a result of these factors, NYC OTB has operated at a deficit for the last seven years. For the fiscal years ending June 30, 2006, 2007 and 2008, and the nine-month period ending March 31, 2009, NYC OTB had operating deficits of \$121,648,000, \$30,060,000, \$76,485,000 and \$25,142,000, respectively. NYC OTB projects an annual operating deficit of \$32,700,000 for the fiscal year ending March 31, 2010. These historical deficits have led to an accelerated degradation of NYC OTB’s liquidity position. This financial deterioration took NYC OTB from \$18.6 million in non-restricted cash and cash equivalents on June 30, 2006, to a projected zero reserve by December 30, 2009, assuming all current obligations are timely satisfied.

NYC OTB’s Cost-Cutting Measures

11. NYC OTB looked both outward and inward in its attempt to prevent insolvency. While seeking to have the State Legislature rationalize the flawed and

burdensome legislative distribution scheme, NYC OTB also began making the difficult decisions needed to reduce operational costs.

12. In February 2004, NYC OTB reduced its headquarters staff by laying off 17% of its management personnel. This led to first-year savings of more than \$700,000. NYC OTB continued by closing underperforming branches, reducing employees' overtime hours, surrendering a quarter of its headquarters space, reducing supply purchases, decreasing security expenses and reducing energy costs. The management and staff cuts alone resulted in savings of nearly \$25 million by the end of the 2008 fiscal year. The other cost-cutting initiatives resulted in additional savings totaling nearly \$20 million by the end of the 2008 fiscal year. Thus, the total savings resulting from NYC OTB's initiatives during the five-year period through the end of the 2008 fiscal year were nearly \$45 million. NYC OTB spent \$100,000 in one-time cash costs to achieve these annual savings.

Cost Savings Fiscal Years 2004 through 2008						
	FY2004	FY2005	FY2006	FY2007	FY2008	Total
Rent/RE Taxes Savings from Closed Branches		45,000	303,000	697,000	498,000	1,543,000
Staff Reduction Savings	712,000	2,772,000	6,215,000	7,573,000	7,528,000	24,800,000
Sunday Overtime		1,089,000	1,096,000	618,000	722,000	3,525,000
Regular Overtime		378,000	125,000	107,000	537,000	1,147,000
FICA/Medicare Tax Savings @ 7.65%	54,000	324,000	569,000	635,000	672,000	2,254,000
Marketing	690,000	780,000	1,335,000	1,471,000	1,471,000	5,747,000
Rent (1501 Broadway)				1,099,000	1,117,000	2,216,000
Miscellaneous Supplies		250,000	320,000	300,000	300,000	1,170,000
Guard Service		180,000	258,000	263,000	263,000	964,000
Telephone Switches	340,000	156,000	156,000	156,000	156,000	964,000

Cost Savings Fiscal Years 2004 through 2008						
	FY2004	FY2005	FY2006	FY2007	FY2008	Total
Equipment		70,000	100,000	85,000	85,000	340,000
Total Savings	1,796,000	6,044,000	10,477,000	13,004,000	13,349,000	44,670,000

The NYC OTB 2008 Closure Plan

13. After repeated attempts to petition the State Legislature to alter the legislative distribution scheme failed, NYC OTB faced insolvency. Its management developed a plan (the “**2008 Closure Plan**”) for the complete shutdown and wind up of all aspects of NYC OTB’s operations beginning on Sunday, June 15, 2008. The 2008 Closure Plan dealt with the closing of all branches, all teletheaters, all restaurant wagering facilities, the Advance Deposit Wagering operations, NYC OTB’s headquarters at 1501 Broadway and the satellite warehouse facility. The 2008 Closure Plan also contemplated the layoff of all 1,466 employees of NYC OTB, the winding up of NYC OTB’s real estate interests, the satisfaction of NYC OTB’s personal property and the disposition of claims against NYC OTB.

14. However, before the 2008 Closure Plan could be executed, Governor David A. Paterson announced the take-over of NYC OTB by the State and instructed the NYC OTB workforce to report to work the next day. Within 24 hours, Chapter 115 of the Laws of 2008 was passed by the Legislature, ratifying the State’s takeover and making certain limited changes to the Racing, Pari-Mutuel Wagering and Breeding Law (the “**Racing Law**”) in an effort to provide NYC OTB with additional sources of revenue for its operations, including increasing the amount of the surcharge that NYC OTB could retain on winning bets and raising

the take-out amount on bets made on races conducted at NYRA tracks. On June 17, 2008, Governor Paterson signed the new legislation into law.

15. After the board of directors, with the assistance from a variety of state agencies, conducted a comprehensive assessment of the operations of NYC OTB, Governor Paterson appointed Meyer S. Frucher as the new Chairman in June 2009.

NYC OTB's Outstanding Debt Obligations

16. NYC OTB, as of October 31, 2009, had \$82,863,817 recorded on its books as accounts payable and accrued expenses.² As of October 31, 2009, NYC OTB owed \$7,991,307 in governmental statutory claims, which are claims prescribed by statute based on the Handle and owed to any regional off-track betting corporation created under section 502 of the Racing Law or any governmental unit, and \$43,693,106 to other racing industry claimants. The only secured claim against NYC OTB as of October 31, 2009 is held by Xerox Corporation for \$243,298. As of October 31, 2009, NYC OTB held \$2,361,540 in wagers, winnings and deposits for wagering for customers. NYC OTB has accrued \$13,716,770 for employees' accrued wages, salaries, leave pay and benefits in addition to \$8,548,548 in postemployment accrued welfare and accrued pension liabilities. Finally, as of October 31, 2009, NYC OTB owed \$6,309,248 in general unsecured claims.

² This figure does not include \$201,020,000 in accrued long term postemployment benefits.

NYC OTB's Fiscal Year 2009-10 Cash Flow

17. As of October 31, 2009, NYC OTB had operating cash of \$11,098,000, as compared to the \$82,863,818 in accounts payable and accrued expenses. Current cash flow projections indicate that the NYC OTB will run out of operating cash in December, 2009, assuming all obligations are timely satisfied. In addition, approximately \$17,200,000 of the \$43,693,106 payable to other racing industry claimants described above is due to New York regional harness tracks for maintenance-of-effort payments. The Racing and Wagering Board is currently reviewing the amount due for accuracy and may direct NYC OTB to pay at any time.

Fiscal Year 2009-10 Revenues

18. NYC OTB's revenues are driven by the amount of Handle bet during the year. Based on the first seven months of fiscal year 2009-10, NYC OTB projects that the Handle for the full fiscal year will be about \$820,000,000. After paying winning bets, NYC OTB projects that its gross revenue will be about \$203,000,000, comprised of: gross Wagering Commissions and breakage of \$171,400,000; unclaimed tickets of \$2,600,000; distributable surcharge and surcharge breakage of \$3,700,000; retained surcharge for operations of \$19,200,000; surcharge from other OTBs of \$1,900,000; capital acquisition fund revenues of \$3,100,000; and interest income and other revenues of \$1,100,000.

Fiscal Year 2009-10 Expenditures

19. Expenditures are comprised of two major categories: (1) statutory expenses, which consist of mandatory distributions to the racing industry and to

New York State and local governments; and (2) operating expenses, which are the expenses incurred in running the day to day operations of NYC OTB. For the 2009-10 fiscal year NYC OTB projects mandatory distributions of \$97,400,000 and total operating expenses of \$138,300,000.

20. As of November 1, 2009, NYC OTB employed 1,343 people with an annual payroll, including salaries, wages and overtime, of approximately \$62,500,000. In addition, NYC OTB provides fringe benefits, including health and medical coverage, welfare funds, vacation and sick leave, at an annual cost of \$12,000,000, and contributes approximately \$7,500,000 annually to the employee pension plan, the New York City Employees Retirement System (NYCERS). NYC OTB also provides other postemployment benefits to its retirees and their spouses at an annual cost of approximately \$15,000,000.

21. NYC OTB is comprised of 55 branches, three teletheaters, eight restaurant locations, one warehouse and a headquarters operation that occupies three floors at 1501 Broadway in Manhattan. NYC OTB's largest operating expense, after personnel related expenses, is approximately \$22,000,000 for occupancy expenses, including rent, real estate taxes, heat, light and utilities, cleaning, and guard and security services.

22. In accordance with an agreement with the City, NYC OTB currently pays \$3,250,000 to broadcast races into individual homes in New York City via government cable channels 71 and 73. NYC OTB pays approximately \$2,200,000 in simulcast fees to show the races in its branches, teletheaters and restaurant facilities, and \$2,500,000 for outside computer services to process the customers'

betting activities. The use of telephones and data lines cost another \$2,400,000, while equipment rental, and maintenance and repairs cost \$1,500,000. Insurance protection for the overall operations costs \$2,700,000. NYC OTB pays about \$850,000 annually for audit and other professional fees. Other annual miscellaneous expenses total approximately \$1,900,000.

NYC OTB's Customer Policies

23. Many NYC OTB customers maintain wagering accounts with NYC OTB, from which they place bets and to which their winnings are credited. NYC OTB maintains the customer funds in separate, segregated accounts. Some customers who maintain accounts or have other dealings with NYC OTB do so on a confidential basis. For example, NYC OTB maintains a list of customers who have specifically requested that they not receive any mail from NYC OTB, to protect their confidentiality.

The Necessity of Filing a Chapter 9 Petition

24. After years of mandatory distributions based on percentages of the Handle instead of percentages of the Wagering Commission revenue it actually receives or after allowance for NYC OTB's costs and expenses, NYC OTB has been unable to reinvest in its own business and has debts substantially greater than its current ability to repay. It has not had the resources to build modern racing emporiums that exist in neighboring states, nor has it been able to invest in new technologies and channels of product distribution that will attract a wider demographic and create operating efficiencies to substantially lower costs. NYC

OTB is currently not paying its debts as they come due, and it expects to exhaust its cash in December 2009, assuming current obligations are timely satisfied.

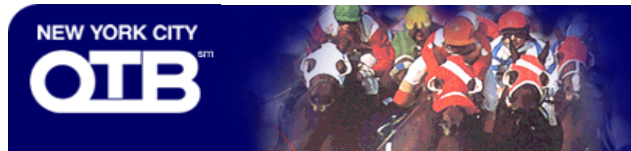
25. NYC OTB has determined that filing its chapter 9 petition is the only practicable way to obtain the time and protection it needs to carry out the vital operational changes required to access capital and to return to profitability and thereby fulfill its statutory mission to provide reasonable revenue for the support of the State, the City, and the horse racing industry.

Executed this 3rd day of December 2009, at New York, New York.

I declare under penalty of perjury that the foregoing is true and correct according to the best of my knowledge, information and belief.

Robert J. Garry

EXHIBIT A



AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2008 and 2007

NEW YORK CITY OFF-TRACK BETTING CORPORATION

TABLE OF CONTENTS

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis	2-7
Financial Statements	
Statements of Net Assets (Deficiency)	8
Statements of Revenues, Expenses, and Changes in Net Assets (Deficiency)	9
Statements of Cash Flows	10
Notes to Financial Statements	11-22

REPORT OF INDEPENDENT AUDITORS

Board of Directors
New York City Off-Track Betting Corporation

We have audited the accompanying statements of net assets (deficiency) of New York City Off-Track Betting Corporation (a public benefit corporation) as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets (deficiency), and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York City Off-Track Betting Corporation as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, the Corporation's current liabilities exceed its current assets, the Corporation has suffered recurring operating losses, has a net deficiency, and is experiencing significant industry challenges. Without legislative adjustment to the statutory scheme of distribution of retained commissions from handle, the Corporation will continue to be required to make statutory distributions in aggregate amount exceeding operating income before statutory distributions. This gives rise to additional uncertainties that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The management's discussion and analysis, on pages 2 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

UHY LLP

New York, New York
October 28, 2008

**MANAGEMENT'S
DISCUSSION AND
ANALYSIS**

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

New York City Off-Track Betting Corporation's (the "Corporation" or "NYCOTB") annual financial report consists of two parts: *management's discussion and analysis* (this section) and the *basic financial statements*. Management's discussion and analysis provides an introduction and overview to the financial statements for the fiscal year ended June 30, 2008. The information contained in this section should be considered in conjunction with the basic financial statements, including the notes to the financial statements for the year ended June 30, 2008.

Our Business

The mission of the Corporation, a public benefit corporation, is threefold: first, to generate revenue for municipal and state government; second, to help fund the state's horse racing and breeding industry; and, third, to help stamp out illegal wagering on horse races. NYCOTB offers off-track pari-mutuel wagering on thoroughbred and harness horse racing to customers in the City of New York (the "City" or "NYC") through its network of fifty-seven branch offices, eight restaurants, and three teletheaters and through its account wagering (telephone and internet betting) operation. NYCOTB broadcasts on Channel 71 and 73 for in home cable television reception by its customers in the City of New York.

To understand the Corporation's business, it is necessary to look at the following financial components:

- Net handle – the total amount wagered by the Corporation's customers on races.
- Earned on handle – the revenues that result from the portion of the handle that is not paid out in winning bets to customers.
- Surcharge revenues – made up of 5% and 1% surcharges on certain winning wagers.
- Operating expenses – the expenses that are required to operate NYCOTB.
- Statutory distributions and distributions to the City of New York – the amount of revenues that the Corporation is required by the State of New York (the "State" or "NYS") laws to distribute to each of its constituencies: the racing industry, the State of New York, other local governments, and the City of New York.
- Change in net assets – the surplus or deficit that remains after expenses and distributions.

