

PERFORMANCE AUDIT REPORT

**Reviewing the Operations of
Wichita Greyhound Park**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 1996**

Legislative Post Audit Committee

Legislative Division of Post Audit

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PERFORMANCE AUDIT REPORT

REVIEWING THE OPERATIONS OF WICHITA GREYHOUND PARK

OBTAINING AUDIT INFORMATION

This audit was conducted by McBride, Lock & Associates, a certified public accounting firm under contract with the Division. If you need any additional information about the audit's findings, please contact Leo Hafner, Performance Audit Manager, at the Division's office.

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REVIEWING THE OPERATIONS OF
WICHITA GREYHOUND PARK

During the 1995 legislative session, owners of Kansas race tracks approached the Kansas Legislature for authorization to have slot machines located on race track property. Track owners cited stiff competition from riverboat gambling in Missouri, and suggested that if casino-style gambling operations were not allowed at the tracks, they likely would have to cease racing operations.

Legislators raised questioned about whether the financial conditions at the race tracks were as bleak as the owners stated. They also expressed concerns about whether the owners were profiting from certain financial arrangements between themselves, the tracks, and the other entities with which they do business. Legislators also expressed concerns about the level of charitable contributions provided by track operations, whether all regulatory requirements were being met, and whether races were being run as required.

As part of the appropriations process, the 1995 Legislature enacted legislation calling for one or more audits of entities regulated by the Kansas Racing Commission. The audits were to address various aspects of the entities' financial operations, as well as their compliance with State law and Racing Commission regulations.

The law required the scope of each audit to be reviewed and approved by the Legislative Post Audit Committee. Also, it required the Racing Commission to reimburse the Division of Post Audit for any expenses incurred in conducting the audits.

At its May 11, 1995 meeting, the Legislative Posit Audit Committee approved audits of the entire racing industry in Kansas, including the three major race tracks, related licensees, and the Kansas Racing Commission. The Committee directed Legislative Post Audit to conduct the audits of the Woodlands and the Racing Commission. It approved contracting out the audits of Wichita Greyhound Park, Camptown Greyhound Park, and the parimutuel tote system provided to all three race tracks by United Tote Company.

McBride, Lock & Associates was contracted to conduct the performance audit of Wichita Greyhound Park, located in Valley Center, Kansas. The audit answers the following questions:

1. What entities or individuals have had significant involvement in the track's operations, and have they benefitted financially?

2. Has the Wichita Greyhound Park complied with applicable requirements for its operations?

To answer these questions, we reviewed the 1994 financial audit reports for Wichita Greyhound Park, Inc. (the owner and manager of the facility) and Wichita Greyhound Charities (the nonprofit organization that holds the racing license for the track). To identify ownership and beneficial interests in the track, we reviewed income tax returns, mortgages, notes, and other financial documents related to the track and financial and ownership reports on file with the Secretary of State, the Department of Revenue, and the Racing Commission.

We also reviewed payments made by check in 1994 and 1995 (through October 9). In addition, we looked at electronic funds transfers for 1994 and 1995. We reviewed the track's internal controls over cash revenues. We interviewed the Racing Commission's auditor for the track to assist in determining whether the track was in compliance with a number of statutes and regulations, and we conducted additional testwork in the areas of employee licensing, filing of contracts, ownership of race animals, and the number and type of races run.

In conducting this audit work, we followed the applicable government auditing standards set forth by the U.S. General Accounting Office.

In general, we found that a number of individuals and entities have been involved in the operation of Wichita Greyhound Park. The track was initially owned by nine shareholders, but in 1991 a major change in ownership occurred. As a result, Mr. Harold Ripps and Mr. Herbert Meisler purchased and now own controlling interest in the track. The former stockholders realized gains of approximately \$8.5 million through the sale of their stock shares.

Wichita Greyhound Park has made payments in excess of \$15.2 million to current and former shareholders, as well as to companies owned by shareholders. The amounts included income distributions, consulting fees, loan guarantee fees, salaries, travel, and purchase of treasury stock.

In order to obtain favorable financing terms from the track's main lender, AmSouth Bank, the individual stockholders, Mr. Ripps and Mr. Meisler, have personally guaranteed payment on the track's outstanding debt of approximately \$12.4 million. Thus, these individuals stand to lose the most if the track does not survive.

Wichita Greyhound Charities, the nonprofit organization which has been granted the license to operate parimutuel racing at the track, has received a percentage of the amounts wagered to distribute to charities. Since the track was built, this agency has distributed over \$3.7 million to charity organizations within

the State. Annual charitable distributions have been in decline over the last few years, as wagering at the track has decreased. However, the agency's administrative expenses, which are netted from revenues prior to determining charity payments, have remained generally constant despite the revenue decline.

We found that Wichita Greyhound Park appears to be in compliance with all the regulatory requirements we reviewed, except that it had not fully complied with requirements to submit all contracts to the Kansas Racing Commission.

These and other findings are described in more detail, following an overview of parimutuel racing at Wichita Greyhound Park.

Overview of Parimutuel Racing at Wichita Greyhound Park

In 1986, Kansas voters passed a constitutional amendment to allow parimutuel horse racing and greyhound racing in the State. The 1987 Legislature created the Kansas Racing Commission to administer the provisions of the Kansas Parimutuel Racing Act. The Act also included legislation that defined the structure of the racing industry in Kansas.

According to Kansas statutes, races must be conducted by a nonprofit organization licensed by the Commission. The nonprofit organization is required to distribute all of its earnings, less any necessary operating expenses, to charitable organizations within Kansas. It may however, enter into a contract with another party to construct and manage track facilities. The facility owner/manager and any person working at the facility also must be licensed by the Commission.

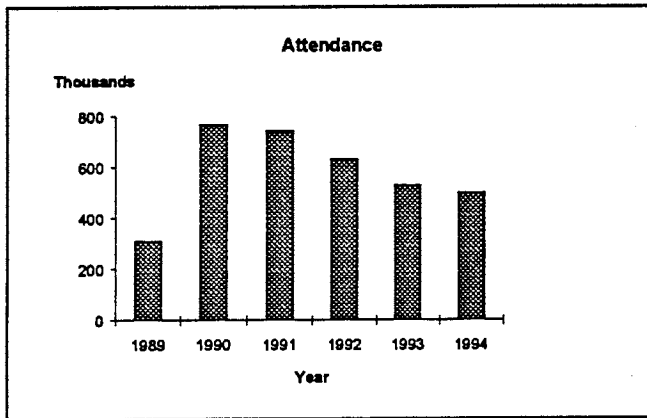
The Commission initially received several applications for licenses to construct and operate greyhound or horse racing facilities in the Wichita area. In 1988, the commission approved a joint application from two development groups - one Kansas-based and the other Alabama-based for a greyhound race track. The licenses were issued to Wichitans for Charitable Control of Parimutuel Racing, Inc., a nonprofit group, and WGT, Inc., a for-profit company. These entities later changed names to Wichita Greyhound Charities, Inc. and Wichita Greyhound Park, Inc.

Wichita Greyhound Park, which is located in Valley Center, Kansas, approximately 15 miles north of Wichita, began operations in 1989. The facility was constructed at a cost of \$13.7 million. The track conducted 415 performances in 1994 and employs approximately 300 persons.

As part of our audit, we examined the attendance, revenues, expenses and net income of the track over the past few years. The purpose of the analysis was to identify whether Wichita Greyhound Park has experienced significant declines in any of those areas and whether any correlation could be made to the opening of riverboat casinos in Missouri.