Legislative Change

On June 17, 2008, Governor Paterson signed legislation, designated as Chapter 115 of the Laws of 2008 that provided for a State takeover of the Corporation. In connection with this takeover, provisions of the Racing, Pari-Mutuel Wagering and Breeding Law (the "Racing Law") were amended to reflect the Corporation's status change from being a component unit of the City of New York to becoming a component unit of the State of New York. With respect to the Corporation's financial operations and reporting status, the following were changes in the legislative scheme significantly affecting the Corporation:

- Racing Law § 527(6) was amended to provide that the Corporation shall use any net amount remaining after payment of taxes and distributions to pay all liabilities of the Corporation that existed as of the effective date of the legislation, and thereafter, once such liabilities are paid off, for such net amount to be paid to the State general fund.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Legislative Change (Continued)

- Racing Law § 532 was amended to provide that the Corporation will retain for its corporate purposes the portion of the surcharge not distributable to localities where New York State racetracks are located.
- Racing Law § 609 was amended to provide that the Corporation shall be subject to the procurement requirements under State Finance Law §§ 139-j and 139-k.
- Racing Law § 610 was amended to provide that the Director of the Division of the Budget will review the books and accounts of the Corporation.
- Racing Law § 624 was amended to provide that upon termination of the Corporation, all corporate assets will vest in the State rather than the City.
- Public Officers Law §17 was amended to include the Corporation's officers, directors and employees within the definition of "employee" for purposes of defense and indemnification by the State in civil actions, and thereby transfer from the Corporation to the State the obligation to indemnify the Corporation's officers, directors or employees in civil actions.
- Chapter 115 further provided that all funds in the Corporation's Capital Acquisition Fund prior to July 1, 2008, or deposited thereafter, shall be made available to the Corporation for any corporate purpose.
- Chapter 115 of the Laws of 2008 created a task force on the future of off-track betting in NYS. The task force charge is to analyze and make recommendations concerning the optimal utilization of the State's regional off-track betting system with an emphasis on the system's capability to raise revenues for the State and local governments and strengthening the racing and breeding industries in NYS. The task force, no later than March 1, 2009, will report its findings and recommendations to the governor and the legislature.

Financial Summary of the Corporation

NYCOTB is a public benefit corporation established under the laws of the State of New York. The Corporation has no component units and was a component unit of the City of New York until June 17, 2008 when, under Chapter 115 of the Laws of 2008, the Corporation became a component unit of the State of New York. Under Chapter 115 of the Laws of 2008 the public benefit corporation known as the "New York City Off-Track Betting Corporation" shall continue in existence and "shall continue to be the public benefit corporation authorized to operate the system for off-track pari-mutuel wagering on horse races within the City of New York" as a component unit of the State of New York. NYCOTB follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Corporation.

The Corporation has prepared the financial statements for a full fiscal year ending June 30, 2008. The Corporation will next prepare financial statements for the nine-month period ending March 31, 2009 and thereafter annual financial statements for fiscal years ending March 31, which will be incorporated in the State of New York's Comprehensive Annual Financial Reportings.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

The basic financial statements are accompanied by a report of the independent auditors. Their report includes an explanatory paragraph that concludes that substantial doubt about the Corporation's ability to continue as a going concern remains. NYCOTB management's plans in this regard are discussed in Note 1 to the financial statements.

The following table summarizes the revenues, expenses and changes in net assets (deficiency) for the years ended June 30 (\$ in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net handle	<u>\$ 998,216</u>	<u>\$ 1,040,579</u>	<u>\$ 1,071,447</u>
Operating revenues	<u>\$ 244,696</u>	<u>\$ 255,883</u>	<u>\$ 261,325</u>
Operating expenses			
Annual OPEB cost - Medicare Part B (1)	40,681	-	-
Annual OPEB cost - other	22,966	26,166	120,152
Other operating expenses	<u>128,989</u>	<u>125,614</u>	<u>123,550</u>
Total operating expenses	<u>192,636</u>	<u>151,780</u>	<u>243,702</u>
Operating income before statutory distributions	<u>52,060</u>	<u>104,103</u>	<u>17,623</u>
Statutory distributions			
Racing industry	93,211	97,338	100,904
State of New York (2)	15,167	15,251	15,962
Other local governments	2,485	2,560	2,407
Surcharge received from other OTB communities	<u>2,222</u>	<u>2,227</u>	<u>2,418</u>
Total statutory distributions other than distributions to City of New York	<u>113,085</u>	<u>117,376</u>	<u>121,691</u>
Distributions to City of New York	<u>15,460</u>	<u>16,787</u>	<u>17,580</u>
Total statutory distributions	<u>128,545</u>	<u>134,163</u>	<u>139,271</u>
Operating loss	<u>(76,485)</u>	<u>(30,060)</u>	<u>(121,648)</u>
Total net assets (deficiency), beginning of year	<u>(152,350)</u>	<u>(122,290)</u>	<u>(642)</u>
Total net assets (deficiency), end of year	<u>\$ (228,835)</u>	<u>\$ (152,350)</u>	<u>\$ (122,290)</u>

(1) - reflective of a plan amendment as a result of transfer of obligation for Medicare Part B liabilities from the City of New York to the Corporation under Chapter 115 of the Laws of 2008 of the State of New York

(2) - includes New York State Racing and Wagering Board regulatory fee

Net Handle

Net handle for 2008 decreased 4.1% as compared to 2007. During 2008 four branches were closed. Management continues to review the closing of unprofitable branches along with the enhancement of existing branches. Yonkers Raceway, which was closed during most of 2006 for remodeling, reopened in November 2006. After Yonkers reopened the Bronx branches lost some of the handle that had transferred during Yonkers' closing.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Net Handle (Continued)

The following table shows the sources of the Corporation's net handle for the years ended June 30 (\$ in thousands):

	<u>2008</u>	<u>2007</u>	<u>% Increase/ (Decrease)</u>
Branch offices	\$ 641,890	\$ 669,100	(4.1%)
Account wagering	206,761	211,100	(2.1%)
Teletheaters	108,295	116,379	(7.0%)
Restaurants	41,270	44,000	(6.2%)
Total	<u>\$ 998,216</u>	<u>\$ 1,040,579</u>	<u>(4.1%)</u>

Operating Revenue

Revenue as a percentage of handle was 24.5% and 24.6% for the years ended June 30, 2008 and 2007, respectively. The almost \$42.4 million decrease in handle between 2008 and 2007 accounts for the lower revenue.

Operating Expenses

The Corporation provides other postemployment benefits ("OPEB"), which include basic health care benefits to eligible retirees and dependents at no cost to most of the participants. In 2007 an expense of \$26.2 million (about \$4.7 million was funded during 2007) was recorded as an operating expense. Effective with the enactment of Chapter 115 of the Laws of 2008, the Corporation assumed from the City of New York the costs of reimbursing Medicare Part B premiums to eligible retirees and beneficiaries. In 2008, an additional \$63.6 million (\$40.7 million attributable to Medicare Part B) was expensed (about \$4.9 million was funded during 2008), raising the estimated future funding requirements to approximately \$195.7 million.

Operating expenses, excluding the annual other postemployment benefits costs of \$63.6 million and \$26.2 million in 2008 and 2007, totaled \$129.0 million and \$125.6 million in 2008 and 2007, respectively. Wage settlements and increased benefit costs accounted for the 2.7% increase.

Operating Income

Operating income before statutory distributions excluding the annual other postemployment benefits cost went from \$130.3 million in 2007 to \$115.7 million in 2008, a \$14.6 million decrease. The decline in handle contributed to the lower operating income.

Distributions

The amounts required to be distributed to each of our constituencies are determined primarily by provisions of New York State law and are usually related to handle. The \$42.4 million decrease in handle resulted in lower distributions in 2008 as compared to 2007. The Corporation makes distributions to the City of New York for surcharge, it acts as the collection agent for the City of New York for surcharge due from other community off-track betting corporations, and it was also required to distribute any remaining net income, except for amounts retained for capital acquisitions, to the City of New York. Distributions to the City of New York from the Corporation and through the

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Distributions (Continued)

Corporation from other community off-track betting corporations decreased by \$1.3 million from 2007 to 2008 because of the decline in handle and the change in legislation. Going forward the City of New York will receive as revenue only the locality surcharge with respect to races run at Aqueduct and Belmont Park; other surcharge that previously was paid to the City of New York will instead be retained by the Corporation. Net revenues after payment of taxes and distribution that previously was made to the City will instead now go to pay off the pre-existing liabilities of the Corporation as of the effective date of Chapter 115 and, thereafter, when such liabilities have been fully paid any such remaining net revenue will be paid to the State general fund.

Statutory distributions also decreased from \$134.2 million in 2007 to \$128.5 million in 2008. The decline in handle resulted in lower payments to the racing industry.

Net Assets (Deficiency)

The following table summarizes the Corporation's financial position as of June 30 (\$ in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Restricted cash and cash equivalents - telephone betting accounts	\$ 1,593	\$ 1,891	\$ 1,979
Other current assets	16,971	21,115	19,270
Restricted cash and cash equivalents - capital acquisition fund	6,796	6,197	8,379
Capital assets, net	<u>10,869</u>	<u>11,460</u>	<u>11,786</u>
Total assets	<u>36,229</u>	<u>40,663</u>	<u>41,414</u>
Current liabilities - telephone betting accounts	1,593	1,891	1,979
Other current liabilities	67,036	52,212	43,763
Long-term liabilities - Other OPEB obligations - Medicare Part B (1)	40,681	-	-
Other long-term liabilities	<u>155,754</u>	<u>138,910</u>	<u>117,962</u>
Total liabilities	<u>265,064</u>	<u>193,013</u>	<u>163,704</u>
Net assets (deficiency)			
Invested in property and equipment, net of debt	10,770	11,270	11,493
Restricted for acquisition of capital assets	6,796	6,197	8,379
Unrestricted deficit	<u>(246,401)</u>	<u>(169,817)</u>	<u>(142,162)</u>
Total net assets (deficiency)	<u>\$ (228,835)</u>	<u>\$ (152,350)</u>	<u>\$ (122,290)</u>

(1) - reflective of a plan amendment as a result of transfer of obligation for Medicare Part B liabilities from the City of New York to the Corporation under Chapter 115 of the Laws of 2008 of the State of New York

The impact of additional expense accrued for future postemployment benefits plus the required distributions and mandated contractual expenses in excess of revenue available resulted in net assets declining \$76.5 million during 2008.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Liquidity and Capital Resources

At June 30, 2008, the Corporation had \$24.0 million of cash and cash equivalents, which is a \$4.6 million decrease from \$28.6 million at June 30, 2007. As of June 30, 2008 \$1.6 million of the cash and cash equivalents was cash in the vaults of the Corporation's operating locations, \$1.6 million was attributable to accounts of our telephone betting account customers, and \$6.8 million was restricted for acquisition of capital assets. In addition, \$1.5 million was attributable to unclaimed tickets from calendar year 2008.

The summer represents the seasonal high point in NYCOTB cash levels. The seasonal low point occurs in the late winter. Much of NYCOTB's cash is either formally restricted or is required for payment of specific obligations. Without New York State legislation to address the fact that NYCOTB's distributions and expenses exceed NYCOTB's revenue, management expects that the decline in net assets of the past five years will continue. Absent changes to the mandated distribution scheme in the laws under which NYCOTB operates, this decline will lead to cash shortfalls and delays in distribution payments.

Since 1990, the majority of the Corporation's capital expenditures have been made through its capital acquisition fund. As discussed in the Notes to the Financial Statements, the Corporation collects a supplemental 1% surcharge on certain wagering pools which it retains to finance the acquisition, construction and equipping of its facilities. The unused portion of the amounts collected approximated \$6.8 million at June 30, 2008 as compared to \$6.2 million at June 30, 2007. During 2008 the Corporation collected \$3.7 million of capital acquisition surcharge and expended \$3.0 million on capital assets. Under the new Legislation all funds in the capital acquisition fund prior to July 1, 2008 or deposited into such fund thereafter are made available to the Corporation for any corporate purpose.

FINANCIAL STATEMENTS

NEW YORK CITY OFF-TRACK BETTING CORPORATION
STATEMENTS OF NET ASSETS (DEFICIENCY)
June 30, 2008 and 2007
(In 000's)

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 15,568	\$ 20,471
Restricted cash and cash equivalents - telephone betting accounts	1,593	1,891
Accounts receivable and other current assets	<u>1,403</u>	<u>644</u>
Total current assets	18,564	23,006
Restricted Cash and Cash Equivalents - capital acquisition fund	6,796	6,197
Capital Assets, net	<u>10,869</u>	<u>11,460</u>
Total assets	<u>\$ 36,229</u>	<u>\$ 40,663</u>
Liabilities and Net Assets (Deficiency)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 55,423	\$ 41,334
Due to City of New York	208	201
Due to State of New York	1,820	1,976
Due to other local governments	325	387
Outstanding pari-mutuel tickets	745	937
Telephone betting accounts	1,593	1,891
Compensated leave time, current	2,543	2,025
Other postemployment benefits obligation, current (Note 6)	<u>5,972</u>	<u>5,352</u>
Total current liabilities	<u>68,629</u>	<u>54,103</u>
Long-term Liabilities		
Compensated leave time, non-current	6,650	7,119
Other postemployment benefits obligation, non-current (Note 6)	189,686	131,601
Other	<u>99</u>	<u>190</u>
Total long-term liabilities	<u>196,435</u>	<u>138,910</u>
Total liabilities	<u>265,064</u>	<u>193,013</u>
Commitments and Contingencies		
Net Assets (Deficiency)		
Invested in capital assets, net of related debt	10,770	11,270
Restricted for acquisition of capital assets	6,796	6,197
Unrestricted deficit	<u>(246,401)</u>	<u>(169,817)</u>
Total net assets (deficiency)	<u>(228,835)</u>	<u>(152,350)</u>
Total liabilities and net assets (deficiency)	<u>\$ 36,229</u>	<u>\$ 40,663</u>

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS (DEFICIENCY)
Years Ended June 30, 2008 and 2007
(In 000's)

	<u>2008</u>	<u>2007</u>
Net handle	\$ 998,216	\$ 1,040,579
Operating revenues		
Earned on handle	\$ 201,760	\$ 209,944
Distributable surcharge and surcharge breakage	17,971	19,350
Capital acquisition surcharge	3,713	3,873
Surcharge received from other OTB communities	2,222	2,227
Breakage	4,217	4,536
Uncashed pari-mutuel tickets allocable to State of New York	2,988	3,372
Revenue derived from surcharge	9,806	9,845
Other	2,019	2,736
Total operating revenues	<u>244,696</u>	<u>255,883</u>
Operating expenses		
Operations	110,586	106,160
Administrative and selling	14,942	16,083
Depreciation and amortization	3,461	3,371
Annual other postemployment benefits cost - Medicare Part B (Note 6)	40,681	-
Annual other postemployment benefits cost - Other	22,966	26,166
Total operating expenses	<u>192,636</u>	<u>151,780</u>
Operating income before statutory distributions	<u>52,060</u>	<u>104,103</u>
Statutory distributions		
Compensation and payments to the racing industry other than The New York Racing Association	41,521	43,978
The New York Racing Association	51,690	53,360
State of New York	10,176	10,048
New York State Racing and Wagering Board Regulatory Fee	4,991	5,203
Local governments	2,485	2,560
Surcharge received from other OTB communities	2,222	2,227
Total statutory distributions other than distributions to City of New York	<u>113,085</u>	<u>117,376</u>
Distributions to City of New York	<u>15,460</u>	<u>16,787</u>
Total statutory distributions	<u>128,545</u>	<u>134,163</u>
Operating loss (Note 1)	(76,485)	(30,060)
Total net assets (deficiency), beginning of year	<u>(152,350)</u>	<u>(122,290)</u>
Total net assets (deficiency), end of year	<u>\$ (228,835)</u>	<u>\$ (152,350)</u>

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007
(In 000's)

	<u>2008</u>	<u>2007</u>
Cash Flow From Operating Activities		
Receipts from customers	\$ 237,267	\$ 248,044
Payments to The New York Racing Association	(54,742)	(53,207)
Payments to suppliers and the racing industry other than The New York Racing Association	(84,590)	(94,389)
Payments to employees	(70,935)	(68,735)
Payments to City of New York, State of New York and local governments	(33,358)	(34,420)
Interest received	1,004	1,588
Net cash used in operating activities	<u>(5,354)</u>	<u>(1,119)</u>
Capital and Related Financing Activities		
Capital acquisition surcharge	3,713	3,873
Net purchase of capital assets	(2,870)	(3,045)
Other	(91)	(103)
Net cash provided by capital and related financing activities	<u>752</u>	<u>725</u>
Change in cash and cash equivalents	(4,602)	(394)
Cash and cash equivalents, beginning of year	<u>28,559</u>	<u>28,953</u>
Cash and cash equivalents, end of year	<u>\$ 23,957</u>	<u>\$ 28,559</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (76,485)	\$ (30,060)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	3,461	3,371
Capital acquisition surcharge	(3,713)	(3,873)
Changes in:		
Accounts receivable and other current assets	(759)	31
Accounts payable and accrued expenses	14,089	7,610
Due to New York City	7	(8)
Due to New York State	(156)	146
Due to local governments	(62)	31
Outstanding pari-mutuel tickets	(192)	(63)
Telephone betting accounts	(298)	(88)
Compensated leave time	49	356
Postemployment benefits obligation	58,705	21,428
Net cash used in operating activities	<u>\$ (5,354)</u>	<u>\$ (1,119)</u>

	<u>Assets</u>		
	<u>Unrestricted</u>	<u>Restricted (1)</u>	<u>Total</u>
Reconciliation of Cash and Cash Equivalents:			
Cash and cash equivalents, beginning of year	\$ 20,471	\$ 8,088	\$ 28,559
Net increase (decrease)	(4,903)	301	(4,602)
Cash and cash equivalents, end of year	<u>\$ 15,568</u>	<u>\$ 8,389</u>	<u>\$ 23,957</u>

(1) Includes restricted cash and cash equivalents relating to telephone betting accounts and capital acquisition fund.

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Since 1970, the Laws of the State of New York have permitted local communities to operate a system of off-track pari-mutuel betting under the supervision of the New York State Racing and Wagering Board. New York City Off-Track Betting Corporation (the "Corporation") was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City of New York. The Corporation has no component units and was a component unit of the City of New York until June 17, 2008 when, under Chapter 115 of the Laws of 2008, the Corporation became a component unit of the State of New York.

Background

On June 17, 2008, Governor Paterson signed legislation, designated as Chapter 115 of the Laws of 2008 that provided for a State takeover of the Corporation. In connection with this takeover, provisions of the Racing, Pari-Mutuel Wagering and Breeding Law were amended to reflect the Corporation's status change from being a component unit of the City of New York to becoming a component unit of the State of New York. The Corporation has prepared the financial statements for a full fiscal year ending June 30, 2008. The Corporation will next prepare financial statements for the nine-month period ending March 31, 2009 and thereafter annual financial statements for fiscal years ending March 31, which will be incorporated in the State of New York's Comprehensive Annual Financial Reportings.

Accounting and Financial Reporting

The Corporation follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Activities that Use Proprietary Fund Accounting", the Corporation has elected not to adopt Financial Accounting Standards Board statements issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all investments maturing in three months or less at date of acquisition to be cash equivalents.

Capital Assets

Capital assets are recorded at cost. Depreciation and amortization are calculated utilizing the straight-line method based upon estimated useful lives, which range from three to fifteen years. Leasehold improvements are amortized principally over the term of the lease or useful life of asset, whichever is less. Management intends to exercise the renewal options for substantially all leases and, if appropriate, seek additional lease options on new locations.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Other Postemployment Benefits

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits when provided separately from a pension plan. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows. The Corporation implemented Statement No. 45 in its fiscal year ending June 30, 2006.

Operating Revenues

Revenues earned by the Corporation and distributions of such revenues are defined by the applicable provisions of New York State law, some of which are summarized below:

Earned on Handle

Gross revenues earned on handle generally range from 15% to 31% of the total amount of applicable wagers depending on the type of wager (e.g., regular, multiple or exotic).

Distributable Surcharge and Surcharge Breakage

The portion of the 5% surcharge collected on winning tickets from New York State tracks that is distributable to the local governments in which the track is located.

Capital Acquisition Surcharge

Effective July 1990, the New York Racing, Pari-Mutuel Wagering and Breeding Law was amended to allow, among other things, the Corporation to collect a 1% surcharge on multiple, exotic and super exotic wagering pools and to retain the proceeds of the surcharge for financing the acquisition, construction or equipping of offices, facilities or premises of the Corporation. As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the New York Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose.

Through June 30, 2008, surcharges of \$70,062,000 have been collected and \$63,266,000 has been used to finance leasehold improvements and the acquisition of property and equipment.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Operating Revenues (Continued)

Surcharge Received From Other OTB Communities

The Corporation is a collection agent for the City of New York for surcharge and surcharge breakage on winnings due from other community off-track betting corporations. Surcharges of \$2,222,000 and \$2,227,000 were received during fiscal 2008 and 2007, respectively, of which \$208,000 and \$201,000 were payable to the City of New York by the Corporation as of June 30, 2008 and 2007, respectively.

Breakage

Breakage is the revenue resulting from the rounding down of winning payoffs. This amount is partially distributed to the State of New York and the New York State breeding and development funds and the balance is retained by the Corporation.

Uncashed Pari-Mutuel Tickets

Uncashed pari-mutuel tickets represent winning tickets outstanding. This balance must be remitted to the State of New York on an annual basis.

Revenue Derived from Surcharge

Revenue derived from surcharge results from 50% of all out-of-state simulcasting surcharge revenue and 45% of all Finger Lakes simulcasting surcharge revenue. As of June 17, 2008, under Chapter 115 of the Laws of 2008, revenue derived from surcharge results from the 5% surcharge collected on winning tickets less the amount that is distributable to local governments in which a New York State track is located.

Statutory Distributions

In accordance with the requirements of New York State law, revenues are allocated among the racing industry, the State of New York, local governments, and the City of New York, as summarized below:

The Racing Industry

Compensation is payable to racing entities at statutory rates on racing wagers related to races at in-state tracks and at contractual rates on racing wagers related to races at out-of-state tracks.

A portion of the track commission payments made to tracks located in the State of New York is paid to New York State horsemen for purse money. These rates range from .25% to 5.50%.

Contributions to the New York State Thoroughbred Breeding and Development Fund are 0.5% (decreased from 0.7% commencing April 1, 2007) of handle derived from bets on thoroughbred or steeplechase races. Contributions to the Agriculture and New York State Breeding and Development Fund are 1.0% of handle derived from bets on harness races.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Statutory Distributions (Continued)

State of New York

Pari-mutuel taxes are imposed on the amount wagered at rates determined by the type of wager, type of race and location.

Uncashed pari-mutuel tickets held by the Corporation on April 1, applicable to the preceding calendar year, are distributable to the State of New York. If the payment is not made when due a penalty of five percent and interest at the rate of one percent per month is assessed from the due date to the date of payment to the State of New York. For the calendar year ended December 31, 2007, the amount distributable approximated \$3,118,000, which was remitted to the State of New York during fiscal 2008.

New York State Racing and Wagering Board Regulatory Fee

The New York Racing, Pari-Mutuel Wagering and Breeding Law requires the payment of regulatory fees to the Racing and Wagering Board. The regulatory fee is levied at .50% of the Corporation's net handle.

Local Governments

Local governments in which tracks reside receive 50% of the surcharge revenue except for Ontario County which receives 5% and Nassau County which receives 37.5%.

Distributions to City of New York

Distributions to the City of New York include all the remaining portion of surcharge revenue from the tracks after deducting the amounts payable to other local governments and the revenue derived from surcharge. As of June 17, 2008, under Chapter 115 of the Laws of 2008, the City of New York will only receive surcharge revenue from revenue earned on OTB wagers on races run at Aqueduct and Belmont Park, and all the remaining surcharge earned by the Corporation not otherwise payable to localities where New York State race tracks are located will be retained by the Corporation for its corporate purposes.

In addition, after deducting the Corporation's operating expenses and statutory distributions any remaining net income, except for amounts retained for capital acquisitions, is distributable to the City of New York. As of June 17, 2008, under Chapter 115 of the Laws of 2008, the Corporation shall use any net amount remaining after payment of taxes and distributions to pay all liabilities of the Corporation that existed as of June 17, 2008 and, thereafter when those liabilities are paid off, any remaining net income will be paid to the State general fund. There are no such amounts available for distribution for the years ended June 30, 2008 and 2007.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended June 30, 2007 to conform to the presentation for the year ended June 30, 2008.

Going Concern and Other Uncertainties

At June 30, 2008, the Corporation's current liabilities exceeded its current assets by \$50,065,000, the Corporation has suffered operating losses of \$76,485,000 (including non-cash expenses of \$40,681,000 related to an other postemployment benefit plan amendment as a result of transfer of obligation for Medicare Part B liabilities from the City of New York to the Corporation under Chapter 115 of the Laws of 2008 of the State of New York (Note 6)) and \$30,060,000 in 2008 and 2007 respectively and the Corporation has a net deficit of \$228,835,000. Over the past several years, the Corporation has experienced continuing mandated increases in personnel and other costs and increases in the statutory distribution requirements of New York State law, including a regulatory fee of .50% of the Corporation's gross handle payable to the New York State Racing and Wagering Board. These factors have resulted in the Corporation being required to make distributions in excess of its operating income before statutory distributions. Management has instituted a number of initiatives to reduce its expenses, including a reduction in workforce and a focus on maximization of branch profitability. These operating initiatives, however, have not been sufficient to offset the increases in expenses and distributions. Management has continued to seek legislative relief since June 17, 2008. There is no assurance that the New York State legislature will adopt the necessary changes to New York State law to provide relief to the Corporation. Without such relief, the Corporation will continue to experience difficulties in making required distributions to the racing industry on a timely basis. Additionally, the racing industry and the Corporation have and continue to face a variety of significant challenges. The financial, legislative and regulatory environment in addition to gaming competition and consumer interest, continue to impact the thoroughbred and harness racing industries. Management continues to focus on and enhance overall operations, combined with new opportunities and initiatives which support and leverage the industry. The financial statements do not include any adjustments that might result from the outcome of the financial uncertainties created by this situation.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of vault cash/deposits and repurchase agreements at June 30, 2008 and 2007.

Vault Cash and Deposits

Vault cash and deposits at June 30, 2008 and 2007 are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Vault cash	\$ 1,592,000		\$ 2,193,000	
Deposits	<u>14,115,000</u>	<u>\$ 16,231,000</u>	<u>26,366,000</u>	<u>\$ 36,074,000</u>
Total vault cash and deposits	<u>\$ 15,707,000</u>		<u>\$ 28,559,000</u>	

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2 — CASH AND CASH EQUIVALENTS (Continued)

Vault Cash and Deposits (Continued)

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits might not be recovered. The Corporation has implemented a deposit policy for custodial credit risk for the fiscal year ended June 30, 2008. As of June 30, 2008, of the Corporation's bank balance of \$16,231,000, \$3,100,000 was collateralized by US government instruments or insured by the Federal Deposit Insurance Corporation (the "FDIC"), and \$13,131,000 was uninsured and uncollateralized and exposed to custodial credit risk. As of June 30, 2007, of the Corporation's bank balances of \$36,074,000, \$35,974,000 was uninsured and uncollateralized and exposed to custodial credit risk.