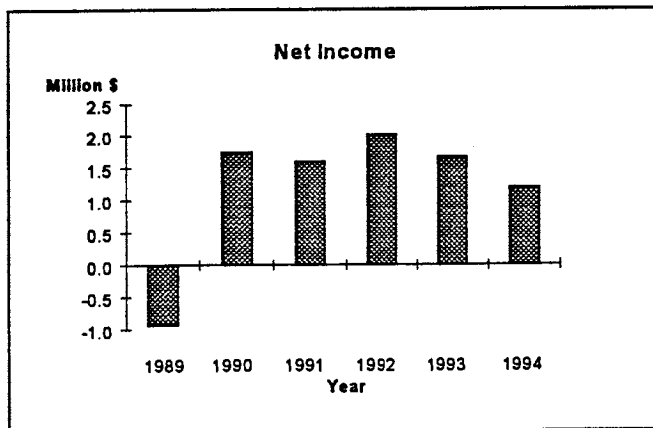
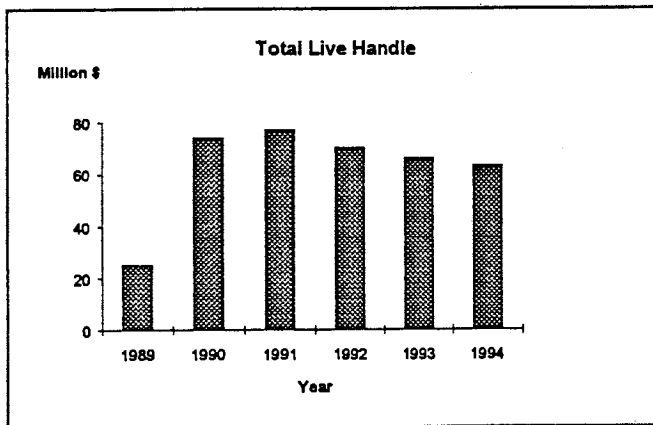
Overall

As the graphs below illustrate, attendance and total live handle at Wichita Greyhound Park (WGP) has consistently declined since 1991 and net income has decreased since 1992. The 1994 net income of \$1,193,018, represents WGP's smallest profit to date (excluding 1989 when the park opened). The number of performances and expenses has decreased since 1991. One reason for the decline in expenses is the decrease in performances. The fact that expenses have not declined at the same rate as attendance is indicative of the influence of fixed costs.



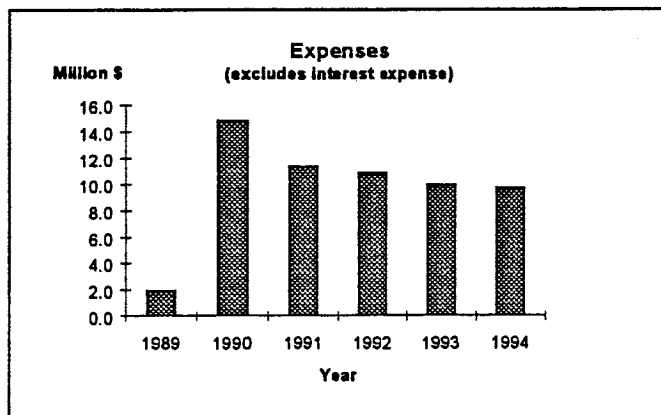
Attendance 1990 - 1994

Attendance declined 2.9% in 1991, 14.9% in 1992, 16.3% in 1993 and 5.7% in 1994. Overall, the total attendance in 1994 represents a 35% decline from the 1990 figure. One explanation for a decrease in total attendance is the decrease in the number of performances. In 1991 there were 448 performances, 1992 had 435 performances, while both 1993 and 1994 had 415 performances. Further analysis indicates that the attendance decline is more a factor of the decrease in average per performance attendance than the result of the lesser number of performances. The initial significant decline in attendance in 1992 and 1993 may be due to the diminishing effect of the novelty factor of the park. The smaller attendance decline in 1994 may suggest that the attendance pattern is stabilizing at a more constant level. It may also suggest that the introduction of simulcast races in June 1994 created a slight lift in the downward trend.



As reported in the Woodlands Performance Audit Report by the Legislative

Division of Post Audit, the decline in all parimutuel wagering has been aggravated by the expansion of casino gambling at Indian reservations across America, the emergence of riverboat and small-stakes casinos in the Midwest and South Central states, and video poker machines in bars and taverns across America, according to *LaFleur's 1995 World Gambling Abstract*.



In addition, information obtained by Legislative Post Audit from the American Greyhound Track Operators Association states that live attendance at dog tracks has declined 3.5% between 1984 and 1994. The 1994 rate of decline in attendance suggests the stabilization of attendance from the larger declines witnessed in the first few years of operation.