Cash and cash equivalents in the amount of \$1,593,000 are restricted for customer telephone betting account activities at June 30, 2008 (\$1,891,000 at June 30, 2007). Cash and cash equivalents in the amount of \$6,796,000 are restricted for capital acquisitions at June 30, 2008 (\$6,197,000 at June 30, 2007). As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the New York Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose.

Repurchase Agreements

It is the Corporation's policy to invest only in United State Government securities, backed by the full faith and credit of the United States Government, or repurchase agreements collateralized by United States Government securities and covered by a master repurchase agreement. The investments are held in the Corporation's name in a custody account by its agent. Investments are carried at amortized cost, which approximates fair value.

The Corporation's repurchase agreements at June 30, 2008 are as follows:

	<u>2008</u>		
	<u>Carrying Amount/ Fair Value</u>	<u>Maturity</u>	<u>Rate</u>
Repurchase agreements	<u>\$ 8,250,000</u>	July 7, 2008	1.95%

NOTE 3 — CAPITAL ASSETS, NET

The following is a summary of changes in capital assets for the year ended June 30, 2008:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Office machinery and equipment	\$ 22,426,000	\$ 355,000	\$ -	\$ 22,071,000
Furniture and fixtures	718,000	82,000	-	636,000
Leasehold improvements, principally for branch offices	41,304,000	1,997,000	400,000	39,707,000
Data processing equipment	5,646,000	599,000	-	5,047,000
Automobiles	1,295,000	217,000	-	1,078,000
Total	<u>71,389,000</u>	3,250,000	400,000	68,539,000
Less accumulated depreciation and amortization	<u>60,520,000</u>	3,461,000	20,000	57,079,000
Capital Assets, net	<u>\$ 10,869,000</u>			<u>\$ 11,460,000</u>

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 4 — COMPENSATED LEAVE TIME

The Corporation has included in compensated leave time the liability for unused vested sick leave attributable for services rendered by employees with ten years or more of continuous service. The Corporation has also included in compensated leave time the liability for unused vacation leave. Corporate policy is to pay employees for vested unused sick leave and unused vacation leave upon termination. Compensated leave time expenses are included in the operating expenses in the statements of revenues, expenses, and changes in fund net assets (deficit).

NOTE 5 — PENSION PLAN

Substantially all full-time employees of the Corporation are members of the New York City Employees' Retirement System ("NYCERS" or the "System"), which is a cost-sharing, multiple-employer public employer retirement system ("PERS").

Benefits Provided by the System

The System provides retirement as well as death, accident and disability benefits. Benefits vest after five years of credited service depending on date of employment. Certain retirees also receive supplemental benefits.

Benefit and contribution provisions, which are contingent upon the point in time at which the employee last entered qualifying service and length of credited service, are established by New York State law and may be amended only by the New York State Legislature. The System has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service. Employees entering qualifying service on or before July 26, 1976 are enrolled in a noncontributory plan. Employees entering qualifying service after July 26, 1976 are enrolled in a contributory plan, which requires a 3% contribution of their salary.

NYCERS

The Corporation funds accrued pension cost, which represents an amount actuarially computed by NYCERS for employer contributions using the frozen entry age actuarial cost method of funding. NYCERS makes the benefit payments to retired employees of the Corporation.

The following table presents the Corporation's total current-year payroll paid for all employees and covered payroll relating to NYCERS, employer and employee contributions, contributions as a percentage of covered payroll and the percentage of required employer contributions contributed for the years ended June 30, 2007, 2006, and 2005, the latest dates for which such information is available:

	<i>(In Millions)</i>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current-year payroll paid:			
Covered	\$ 43.2	\$ 43.3	\$ 42.6
Total	\$ 64.3	\$ 64.1	\$ 63.8
Required contributions:			
Employer	\$ 5.9	\$ 4.8	\$ 4.3
Employee	\$ 2.6	\$ 2.5	\$ 2.5
Percentage of covered payroll:			
Employer	13.7%	11.1%	10.1%
Employee	6.0%	5.8%	5.9%
Percentage of required employer contributions contributed:	100%	100%	100%

Historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the component unit financial report prepared by NYCERS.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 6 — OTHER POSTEMPLOYMENT BENEFITS

In accordance with collective bargaining agreements, the Corporation provides other post-employment benefits (“OPEB”) which include health insurance, Medicare Part B reimbursements, and welfare fund contributions to eligible retirees and beneficiaries. The Corporation provides basic health care benefits to eligible retirees and dependents at no cost to most of the participants. Basic healthcare premium costs, which are partially paid by the remaining participants, vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the Corporation with at least ten years of credited service (five years of credited service if employed on or before December 27, 2001) as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the Corporation or a Corporation-related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the Corporation or another system approved by the Corporation. The Corporation is not required by law or contractual agreement to provide funding for its OPEB obligation other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries.

The Corporation’s OPEB expense of \$63,647,000 and \$26,166,000 for the fiscal year ended June 30, 2008 and 2007, respectively, was equal to the annual OPEB cost (“AOC”), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Corporation’s annual required contribution (“ARC”) was approximately \$200,600,000 and \$141,691,000 at June 30, 2008 and 2007, respectively. The ARC at June 30, 2008 included a plan amendment in the amount of approximately \$40,681,000 as a result of transfer of obligation for Medicare Part B liabilities from the City of New York to the Corporation under Chapter 115 of the Laws of 2008 of the State of New York. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. The ARC adjustment represents the discounted present value of the balance of the net OPEB obligation at the beginning of the year. The Corporation’s AOC and OPEB obligation for the fiscal year ended June 30, 2008 and 2007 are composed of the following (as calculated by the Office of the Actuary, the City of New York):

	<u>2008</u>	<u>2007</u>	
OPEB obligation, beginning of year	\$ 136,953,000	\$ 115,525,000	
Annual OPEB cost (AOC)			
Annual required contribution (ARC)			
Normal cost	\$ 12,688,000	\$ 8,587,000	
Amortization of unfunded actuarial accrued liability over one year	180,196,000	127,654,000	
Interest at 4.0%	<u>7,716,000</u>	<u>5,450,000</u>	
ARC	200,600,000	141,691,000	
ARC Adjustment	(142,431,000)	(120,146,000)	
Interest on net OPEB obligation	<u>5,478,000</u>	<u>4,621,000</u>	
AOC	<u>\$ 63,647,000</u>	<u>\$ 26,166,000</u>	26,166,000
Less: Corporation payments for retired employees' health care benefits	<u>4,942,000</u>	<u>4,738,000</u>	
OPEB obligation, end of year	195,658,000	136,953,000	
Less: Current portion of net OPEB obligation	<u>5,972,000</u>	<u>5,352,000</u>	
OPEB obligation, non-current	<u>\$ 189,686,000</u>	<u>\$ 131,601,000</u>	

The Corporation has not funded any of its net OPEB obligation, such that the non-cash charge incurred in each fiscal year was \$58,705,000 for 2008 and \$21,428,000 for 2007, respectively, were non-cash in nature.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 6 — OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status and the ARC are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The following schedule of funding progress presents information about the actuarial value of assets relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2007	\$ -	\$ 180,196,000	\$ 180,196,000	0.0%	\$ 45,751,000	393.9%
6/30/2006	-	127,654,000	127,654,000	0.0%	42,638,000	299.4%
6/30/2005	-	107,599,000	107,599,000	0.0%	42,584,000	252.7%

Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The frozen entry age actuarial cost method was used in the June 30, 2007 and 2006 actuarial valuations, the basis for the ARC calculation for the fiscal year ended June 30, 2008 and 2007. The actuarial assumptions used in the June 30, 2007 and 2006 OPEB actuarial valuations are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations. The actuarial assumptions and methods used in the June 30, 2007 actuarial valuation are generally the same as those used in the June 30, 2006 actuarial valuation except that: (a) Per capita claims costs and Medicare Part B premiums have been updated to reflect more recent experience. In addition, actual age distribution of covered population rather than estimated average age has been used to age adjust the premiums for the Medicare GHI/EBCBS plan; (b) A factor was applied to HIP Medicare HMO costs in addition to medical trend to reflect expected changes in Medicare Advantage reimbursements; and (c) Welfare fund contributions have been updated to reflect a three-year trended average of reported annual contribution amounts for current retirees. A trended average is used instead of a single reported welfare fund amount to smooth out negotiated variations. The welfare fund rates reported for the previous two valuations were trended to current levels based on a historical increase rate of 4.3% per year, approximating overall recent growth of welfare fund contributions.

NOTE 7 — DEFERRED COMPENSATION PLAN

The Corporation's employees may participate in a deferred compensation plan established by the State of New York in accordance with Internal Revenue Code Section 457. The Plan is available to all employees of the Corporation. All amounts of compensation deferred under the Plan, and all income attributable to such compensation, are held in a trust for the exclusive benefit of the participants and their beneficiaries, and not included in the financial statements of the Corporation. The contributions are invested in mutual funds.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 8 — COMMITMENTS

Leases

Minimum rental commitments under the terms of all non-cancelable real property leases in effect at June 30, 2008 are summarized below:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 15,901,000
2010	14,465,000
2011	13,038,000
2012	11,950,000
2013	11,431,000
2014 - 2018	47,094,000
2019 - 2022	18,374,000
Aggregate commitment	<u>\$132,253,000</u>

In addition to the fixed rentals, certain of these leases provide for payments of taxes and other costs. Rental expense for property under the lease agreements for the years ended June 30, 2008 and 2007 was \$21,724,000 and \$19,294,000, respectively.

Agreement with City of New York

The Corporation has an agreement with the City of New York, dated June 16, 2008, regarding continued use of governmental cable channels for carriage of government programming produced by the Corporation. Under this agreement, the City of New York continues its practice of transmitting programming delivered by the Corporation on government use channels as part of the City's activity of providing government use programming to cable television subscribers, and the Corporation assists in offsetting costs incurred by the City in facilitating the provision and transmission of such government use programming by paying the City annually an amount equal to \$3.25 million. This agreement expires on June 15, 2011.

NOTE 9 — CONTINGENCIES

The Corporation is involved in several litigation matters which allege claims for substantial damages with certain former employees who have filed actions against the Corporation for wrongful termination due to claimed discriminatory practices and with the New York Racing Association which alleges that the Corporation breached a contract between the parties and seeks damages of \$5,000,000. The Corporation's management believes that the liability, if any, that may ultimately result from the resolution of the foregoing matters, in excess of amounts provided for at June 30, 2008, would not have a material effect on the financial condition of the Corporation.

NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 9 — CONTINGENCIES (Continued)

During the fiscal year ended June 30, 2008, the Corporation received a request from the Office of Labor Relations to make payments in the amount of approximately \$835,000 as reimbursement of Medicare Part B premium payments for the Corporation's retirees during the calendar year 2007. The Corporation has concluded that there is no enforceable legal obligation which places responsibility for this cost on the Corporation or otherwise requires the Corporation to fund such reimbursement to the City of New York with respect to periods of time prior to the effective date of Chapter 115 of the Laws of 2008, which was June 17, 2008. Accordingly, no such liabilities have been recorded as of June 30, 2008.

The Corporation is also involved in various other claims or matters of litigation with vendors, customers, and others for which the Corporation's management believes that the liability, if any, that may ultimately result from the resolution of these matters, will not have a material adverse effect on the financial condition of the Corporation.

NOTE 10 — CAPITAL ACQUISITION FUND

As discussed in Note 1, beginning in July 1990, the Corporation established a Capital Acquisition Fund (the "Fund"). As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose. The Fund has been consolidated with the operating accounts of the Corporation and is included in the accompanying financial statements.

The assets, liabilities and net assets of the Capital Acquisition Fund are included in the following statement of net assets' captions at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Assets		
Restricted cash and cash equivalents	\$ 6,796,000	\$ 6,197,000
Capital assets, net	<u>10,639,000</u>	<u>10,955,000</u>
Total assets	<u>\$ 17,435,000</u>	<u>\$ 17,152,000</u>
Liabilities and Net Assets		
Liabilities		
Other long-term liabilities	<u>\$ 99,000</u>	<u>\$ 190,000</u>
Total liabilities	<u>99,000</u>	<u>190,000</u>
Net Assets		
Invested in capital assets, net of related debt	10,540,000	10,765,000
Restricted for acquisition of capital assets	<u>6,796,000</u>	<u>6,197,000</u>
Total net assets	<u>17,336,000</u>	<u>16,962,000</u>
Total liabilities and net assets	<u>\$ 17,435,000</u>	<u>\$ 17,152,000</u>

During the fiscal year ended June 30, 2007, pursuant to the Racing, Pari-Mutuel Wagering and Breeding Law Section 532, subdivision 3-a and Section 609-a, the Corporation's management decided that the net carrying value of the warehouse leasehold improvements in the amount of approximately \$3.2 million should be transferred to the Fund from the operating accounts of the Corporation.