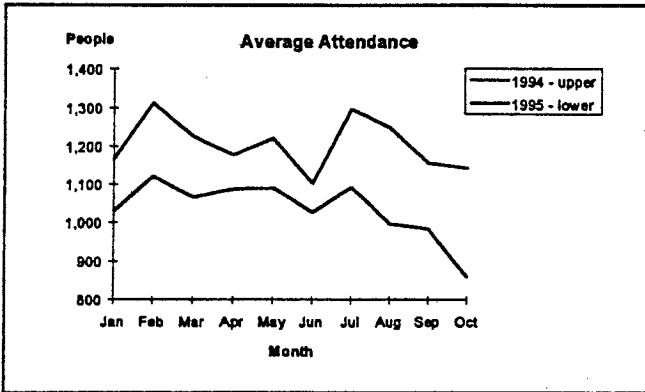
Handle 1990 - 1995

While attendance and handle are highly correlated (as attendance declines, live handle declines), the rate of decline in live handle has not been as dramatic as the rate of decline in attendance - 9.8% in 1992, 5.2% in 1993 and 4.9% in 1994. The disparity between attendance and handle trends suggests that

Year	Live Per Capita	Total Per Capita
1990	97.40	97.40
1991	104.27	104.27
1992	110.54	110.54
1993	125.25	125.25
1994	126.56	131.49
1995*	121.93	139.25

although less people are attending the races, the ones going are betting more. Live per capita (amount wagered per person per performance) has increased slightly each year, an average of 6.5% in 1991 and 1992 with the greatest increase, 13.3%, in 1993. In 1994, per capita showed only a 0.9% increase. The live per capita for January

through October 1995 is \$121.93. This represents a 3.7% decline from the \$126.56 live per capita for the same period in 1994. However, simulcasting, which was started in June of 1994, increased the total per capita handle taken in by 4.0% in that year and 14% in 1995. Including simulcasting handle, this produces a total per capita of \$131.49 in 1994 and \$139.25 in 1995 which continues the slight upward trend in per capita that has existed in previous years. Overall, simulcast handle has significantly increased since its start. In June of 1994, the simulcast handle was \$254,139, in June of 1995 it was \$605,553 and in October of 1995 it was \$716,793. The increase in total per capita, decrease in live per capita, overall decrease in handle and attendance suggests simulcast racing did not draw any



net additional gamblers to the park. However it has increased overall wagering per individual.

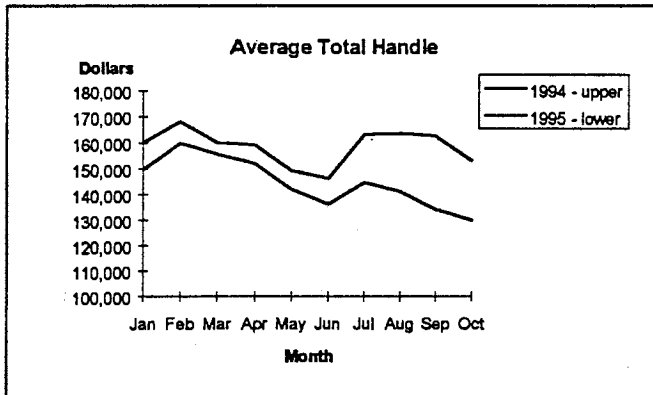
Seasonality

As the following graph illustrates, it is apparent that a seasonality trend in attendance and total amount wagered exists. July consistently has one of the highest attendance months.

This is due to the Fourth of July holiday when special promotions are held. An attendance peak has historically existed in either February or March. Management attributes this peak partly to the first signs of warmer weather which attract people to the park. June and October have historically been low attendance months. The WGP management can only theorize as to the reasons.

The yearly attendance trends show that while the mean value continues to shift downward each year, the variance around the mean also continues to decrease. The overall yearly attendance trend is becoming "smoother", the difference between extreme values, high and low attendance months, has been declining since 1992. In 1992, there was a 43% difference between the highest and lowest attendance figures. The difference was 34% in 1993,

19% in 1994 and is currently 20% in 1995 (For January through October). This may also suggest that the novelty of the park is diminishing and attendance is starting to stabilize.



Recent Developments

The average attendance for January through May of 1994, the months prior to riverboat gambling, was

1,221 people per performance. This represents a 5.5% decline from 1993 when the average attendance for the same months was 1,292 people per performance. In 1995, the average attendance for January through May was 1,080 people per performance which represents an 11.5% decline from 1994. The decline worsened during July through October 1995 to 19% below the attendance levels from the same period in the prior year (227 people on average).