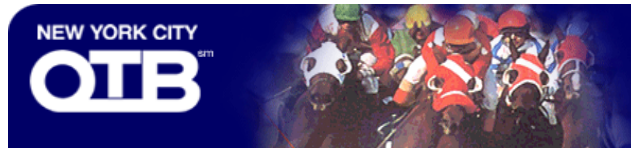
NEW YORK CITY OFF-TRACK BETTING CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 10 — CAPITAL ACQUISITION FUND (Continued)

The Fund's related activity for the years ended June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Operating Revenues		
Capital acquisition surcharge	<u>\$ 3,713,000</u>	<u>\$ 3,873,000</u>
Total operating revenues	<u><u>\$ 3,713,000</u></u>	<u><u>\$ 3,873,000</u></u>
Operating expenses		
Depreciation and amortization	<u>\$ 3,331,000</u>	<u>\$ 3,062,000</u>
Other	<u>8,000</u>	<u>18,000</u>
Total operating expenses	<u><u>3,339,000</u></u>	<u><u>3,080,000</u></u>
Change in net assets	<u>374,000</u>	<u>793,000</u>
Total net assets, beginning of year	<u><u>16,962,000</u></u>	<u><u>16,169,000</u></u>
Total net assets, end of year	<u><u>\$ 17,336,000</u></u>	<u><u>\$ 16,962,000</u></u>

EXHIBIT B



**(A Component Unit of the
State of New York)**

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Nine-Month Period Ended March 31, 2009

NEW YORK CITY OFF-TRACK BETTING CORPORATION
(A Component Unit of the State of New York)

TABLE OF CONTENTS

	Page
Independent Auditor’s Report on the Financial Statements	1-2
Management’s Discussion and Analysis	3-8
Financial Statements	
Statement of Net Deficiency	9
Statement of Revenues, Expenses, and Changes in Net Deficiency	10
Statement of Cash Flows	11
Notes to Financial Statements	12-22
Supplementary Information (Unaudited)	
Comparative Statements of Revenues and Expenses	23
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24-26

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
New York City Off-Track Betting Corporation

We have audited the accompanying statement of net deficiency of New York City Off-Track Betting Corporation (Corporation), a component unit of the State of New York, as of March 31, 2009, and the related statement of revenues, expenses, and changes in net deficiency, and cash flows for the nine-month period ended March 31, 2009. These financial statements are the responsibility of New York City Off-Track Betting Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York City Off-Track Betting Corporation as of March 31, 2009, and the changes in its financial position and its cash flows for the nine-month period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 1 to the financial statements, the Corporation's current liabilities exceed its current assets, the Corporation has suffered recurring operating losses, has a net deficiency, and is experiencing significant industry challenges. Without legislative adjustment to the statutory scheme of distribution of retained revenues from handle and or other relief, the Corporation will continue to be required to make statutory distributions in aggregate amount exceeding operating income before statutory distributions. This gives rise to additional uncertainties that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2009, on our consideration of New York City Off-Track Betting Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, on pages 3 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of New York City Off-Track Betting Corporation taken as a whole. The supplementary information on page 23 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

UHY LLP

New York, New York
June 23, 2009

**MANAGEMENT'S
DISCUSSION AND
ANALYSIS**

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

New York City Off-Track Betting Corporation's (the "Corporation" or "NYCOTB") financial report consists of two parts: *management's discussion and analysis* (this section) and the *basic financial statements*. Management's discussion and analysis provides an introduction and overview to the financial statements for the nine-month period ended March 31, 2009. The information contained in this section should be considered in conjunction with the basic financial statements, including the notes to the financial statements for the nine-month period ended March 31, 2009.

Our Business

The mission of the Corporation, a public benefit corporation, is threefold: first, to generate revenue for municipal and state government; second, to help fund the state's horse racing and breeding industry; and, third, to help stamp out illegal wagering on horse races. NYCOTB offers off-track pari-mutuel wagering on thoroughbred and harness horse racing to customers in the City of New York (the "City" or "NYC") through its network of fifty-seven branch offices, eight restaurants, and three teletheaters and through its account wagering (telephone and internet betting) operation. NYCOTB broadcasts on Channel 71 and 73 for in home cable television reception by its customers in the City of New York.

To understand the Corporation's business, it is necessary to look at the following financial components:

- Net handle – the total amount wagered by the Corporation's customers on races.
- Earned on handle – the revenues that result from the portion of the handle that is not paid out in winning bets to customers.
- Surcharge revenues – made up of 5% and 1% surcharges on certain winning wagers.
- Operating expenses – the expenses that are required to operate NYCOTB.
- Statutory distributions – the amount of revenues that the Corporation is required by the State of New York (the "State" or "NYS") laws to distribute to each of its constituencies: the racing industry, the State of New York, other local governments, and the City of New York.
- Operating income (loss) – the surplus or deficit that remains after expenses and distributions.

Legislative Change

On June 17, 2008, Governor Paterson signed legislation, designated as Chapter 115 of the Laws of 2008 that provided for a State takeover of the Corporation. In connection with this takeover, provisions of the Racing, Pari-Mutuel Wagering and Breeding Law (the "Racing Law") were amended to reflect the Corporation's status change from being a component unit of the City of New York to becoming a component unit of the State of New York. With respect to the Corporation's financial operations and reporting status, the following were changes in the legislative scheme significantly affecting the Corporation:

- Racing Law § 527(6) was amended to provide that the Corporation shall use any net amount remaining after payment of taxes and distributions to pay all liabilities of the Corporation that existed as of the effective date of the legislation, and thereafter, once such liabilities are paid off, for such net amount to be paid to the State general fund.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Legislative Change (Continued)

- Racing Law § 532 was amended to provide that the Corporation will retain for its corporate purposes the portion of the surcharge not distributable to localities where New York State racetracks are located.
- Racing Law § 609 was amended to provide that the Corporation shall be subject to the procurement requirements under State Finance Law §§ 139-j and 139-k.
- Racing Law § 610 was amended to provide that the Director of the Division of the Budget will review the books and accounts of the Corporation.
- Racing Law § 624 was amended to provide that upon termination of the Corporation, all corporate assets will vest in the State.
- Public Officers Law §17 was amended to include the Corporation's officers, directors and employees within the definition of "employee" for purposes of defense and indemnification by the State in civil actions, and thereby transfer from the Corporation to the State the obligation to indemnify the Corporation's officers, directors or employees in civil actions.
- Chapter 115 further provided that all funds in the Corporation's Capital Acquisition Fund prior to July 1, 2008, or deposited thereafter, shall be made available to the Corporation for any corporate purpose.
- Chapter 115 of the Laws of 2008 created a task force on the future of off-track betting in NYS. The task force charge is to analyze and make recommendations concerning the optimal utilization of the State's regional off-track betting system with an emphasis on the system's capability to raise revenues for the State and local governments and strengthening the racing and breeding industries in NYS.

Financial Summary of the Corporation

NYCOTB is a public benefit corporation established under the laws of the State of New York. The Corporation has no component units and was a component unit of the City of New York until June 17, 2008 when, under Chapter 115 of the Laws of 2008, the Corporation became a component unit of the State of New York. Under Chapter 115 of the Laws of 2008 the public benefit corporation known as the "New York City Off-Track Betting Corporation" shall continue in existence and "shall continue to be the public benefit corporation authorized to operate the system for off-track pari-mutuel wagering on horse races within the City of New York" as a component unit of the State of New York. NYCOTB follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Corporation.

The Corporation has prepared the financial statements for the nine-month period ending March 31, 2009, which will be incorporated in the State of New York's Comprehensive Annual Financial Reporting. The Corporation will next prepare financial statements for a full fiscal year ending March 31, 2010 and thereafter.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

The basic financial statements are accompanied by a report of the independent auditors. Their report includes an explanatory paragraph that concludes that substantial doubt about the Corporation's ability to continue as a going concern remains. NYCOTB management's plans in this regard are discussed in Note 1 to the financial statements.

The following table summarizes the revenues, expenses and changes in net deficiency for the nine-month periods ended March 31, 2009 and 2008 (\$ in thousands):

	Nine-Month Period Ended March 31, 2009	(Unaudited) Nine-Month Period Ended March 31, 2008
Net handle	<u>\$ 657,628</u>	<u>\$ 741,654</u>
Operating revenues	<u>\$ 162,855</u>	<u>\$ 182,378</u>
Operating expenses		
Annual OPEB cost - Medicare Part B (1)	-	30,511
Annual OPEB cost - other	15,821	16,778
Other operating expenses	<u>97,746</u>	<u>96,871</u>
Total operating expenses	<u>113,567</u>	<u>144,160</u>
Operating income before statutory distributions	<u>49,288</u>	<u>38,218</u>
Statutory distributions		
Racing industry	59,975	69,379
State of New York (2)	9,941	11,224
Other local governments	1,652	1,784
Surcharge received from other OTB communities	1,490	1,715
Surcharge earned for and distributed to City of New York	<u>1,372</u>	<u>11,851</u>
Total statutory distributions	<u>74,430</u>	<u>95,953</u>
Operating loss	(25,142)	(57,735)
Total net deficiency, beginning of period	<u>(228,835)</u>	<u>(152,350)</u>
Total net deficiency, end of period	<u>\$ (253,977)</u>	<u>\$ (210,085)</u>

(1) - reflective of a plan amendment as a result of transfer of obligation for Medicare Part B liabilities from the City of New York to the Corporation under Chapter 115 of the Laws of 2008 of the State of New York

(2) - includes New York State Racing and Wagering Board regulatory fee

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Net Handle

Net handle for 2009 decreased 11.3% as compared to the comparable nine-month period ended March 31, 2008. During 2008 four branches were closed. Management continues to review the closing of unprofitable branches along with the enhancement of existing branches.

The following table shows the sources of the Corporation's net handle for the nine-month periods ended March 31, 2009 and 2008 (\$ in thousands):

	Nine-Month Period Ended March 31, 2009	(Unaudited) Nine-Month Period Ended March 31, 2008	% Decrease
Branch offices	\$ 429,439	\$ 476,627	-9.9%
Advance deposit wagering	131,373	154,102	-14.7%
Teletheaters	69,244	80,693	-14.2%
Restaurants	27,572	30,232	-8.8%
Total	<u>\$ 657,628</u>	<u>\$ 741,654</u>	<u>-11.3%</u>

Operating Revenue

Revenue as a percentage of handle was 24.8% and 24.6% for the nine-month period ended March 31, 2009 and 2008, respectively. The \$84 million decrease in handle between 2009 and 2008 accounts for the lower revenue.

Operating Expenses

The Corporation provides other postemployment benefits ("OPEB"), which include basic health care benefits to eligible retirees and dependents at no cost to most of the participants. Effective with the enactment of Chapter 115 of the Laws of 2008, the Corporation assumed from the City of New York the costs of reimbursing Medicare Part B premiums to eligible retirees and beneficiaries. In 2008 \$47.3 million (\$30.5 million attributable to Medicare Part B) was recorded as an operating expense (about \$4.9 million was funded during 2008). In 2009, an additional \$15.8 million was expensed (about \$2.6 million was funded during 2009), raising the estimated future funding requirements to approximately \$208.9 million.

Operating expenses, excluding the annual other postemployment benefits costs of \$15.8 million and \$47.3 million in 2009 and 2008, totaled \$97.7 million and \$96.9 million in 2009 and 2008, respectively. Wage settlements and increased benefit costs accounted for the 0.9% increase.

Operating Income

Operating income before statutory distributions excluding the annual other postemployment benefits cost went from \$85.5 million in 2008 to \$65.1 million in 2009, a \$20.4 million decrease. The decline in handle contributed to the lower operating income.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Distributions

The amounts required to be distributed to each of our constituencies are determined primarily by provisions of New York State law and are usually related to handle. The \$84 million decrease in handle resulted in lower distributions in 2009 as compared to 2008. The Corporation makes distributions to the City of New York for surcharge with respect to races run at Aqueduct and Belmont Park. It also acts as the collection agent for the City of New York for surcharge due from other community off-track betting corporations, and in prior years it was also required to distribute any remaining net income, except for amounts retained for capital acquisitions, to the City of New York. Distributions to the City of New York from the Corporation and through the Corporation from other community off-track betting corporations decreased by \$10.5 million from 2008 to 2009 because of the decline in handle and the change in legislation. Net revenues after payment of taxes and distribution that previously was made to the City will instead now go towards paying off the pre-existing liabilities of the Corporation as of the effective date of Chapter 115 and, thereafter, when such liabilities have been fully paid any such remaining net revenue will be paid to the State general fund.

Statutory distributions also decreased from \$96.0 million in 2008 to \$74.4 million in 2009. The decline in handle resulted in lower payments to the racing industry.

Net Deficiency

The following table summarizes the Corporation's financial position as of March 31, 2009 and June 30, 2008 (\$ in thousands):

	March 31, 2009	June 30, 2008
Restricted cash and cash equivalents - advance deposit wagering accounts	\$ 1,688	\$ 1,593
Other current assets	18,244	16,971
Restricted cash and cash equivalents - capital acquisition fund	25	6,796
Capital assets, net	9,169	10,869
Total assets	<u>29,126</u>	<u>36,229</u>
Current liabilities - advance deposit wagering accounts	1,688	1,593
Other current liabilities	74,006	67,036
Long-term liabilities	207,409	196,435
Total liabilities	<u>283,103</u>	<u>265,064</u>
Net deficiency		
Invested in property and equipment, net of debt	9,133	10,770
Restricted for acquisition of capital assets	25	6,796
Unrestricted deficit	<u>(263,135)</u>	<u>(246,401)</u>
Total net deficiency	<u>(253,977)</u>	<u>(228,835)</u>
Total liabilities and net deficiency	<u>\$ 29,126</u>	<u>\$ 36,229</u>

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Summary of the Corporation (Continued)

Net Deficiency (Continued)

The impact of additional expense accrued for future postemployment benefits plus the required distributions and mandated contractual expenses in excess of revenue available resulted in net assets declining \$25.1 million during 2009.

Liquidity and Capital Resources

At March 31, 2009, the Corporation had \$18.4 million of cash and cash equivalents, which is a \$5.6 million decrease from \$24.0 million at June 30, 2008. As of March 31, 2009, \$1.9 million of the cash and cash equivalents was cash in the vaults of the Corporation's operating locations, \$1.7 million was attributable to advance deposit wagering customer balances, and \$3.6 million was attributable to unclaimed tickets (\$2.9 million from calendar year 2008 and \$0.7 million from calendar year 2009).

The summer represents the seasonal high point in NYCOTB cash levels. The seasonal low point occurs in the late winter. Much of NYCOTB's cash is either formally restricted or is required for payment of specific obligations. Without New York State legislation to address the fact that NYCOTB's distributions and expenses exceed NYCOTB's revenue, management expects that the decline in net assets of the past six years will continue. Absent changes to the mandated distribution scheme in the laws under which NYCOTB operates, this decline will lead to cash shortfalls and continued delays in distribution payments.

Since 1990, the majority of the Corporation's capital expenditures have been made through its capital acquisition fund. As discussed in the Notes to the Financial Statements, the Corporation collects a supplemental 1% surcharge on certain wagering pools which it retained to finance the acquisition, construction and equipping of its facilities. The unused portion of the amounts collected approximated \$6.8 million at June 30, 2008. In accordance with Chapter 115 of the Laws of 2008, during this nine-month period the Corporation utilized this \$6.8 million to cover both operating and capital expenditures. During 2009 the Corporation collected \$2.5 million of capital acquisition surcharge and expended \$9.2 million on capital assets and operating expenses. Under the new Legislation all funds in the capital acquisition fund prior to July 1, 2008 or deposited into such fund thereafter are made available to the Corporation for any corporate purpose.

FINANCIAL STATEMENTS

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

STATEMENT OF NET DEFICIENCY

March 31, 2009

(In 000's)

Assets

Current Assets

Cash and cash equivalents	\$ 16,701
Restricted cash and cash equivalents - advance deposit wagering accounts	1,688
Accounts receivable and other current assets	<u>1,543</u>
Total current assets	19,932

Restricted Cash and Cash Equivalents

- capital acquisition fund	25
----------------------------	----

Capital Assets, net

	<u>9,169</u>
Total assets	<u>\$ 29,126</u>

Liabilities and Net Deficiency

Current Liabilities

Accounts payable and accrued expenses	\$ 56,302
Due to City of New York	2,517
Due to State of New York - outstanding pari-mutuel tickets	3,648
Due to State of New York - pari-mutuel tax and breakage	39
Due to other local governments	47
Outstanding pari-mutuel tickets	480
Advance deposit wagering accounts	1,688
Compensated leave time, current	2,853
Other postemployment benefits obligation, current portion	8,095
Other	<u>25</u>
Total current liabilities	<u>75,694</u>

Long-term Liabilities

Compensated leave time, non-current	6,640
Other postemployment benefits obligation, non-current portion	<u>200,769</u>
Total long-term liabilities	<u>207,409</u>
Total liabilities	<u>283,103</u>

Commitments and Contingencies

Net Deficiency

Invested in capital assets, net of related debt	9,133
Restricted for acquisition of capital assets	25
Unrestricted deficit	<u>(263,135)</u>
Total net deficiency	<u>(253,977)</u>
Total liabilities and net deficiency	<u>\$ 29,126</u>

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET DEFICIENCY

Nine-Month Period Ended March 31, 2009

(In 000's)

Net handle	\$ 657,628
Operating revenues	
Earned on handle	134,787
Distributable surcharge and surcharge breakage	2,988
Capital acquisition surcharge	2,491
Surcharge received from other OTB communities	1,490
Breakage	2,720
Uncashed pari-mutuel tickets allocable to State of New York	1,990
Revenue derived from surcharge	15,508
Other	881
Total operating revenues	<u>162,855</u>
Operating expenses	
Operations	83,826
Administrative and selling	10,771
Depreciation and amortization	3,149
Annual other postemployment benefits cost	15,821
Total operating expenses	<u>113,567</u>
Operating income before statutory distributions	<u>49,288</u>
Statutory distributions	
Compensation and payments to the racing industry other than The New York Racing Association	28,152
The New York Racing Association	31,823
State of New York	6,653
New York State Racing and Wagering Board Regulatory Fee	3,288
Local governments	1,652
Surcharge received from other OTB communities	1,490
Surcharge earned for and distributed to City of New York	1,372
Total statutory distributions	74,430
Operating loss	(25,142)
Total net assets (deficiency), beginning of period	<u>(228,835)</u>
Total net assets (deficiency), end of period	<u>\$ (253,977)</u>

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

STATEMENT OF CASH FLOWS

Nine-Month Period Ended March 31, 2009

(In 000's)

Cash Flow From Operating Activities		
Receipts from customers		\$ 158,524
Payments to The New York Racing Association		(37,949)
Payments to suppliers and the racing industry other than The New York Racing Association		(55,534)
Payments to employees and benefits		(60,069)
Payments to City of New York, State of New York and local governments		(11,663)
Interest received		180
Net cash used in operating activities		<u>(6,511)</u>
Capital and Related Financing Activities		
Capital acquisition surcharge		2,491
Net purchase of capital assets		(1,449)
Other		(74)
Net cash provided by capital and related financing activities		<u>968</u>
Change in cash and cash equivalents		(5,543)
Cash and cash equivalents, beginning of period		<u>23,957</u>
Cash and cash equivalents, end of period		<u><u>\$ 18,414</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss		\$ (25,142)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		3,149
Capital acquisition surcharge		(2,491)
Changes in:		
Accounts receivable and other current assets		(140)
Accounts payable and accrued expenses		879
Due to New York City		2,309
Due to New York State		1,867
Due to local governments		(278)
Outstanding pari-mutuel tickets		(265)
Advance deposit wagering accounts		95
Compensated leave time		300
Postemployment benefits obligation		13,206
Net cash used in operating activities		<u><u>\$ (6,511)</u></u>

	Assets		Total
	<u>Unrestricted</u>	<u>Restricted (1)</u>	
Reconciliation of Cash and Cash Equivalents:			
Cash and cash equivalents, beginning of period	\$ 15,568	\$ 8,389	\$ 23,957
Net increase (decrease)	<u>1,133</u>	<u>(6,676)</u>	<u>(5,543)</u>
Cash and cash equivalents, end of period	<u><u>\$ 16,701</u></u>	<u><u>\$ 1,713</u></u>	<u><u>\$ 18,414</u></u>

(1) Includes restricted cash and cash equivalents relating to advance deposit wagering accounts and capital acquisition fund.

See notes to financial statements.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Since 1970, the Laws of the State of New York have permitted local communities to operate a system of off-track pari-mutuel betting under the supervision of the New York State Racing and Wagering Board. New York City Off-Track Betting Corporation (the "Corporation") was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City of New York. The Corporation was a component unit of the City of New York until June 17, 2008 when, under Chapter 115 of the Laws of 2008, the Corporation became a component unit of the State of New York.

Background

On June 17, 2008, Governor Paterson signed legislation, designated as Chapter 115 of the Laws of 2008 that provided for a State takeover of the Corporation. In connection with this takeover, provisions of the Racing, Pari-Mutuel Wagering and Breeding Law were amended to reflect the Corporation's status change from being a component unit of the City of New York to becoming a component unit of the State of New York. The Corporation has prepared the financial statements for the nine-month period ending March 31, 2009, which will be incorporated in the State of New York's Comprehensive Annual Financial Report. The Corporation will next prepare financial statements for a full fiscal year ending March 31, 2010 and thereafter.

Accounting and Financial Reporting

The Corporation follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Activities that Use Proprietary Fund Accounting", the Corporation has elected not to adopt Financial Accounting Standards Board statements issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all investments maturing in three months or less at date of acquisition to be cash equivalents.

Capital Assets

Capital assets are recorded at cost. Depreciation and amortization are calculated utilizing the straight-line method based upon estimated useful lives, which range from three to fifteen years. Leasehold improvements are amortized principally over the term of the lease or useful life of asset, whichever is less. Management intends to exercise the renewal options for substantially all leases and, if appropriate, seek additional lease options on new locations.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Postemployment Benefits (OPEB)

The Corporation accounts for OPEB in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits when provided separately from a pension plan.

Operating Revenues

Revenues earned by the Corporation and distributions of such revenues are defined by the applicable provisions of New York State law, some of which are summarized below:

Earned on Handle

Gross revenues earned on handle generally range from 12% to 35% of the total amount of applicable wagers depending on the type of wager (e.g., regular, multiple or exotic).

Distributable Surcharge and Surcharge Breakage

The portion of the 5% surcharge and surcharge breakage collected on winning tickets from New York State tracks that is distributable to the local governments in which the track is located.

Capital Acquisition Surcharge

Effective July 1990, the New York Racing, Pari-Mutuel Wagering and Breeding Law was amended to allow, among other things, the Corporation to collect a 1% surcharge on multiple, exotic and super exotic wagering pools and to retain the proceeds of the surcharge for financing the acquisition, construction or equipping of offices, facilities or premises of the Corporation. As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the New York Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose.

Surcharge Received From Other OTB Communities

The Corporation is a collection agent for the City of New York for surcharge and surcharge breakage on winnings due from other community off-track betting corporations. Surcharges of \$1,490,000 were received during the nine-month period ended March 31, 2009, of which \$513,000 were payable to the City of New York by the Corporation as of March 31, 2009.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues (Continued)

Breakage

Breakage is the revenue resulting from the rounding down of winning payoffs. This amount is partially distributed to the State of New York and the New York State breeding and development funds and the balance is retained by the Corporation.

Uncashed Pari-Mutuel Tickets

Uncashed pari-mutuel tickets represent winning tickets outstanding. This balance must be remitted to the State of New York on an annual basis.

Revenue Derived from Surcharge

As of June 17, 2008, under Chapter 115 of the Laws of 2008, revenue derived from surcharge results from the 5% surcharge and surcharge breakage collected on winning tickets less the amount that is distributable to local governments in which a New York State track is located.

Statutory Distributions

In accordance with the requirements of New York State law, revenues are allocated among the racing industry, the State of New York, local governments, and the City of New York, as summarized below:

The Racing Industry

Compensation is payable to racing entities at statutory rates on racing wagers related to races at in-state tracks and at contractual rates on racing wagers related to races at out-of-state tracks.

A portion of the statutory payments made to tracks located in the State of New York is paid to New York State horsemen for purse money. These rates range from .25% to 5.50%.

Contributions to the New York State Thoroughbred Breeding and Development Fund are 0.5% of handle derived from bets on thoroughbred or steeplechase races. Contributions to the Agriculture and New York State Breeding and Development Fund are 1.0% of handle derived from bets on harness races.

The New York Racing Association

Actual statutory distributions to the New York Racing Association (NYRA) totaled \$35,073,000 for the nine-month period ended March 31, 2009. However, as a result of the reversal of a prior accrual of \$3,250,000 in respect to a claim in litigation by NYRA that the Corporation had breached a contract respecting simulcasting fees, the sum of \$31,823,000 is shown in that category. The accrual was reversed following the conclusion of the litigation with NYRA in favor of the Corporation.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statutory Distributions (Continued)

State of New York

Pari-mutuel taxes are imposed on the amount wagered at rates determined by the type of wager, type of race and location.

Uncashed pari-mutuel tickets held by the Corporation on April 1, applicable to the preceding calendar year, are distributable to the State of New York. If the payment is not made when due a one time penalty of five percent and interest at the rate of one percent per month is assessed from the due date to the date of payment to the State of New York. For the calendar year ended December 31, 2008, the amount distributable approximated \$2,941,000, none of which was remitted to the State of New York during the nine-month period ended March 31, 2009.

As of June 17, 2008, under Chapter 115 of the Laws of 2008, the Corporation shall use any net amount remaining after payment of taxes and distributions to pay all liabilities of the Corporation that existed as of June 17, 2008 and, thereafter when those liabilities are paid off, any remaining net income will be paid to the State general fund. There are no such amounts available for distribution for the nine-month period ended March 31, 2009.

New York State Racing and Wagering Board Regulatory Fee

The New York Racing, Pari-Mutuel Wagering and Breeding Law requires the payment of regulatory fees to the Racing and Wagering Board. The regulatory fee is levied at .50% of the Corporation's net handle.

Local Governments

Local governments in which tracks reside receive 50% of the surcharge revenue except for Ontario County which receives 5%.

Surcharges Distributed to City of New York

The Corporation is a collection agent for the City of New York for surcharge and surcharge breakage on winnings due from other community off-track betting corporations.

In addition, as of June 17, 2008, under Chapter 115 of the Laws of 2008, the City of New York receives surcharge revenue from revenue earned on OTB wagers on races run at Aqueduct and Belmont Park, and all the remaining surcharge earned by the Corporation not otherwise payable to localities where New York State race tracks are located is retained by the Corporation for its corporate purposes.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Going Concern and Other Uncertainties

At March 31, 2009, the Corporation's current liabilities exceeded its current assets by \$55,762,000, the Corporation has suffered an operating loss of \$25,142,000 in the nine-month period ended March 31, 2009 and the Corporation has a net deficit of \$253,977,000. Over the past several years, the Corporation has experienced continuing mandated increases in personnel and other costs and increases in the statutory distribution requirements of New York State law, including a regulatory fee of .50% of the Corporation's gross handle payable to the New York State Racing and Wagering Board. These factors have resulted in the Corporation being required to make distributions in excess of its operating income before statutory distributions. Management has instituted a number of initiatives to reduce its expenses, including a reduction in workforce and a focus on maximization of branch profitability. These operating initiatives, however, have not been sufficient to offset the increases in expenses and distributions. Management has continued to seek legislative relief since June 17, 2008. There is no assurance that the New York State legislature will adopt the necessary changes to New York State law to provide relief to the Corporation. Without such relief, the Corporation will continue to experience difficulties in making required distributions to the racing industry on a timely basis. Additionally, the racing industry and the Corporation have and continue to face a variety of significant challenges. The financial, legislative and regulatory environment in addition to gaming competition and consumer interest, continue to impact the thoroughbred and harness racing industries. Management continues to focus on and enhance overall operations, combined with new opportunities and initiatives which support and leverage the industry. The financial statements do not include any adjustments that might result from the outcome of the financial uncertainties created by this situation.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of vault cash/deposits at March 31, 2009.

Vault Cash and Deposits

Vault cash and deposits at March 31, 2009 are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Vault cash	\$ 1,899,000	
Deposits	<u>14,802,000</u>	<u>\$ 20,778,000</u>
Total vault cash and deposits	<u>\$ 16,701,000</u>	

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 2 — CASH AND CASH EQUIVALENTS (Continued)

Vault Cash and Deposits (Continued)

Custodial credit risk is the risk that, in the event of a bank failure, the Corporation's deposits might not be recovered. The Corporation has implemented a deposit policy for custodial credit risk. As of March 31, 2009, of the Corporation's bank balance of \$20,778,000, \$20,732,000 was collateralized by US government instruments or insured by the Federal Deposit Insurance Corporation (the "FDIC") or guaranteed by the U.S. Treasury Department, and \$46,000 was uninsured and uncollateralized and exposed to custodial credit risk.

Cash and cash equivalents in the amount of \$1,688,000 are restricted for customer telephone betting account activities at March 31, 2009. As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the New York Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose.

NOTE 3 — CAPITAL ASSETS, NET

The following is a summary of changes in capital assets for the nine-month period ended March 31, 2009:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2009</u>
Office machinery and equipment	\$ 22,426,000	\$ 150,000	\$ 25,000	\$ 22,551,000
Furniture and fixtures	718,000	17,000	-	735,000
Leasehold improvements, principally for branch offices	41,304,000	446,000	1,000	41,749,000
Data processing equipment	5,646,000	816,000	-	6,462,000
Automobiles	1,295,000	23,000	241,000	1,077,000
Total	71,389,000			72,574,000
Less accumulated depreciation and amortization	60,520,000	3,149,000	264,000	63,405,000
Capital Assets, net	<u>\$ 10,869,000</u>			<u>\$ 9,169,000</u>

NOTE 4 — COMPENSATED LEAVE TIME

The Corporation has included in compensated leave time the liability for unused vested sick leave attributable for services rendered by employees with ten years or more of continuous service. The Corporation has also included in compensated leave time the liability for unused vacation leave. Corporate policy is to pay employees for vested unused sick leave and unused vacation leave upon termination. Compensated leave time expenses are included in the operating expenses in the statements of revenues, expenses, and changes in net deficiency.

NOTE 5 — PENSION PLAN

Substantially all full-time employees of the Corporation are members of the New York City Employees' Retirement System ("NYCERS" or the "System"), which is a cost-sharing, multiple-employer public employer retirement system ("PERS").

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 5 — PENSION PLAN (Continued)

Benefits Provided by the System

The System provides retirement as well as death, accident and disability benefits. Benefits vest after five years of credited service depending on date of employment. Certain retirees also receive supplemental benefits.

Benefit and contribution provisions, which are contingent upon the point in time at which the employee last entered qualifying service and length of credited service, are established by New York State law and may be amended only by the New York State Legislature. The System has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service. Employees entering qualifying service on or before July 26, 1976 are enrolled in a noncontributory plan. Employees entering qualifying service after July 26, 1976 are enrolled in a contributory plan, which requires a 3% contribution of their salary.

NYCERS

The Corporation funds accrued pension cost, which represents an amount actuarially computed by NYCERS for employer contributions using the frozen entry age actuarial cost method of funding. NYCERS makes the benefit payments to retired employees of the Corporation.

The following table presents the Corporation's total current-year payroll paid for all employees and covered payroll relating to NYCERS, employer and employee contributions, contributions as a percentage of covered payroll and the percentage of required employer contributions contributed for the years ended June 30, 2008, 2007, and 2006, the latest dates for which such information is available:

	<i>(In Millions)</i>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current-year payroll paid:			
Covered	\$ 43.2	\$ 43.2	\$ 43.3
Total	\$ 65.3	\$ 64.3	\$ 64.1
Required contributions:			
Employer	\$ 7.0	\$ 5.9	\$ 4.8
Employee	\$ 2.7	\$ 2.6	\$ 2.5
Percentage of covered payroll:			
Employer	16.2%	13.7%	11.1%
Employee	6.3%	6.0%	5.8%
Percentage of required employer contributions contributed:	100%	100%	100%

Historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the component unit financial report prepared by NYCERS.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 6 — OTHER POSTEMPLOYMENT BENEFITS

In accordance with collective bargaining agreements, the Corporation provides other post-employment benefits (“OPEB”) which include health insurance, Medicare Part B reimbursements, and welfare fund contributions to eligible retirees and beneficiaries. The Corporation provides basic health care benefits to eligible retirees and dependents at no cost to most of the participants. Basic healthcare premium costs, which are partially paid by the remaining participants, vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the Corporation with at least ten years of credited service (five years of credited service if employed on or before December 27, 2001) as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the Corporation or a Corporation-related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the Corporation or another system approved by the Corporation. The Corporation is not required by law or contractual agreement to provide funding for its OPEB obligation other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries.

The Corporation’s OPEB expense of \$15,821,000 for the nine-month period ended March 31, 2009, was equal to the annual OPEB cost (“AOC”), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Corporation’s annual required contribution (“ARC”) was approximately \$161,104,000 at March 31, 2009. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. The ARC adjustment represents the discounted present value of the balance of the net OPEB obligation at the beginning of the year. The Corporation’s AOC and OPEB obligation for the nine-month period ended March 31, 2009 are composed of the following (as calculated by the Office of the Actuary, the City of New York):

OPEB obligation, beginning of period		\$ 195,658,000
Annual OPEB cost (AOC)		
Annual required contribution (ARC)		
Normal cost	\$ 9,691,000	
Amortization of unfunded actuarial accrued liability over one year	146,743,000	
Interest at 4.0%	4,670,000	
ARC	161,104,000	
ARC Adjustment	(151,124,000)	
Interest on net OPEB obligation	5,841,000	
AOC	\$ 15,821,000	15,821,000
Less: Corporation payments for retired employees’ health care benefits		2,615,000
OPEB obligation, end of period		208,864,000
Less: Current portion of net OPEB obligation		8,095,000
OPEB obligation, non-current		\$ 200,769,000

The Corporation has not funded any of its net OPEB obligation. Non-cash expense of \$13,206,000 was incurred for the nine-month period ended March 31, 2009.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 6 — OTHER POSTEMPLOYMENT BENEFITS (Continued)

For the current period and each of the preceding two years, AOC, percentage of AOC contributed, and the net OPEB obligation at the end of the period/year are as follows:

Year Ended December 31,	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Contributed	Net OPEB Obligation
Nine-month period ended March 31, 2009	\$15,821,000	\$2,615,000	17%	\$208,863,000
Year ended June 30, 2008	\$63,647,000	\$4,942,000	8%	\$195,658,000
Year ended June 30, 2007	\$26,166,000	\$4,738,000	18%	\$136,953,000

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status and the ARC are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The following schedule of funding progress presents information about the actuarial value of assets relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$ -	\$ 195,658,000	\$ 195,658,000	0.0%	\$ 47,124,000	415.2%
6/30/2007	-	180,196,000	180,196,000	0.0%	45,751,000	393.9%
6/30/2006	-	127,654,000	127,654,000	0.0%	42,638,000	299.4%

Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The frozen entry age actuarial cost method was used in the June 30, 2008 actuarial valuation, the basis for the ARC calculation for the nine-month period ended March 31, 2009. The actuarial assumptions used in the June 30, 2008 OPEB actuarial valuation are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations.

NOTE 7 — DEFERRED COMPENSATION PLAN

The Corporation's employees may participate in a deferred compensation plan established by the State of New York in accordance with Internal Revenue Code Section 457. The Plan is available to all employees of the Corporation. All amounts of compensation deferred under the Plan, and all income attributable to such compensation, are held in a trust for the exclusive benefit of the participants and their beneficiaries, and not included in the financial statements of the Corporation. The contributions are invested in mutual funds.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 8 — COMMITMENTS

Leases

Minimum rental commitments under the terms of all non-cancelable real property leases in effect at March 31, 2009 are summarized below:

<u>Year Ending March 31,</u>	<u>Amount</u>
2010	\$ 17,785,000
2011	17,218,000
2012	15,910,000
2013	15,270,000
2014	14,275,000
2015 - 2019	55,761,000
2020 - 2024	14,627,000
Aggregate commitment	<u><u>\$150,846,000</u></u>

In addition to the fixed rentals, certain of these leases provide for payments of taxes and other costs. Rental expense for property under the lease agreements for the nine-month period ended March 31, 2009 was \$15,097,000.

Agreement with City of New York

The Corporation has an agreement with the City of New York, dated June 16, 2008, regarding continued use of governmental cable channels for carriage of government programming produced by the Corporation. Under this agreement, the City of New York continues its practice of transmitting programming delivered by the Corporation on government use channels as part of the City's activity of providing government use programming to cable television subscribers, and the Corporation assists in offsetting costs incurred by the City in facilitating the provision and transmission of such government use programming by paying the City annually an amount equal to \$3.25 million. This agreement expires on June 15, 2011.

NOTE 9 — CONTINGENCIES

In the normal course of business, the Corporation is involved in legal proceedings, including labor and collective bargaining, safety, liability, insurance and other matters. The Corporation accrues a liability, if any, for such matters when it is possible that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The Corporation believes it has meritorious defenses to these proceedings and intends to vigorously defend them. Also, the Corporation believes that the liability, if any, that may ultimately result from the resolution of these proceedings, in excess of amounts provided for at March 31, 2009, will not have a material adverse effect on the financial condition of the Corporation.

NEW YORK CITY OFF-TRACK BETTING CORPORATION

(A Component Unit of the State of New York)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

NOTE 10 — CAPITAL ACQUISITION FUND

Beginning in July 1990, the Corporation established a Capital Acquisition Fund (the "Fund"). As of June 17, 2008, under Chapter 115 of the Laws of 2008, all funds accumulated in the capital acquisition fund, established pursuant to section 609-a of the Racing, Pari-Mutuel Wagering and Breeding Law, prior to July 1, 2008 or deposited into such fund thereafter are available to the Corporation for any corporate purpose. The Fund has been consolidated with the operating accounts of the Corporation and is included in the accompanying financial statements.

The assets, liabilities and net assets of the Capital Acquisition Fund are included in the following statement of net assets' captions at March 31, 2009:

Assets	
Restricted cash and cash equivalents	\$ 25,000
Capital assets, net	<u>7,739,000</u>
Total assets	<u>\$ 7,764,000</u>
Liabilities and Net Assets	
Liabilities	
Other long-term liabilities	<u>\$ 25,000</u>
Total liabilities	<u>25,000</u>
Net Assets	
Invested in capital assets, net of related debt	7,714,000
Restricted for acquisition of capital assets	<u>25,000</u>
Total net assets	<u>7,739,000</u>
Total liabilities and net assets	<u>\$ 7,764,000</u>

The Fund's related activity for the nine-month period ended March 31, 2009 follows:

Operating Revenues	
Capital acquisition surcharge	<u>\$ 2,491,000</u>
Total operating revenues	<u>\$ 2,491,000</u>
Operating expenses	
Depreciation and amortization	\$ 2,900,000
Other - transfer to the Corporation	<u>9,188,000</u>
Total operating expenses	<u>12,088,000</u>
Change in net assets	(9,597,000)
Total net assets, beginning of year	<u>17,336,000</u>
Total net assets, end of year	<u>\$ 7,739,000</u>

SUPPLEMENTARY INFORMATION

NEW YORK CITY OFF-TRACK BETTING CORPORATION
(A Component Unit of the State of New York)
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES (UNAUDITED)
Nine-Month Periods Ended March 31, 2009 and 2008

	Nine-Month Period Ended March 31, 2009	Nine-Month Period Ended March 31, 2008
Net handle	<u>\$ 657,628</u>	<u>\$ 741,654</u>
Operating revenues		
Earned on handle	\$ 134,787	\$ 150,270
Distributable surcharge and surcharge breakage	2,988	13,634
Capital acquisition surcharge	2,491	2,758
Surcharge received from other OTB communities	1,490	1,715
Breakage	2,720	3,101
Uncashed pari-mutuel tickets allocable to State of New York	1,990	2,293
Revenue derived from surcharge	15,508	6,954
Other	881	1,653
Total operating revenues	<u>162,855</u>	<u>182,378</u>
Operating expenses		
Operations	83,826	83,488
Administrative and selling	10,771	10,568
Depreciation and amortization	3,149	2,815
Annual other postemployment benefits cost - Medicare Part B adjustment	-	30,511
Annual other postemployment benefits cost - Other	15,821	16,778
Total operating expenses	<u>113,567</u>	<u>144,160</u>
Operating income before statutory distributions	<u>49,288</u>	<u>38,218</u>
Statutory distributions		
Compensation and payments to the racing industry other than The New York Racing Association	28,152	30,336
The New York Racing Association	31,823	39,043
State of New York	6,653	7,516
New York State Racing and Wagering Board Regulatory Fee	3,288	3,708
Local governments	1,652	1,784
Surcharge received from other OTB communities	1,490	1,715
Surcharge earned for and distributed to City of New York	1,372	11,851
Total statutory distributions	<u>74,430</u>	<u>95,953</u>
Operating loss	<u>\$ (25,142)</u>	<u>\$ (57,735)</u>

The Unaudited Supplementary Information included in the Comparative Statements of Revenues and Expenses is presented for information purpose only.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
New York City Off-Track Betting Corporation

We have audited the financial statements of New York City Off-Track Betting Corporation (Corporation), a component unit of the State of New York, as of and for the nine-month period ended March 31, 2009, and have issued our report thereon dated June 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New York City Off-Track Betting Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New York City Off-Track Betting Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New York City Off-Track Betting Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects New York City Off-Track Betting Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of New York City Off-Track Betting Corporation's financial statements that is more than inconsequential will not be prevented or detected by New York City Off-Track Betting Corporation's internal control. We consider the deficiencies described in the following paragraphs to be significant deficiencies in internal control over financial reporting.

Establishment, Implementation and Monitoring of Accounting Policies and Procedures

It was noted during our audit procedures that well-defined accounting policies and procedures have not matured, and certain reviews and reconciliations have not consistently or continuously been maintained or monitored. We recommend that the corporation review staffing, prioritization and accounting process efforts so as to enhance and achieve a stronger financial accounting reporting function critical to the nature of NYCOTB's success.

Additionally, the Internal Audit (IA) function is intended to monitor and report on certain accounting and internal control activities. As a result of continued staffing challenges, and the broader charge of the IA group, the effectiveness of its oversight and assessment has been diluted. We recommend that consideration be given to staffing needs as well as a more studied risk based assessment conducted by the IA group so as to incorporate today's best practices in accounting, information technology, industry-wide regulatory compliance and anti-money laundering challenges.

Segregation of Duties

It was noted during our audit that segregation of duties was not maintained through independent preparation and review of reconciliations in several audit areas. Both accrual and asset accounts were prepared without independent review by informed personnel. We recommend that management incorporate proper controls for segregation of duties in all financial reporting areas.

Lease Agreements

It was noted during our audit procedures that certain real property leases include escalation clauses in contemplation of NYCOTB's continued possession and control of the properties. Rental payments, including escalated rent clauses, should be recognized as rental expense on a straight-line basis over the lease term. An adjustment for such covenants has been recorded in the current and prior fiscal year. We recommend continued monitoring of new and amended real property leases so as to reflect the appropriate accounting treatment consistent with generally accepted accounting principles.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by New York City Off-Track Betting Corporation's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New York City Off-Track Betting Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the following finding.

Compliance with Investment Policy

The Corporation, as required by guidelines set forth by the Office of the State Comptroller, must maintain compliance with its written investment policy as approved by its governing board. According to the investment policy of the Corporation, "Collateral must equal more than 102 percent of the principal and expected interest at the time of maturity." During the nine-month period ended March 31, 2009, the Corporation is not in compliance with the policy of obtaining collateral of 102 percent, as they maintained collateral of 100 percent.

This report is intended solely for the information and use of management, Board of Directors, the Office of the New York State Comptroller, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

New York, New York
June 23, 2009

EXHIBIT C

For the Six Months Ending September 30, 2009

	<u>09/30/09</u>	<u>08/31/09</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$7,541,321	\$7,687,012
Investments	7,456,009	7,202,763
Accounts Receivable	148,338	207,379
Prepaid Expenses and Other Assets	<u>1,261,198</u>	<u>1,409,603</u>
TOTAL CURRENT ASSETS	<u>16,406,866</u>	<u>16,506,756</u>
PROPERTY AND EQUIPMENT		
Fixed Assets - Cost	31,428,300	31,415,385
Less: Accumulated Depreciation	<u>(29,972,187)</u>	<u>(29,943,055)</u>
Fixed Assets - Net	<u>1,456,113</u>	<u>1,472,330</u>
Leasehold Improvements - Cost	41,897,589	41,891,085
Less: Accumulated Amortization	<u>(41,292,420)</u>	<u>(41,285,956)</u>
Leasehold Improvements - Net	<u>605,169</u>	<u>605,129</u>
NET PROPERTY & EQUIPMENT	<u>2,061,281</u>	<u>2,077,460</u>
TOTAL ASSETS	<u>\$18,468,147</u>	<u>\$18,584,216</u>
CURRENT LIABILITIES		
Accounts Payable	\$47,702,493	\$47,076,327
Accrued Expenses	19,155,020	17,425,740
Outstanding Pari-Mutuel Tickets	568,659	666,448
Telephone Betting Accounts	1,514,569	1,611,771
Post Employee Benefits	<u>5,972,000</u>	<u>5,972,000</u>
TOTAL CURRENT LIABILITIES	<u>74,912,742</u>	<u>72,752,286</u>
LONG TERM LIABILITIES	6,982,887	6,970,721
L/T POST EMPLOYMENT BENEFITS	201,020,000	201,020,000
UNDISTRIBUTED NET REVENUE PAYABLE		
Local Government's Other Than NYC	309,200	484,364
New York State	5,562,451	5,352,203
Surcharge to NYC From Regional OTB's	46,796	71,535
Surcharge to NYC	44,201	
NYCOTB Residual/(Deficit)	<u>(270,410,130)</u>	<u>(268,066,894)</u>
TOTAL UNDISTRIBUTED NET REVENUE	<u>(264,447,482)</u>	<u>(262,158,791)</u>
TOTAL LIABILITIES AND UNDISTRIBUTED NET REVENUE	<u>\$18,468,147</u>	<u>\$18,584,216</u>

New York City Off-Track Betting Corporation
Statement of Net Revenue Available for Distribution
For the Month Ending September 30, 2009

10/19/09

	September	%	YTD FY 2010	%
Total Handle	\$64,088,732.60	100.00%	\$441,375,320.70	100.00%
Betting Revenue	\$13,328,290.74	20.80%	\$90,732,549.27	20.6%
Breakage	271,260.63	0.42%	1,836,655.33	0.42%
Unclaimed Tickets	198,000.00	0.31%	1,446,113.31	0.33%
Distributable Surcharge & Surcharge Breakage	353,400.92	0.55%	2,243,926.18	0.51%
Retained Surcharge For Operations	1,465,179.39	2.29%	10,241,721.03	2.32%
Capital Acquisition Fund	246,932.57	0.39%	1,677,054.67	0.38%
Other	73,167.39	0.11%	506,795.20	0.11%
Total Revenue	15,936,231.64	24.87%	108,684,814.99	24.62%
Branch Operations	7,875,351.04	12.29%	46,676,193.43	10.58%
Indirect Operations	2,085,530.42	3.25%	12,166,833.34	2.76%
Administrative Expenses	1,309,473.75	2.04%	7,419,810.71	1.68%
Advertising	35,550.00	0.06%	342,916.22	0.08%
Amortization & Depreciation	234,109.99	0.37%	1,398,017.28	0.32%
Total Expenses	11,540,015.20	18.01%	68,003,770.98	15.41%
Net Revenue Before Interest Earned	4,396,216.44	6.86%	40,681,044.01	9.22%
Interest Earned	3,636.09	0.01%	34,085.67	0.01%
Net Revenue Including Interest	4,399,852.53	6.87%	40,715,129.68	9.22%
Add: Surcharge From Other OTB's	46,796.78	0.07%	507,239.51	0.11%
Amortization & Depreciation Capital Acquisition Assets	198,513.22	0.31%	1,196,112.40	0.27%
Revenue Available For Distribution	\$4,645,162.53	7.25%	\$42,418,481.59	9.6%
Net Revenue Available for Distribution to The Racing Industry				
Participating Tracks	\$5,186,357.26	8.09%	\$38,273,310.66	8.7%
Breeding Funds	473,332.72	0.74%	3,198,065.27	0.72%
Total Racing Industry	5,659,689.98	8.83%	41,471,375.93	9.40%
NYS & Local Governments				
Revenue Earned for New York State	608,067.07	0.95%	4,682,648.05	1.06%
Surcharge Earned for Local Governments	309,200.41	0.48%	1,759,894.83	0.40%
Surcharge Earned for New York City	44,200.51	0.07%	484,031.35	0.11%
Surcharge From Other OTB's to New York City	46,796.78	0.07%	507,239.51	0.11%
Total New York State & Local Governments	1,008,264.77	1.57%	7,433,813.74	1.68%
NYS Racing & Wagering Board Regulatory Fee	320,443.66	0.50%	2,206,876.60	0.50%
NYCOTB Excess Revenue Over Expense	(2,343,235.88)	(3.66%)	(8,693,584.68)	(1.97%)
Revenue Available for Distribution	\$4,645,162.53	7.25%	\$42,418,481.59	9.6%

New York City Off-Track Betting Corporation
 Schedule of Expenses
 For the Six Months Ending September 30, 2009

10/19/09

EXPENSE CATEGORY	September			Year To Date			
	TOTAL	BRANCH AND TELEPHONE BETTING	ADMIN	TOTAL	BRANCH AND TELEPHONE BETTING	INDIRECT	ADMIN
SALARIES AND WAGES	\$5,177,119.79	\$3,654,928.64	\$523,415.52	\$31,816,053.63	\$22,642,575.42	\$6,029,786.28	\$3,143,691.93
FRINGE BENEFITS	2,753,708.71	1,994,338.13	250,066.25	14,273,588.44	10,189,083.93	2,671,902.84	1,412,601.67
RENT	1,700,418.06	1,341,288.13	279,809.47	10,116,223.23	8,069,679.25	361,590.08	1,684,953.90
HEAT, LIGHT & UTILITIES	225,091.80	149,121.32	66,493.99	1,274,824.77	882,034.68	70,120.63	322,669.46
CLEANING	11,564.77	11,618.63	0.00	115,569.47	79,941.09	32,828.38	2,800.00
EQUIPMENT RENTAL	4,763.87	0.00	60.00	9,937.79	3,616.00	6,261.79	60.00
REPAIR & MAINTENANCE	70,380.15	1,709.20	231.25	673,543.35	189,165.87	478,209.44	6,168.04
STATIONERY & SUPPLIES	23,545.66	1,514.23	223.80	210,838.32	3,591.83	199,295.89	7,950.60
TICKETS	6,488.46	6,488.46	0.00	42,959.03	42,959.03	0.00	0.00
TELEPHONE & DATA LINES	178,724.81	150,796.73	624.95	1,136,538.73	932,633.12	200,126.52	3,779.09
OUTSIDE COMPUTER SERVICES	185,744.94	159,515.09	0.00	1,122,118.76	953,961.32	168,157.44	0.00
AUDITING & OTHER PROFESSIONAL SERVICES	198,978.05	198,978.05	0.00	1,237,264.57	1,237,264.57	0.00	0.00
GUARD & OTHER SECURITY SERVICES	45,417.58	0.00	32,437.11	197,364.44	0.00	9,757.11	187,607.33
BROADCASTING	72,566.03	68,410.46	0.00	461,844.91	432,560.77	29,284.14	0.00
PROMOTIONS & PUBLIC AFFAIRS	267,123.30	0.00	0.00	1,629,452.12	0.00	1,629,452.12	0.00
REIMBURSED EMPLOYEE EXPENSES	(6,445.24)	0.00	(6,445.24)	85,981.14	0.00	0.00	85,981.14
INSURANCE	2,822.20	0.00	2,520.16	16,116.67	2,000.00	2,526.13	11,590.54
INTERFACE REIMBURSEMENT	195,262.83	97,498.11	53,932.90	1,165,611.79	715,277.43	218,457.54	231,876.82
OTHER EXPENSES AND SERVICES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	157,079.44	39,145.86	106,103.59	677,006.32	299,849.12	59,077.01	318,080.19
	\$11,270,355.21	\$7,875,351.04	\$2,085,530.42	\$66,262,837.48	\$46,676,193.43	\$12,166,833.34	\$7,419,810.71

New York City Off-Track Betting Corporation
Statement of Cash Flows
For the Month Ending September 30, 2009

10/19/09

September

Cash Provided By:

Operations:

Net revenue available for distribution after payments to racing industry	(\$1,014,097)
Surcharge Receivable From Other OTB's	(46,797)
Amortization and depreciation	35,597
Accrual and other non-cash transactions	1,543,016
Prepaid Expenses	<u>148,405</u>

Cash Provided By Operations \$666,123

Increase in liability for unclaimed tickets and telephone betting account balances	32,790
Surcharge Receivable from other regional OTB's	<u>46,797</u>

Total Cash Provided \$745,709

Cash Applied:

Payments to New York City:

Payment of surcharge from other regional OTB's	<u>71,536</u>
--	---------------

Total Payments to New York City \$71,536

Payments to New York State:

Pari-Mutuel tax	423,955
Breakage	2,365
Admissions Tax	<u>1,280</u>

Total Payments to New York State \$427,600

NYS Racing & Wagering Board Regulatory Fee (\$32,740)

Payments to Other Local Governments:

City of Yonkers	32,032
Sullivan County	17,654
Ontario County	3,917
Saratoga County	423,669
Oneida County	2,301
Western Region	1,683
Tioga County	<u>3,109</u>

Total Payments to Other Local Governments: \$484,364

Other (Including Advances To Tracks) (332,024)

Additions to Property & Equipment	<u>19,418</u>
-----------------------------------	---------------

Total Cash Provided \$638,154

Increase in cash and cash equivalents	<u>\$107,556</u>
---------------------------------------	------------------

Cash and cash equivalents, beginning of period	<u>\$14,889,775</u>
--	---------------------

Cash and cash equivalents, end of period	<u>\$14,997,331</u>
--	---------------------