January - May	1993	1994	1995
Average Attendance (people)	1,292	1,221	1,080
Average Live Handle (\$)	166,019	159,285	135,506
Average Total Handle (\$)	166,019	159,285	151,777

Average amount wagered per live performance has also shown a significant decline in 1995. Average live handle per performance in January through May of 1994, the months prior to riverboat gambling, was \$159,285. This represents a 4.1% decline from the average live handle per

performance in 1993 for the same months. In 1995, the average handle per performance for January through May declined 14.9% from the previous year. However, if simulcast handle is included in the 1995 figure, the average amount bet per performance is \$151,777 which is only a 4.7% decline from 1994 which is consistent with the overall downward trend in handle. Since overall attendance and handle continues to decline, it would not appear that simulcasting has provided the impetus to attract new gamblers.

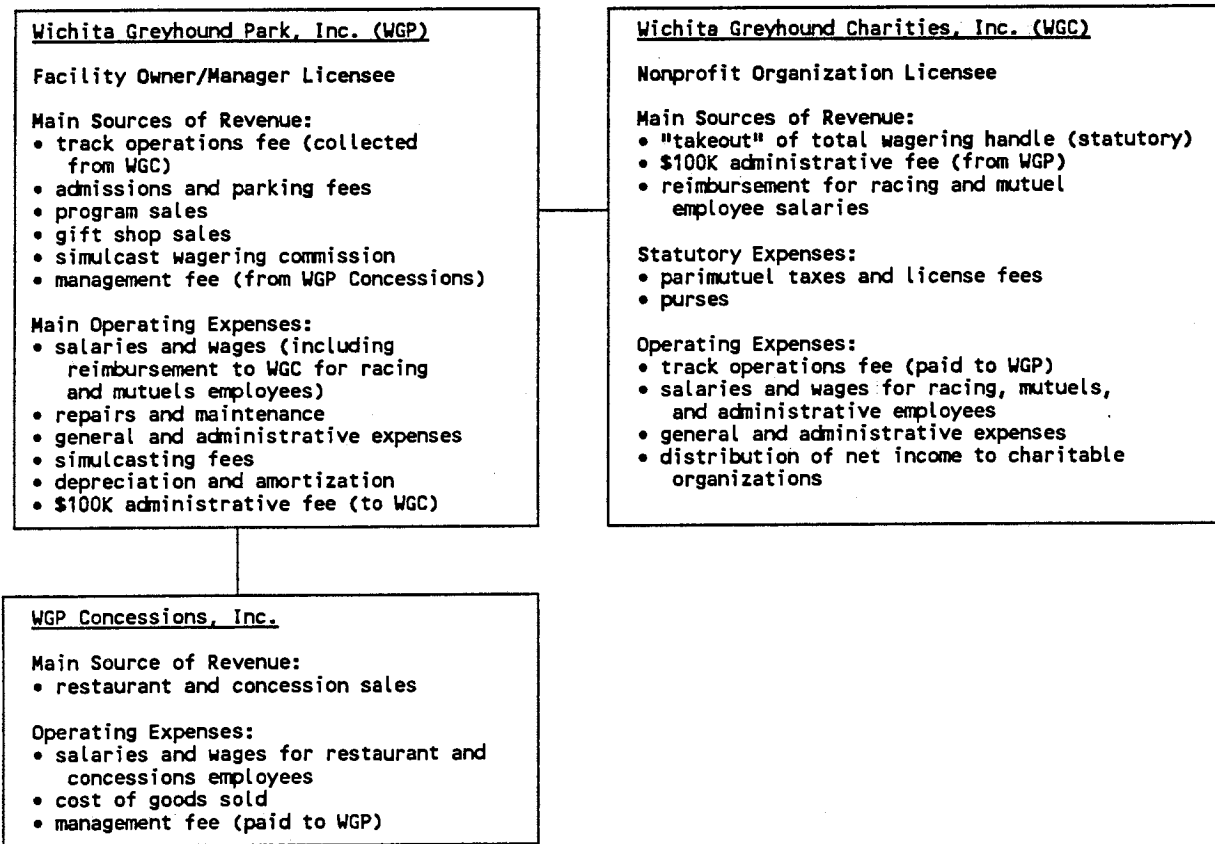
While the decline in handle between 1994 and 1995 for the months prior to June is somewhat significant, the decline in handle for July through October appears even more so. For the months of January through May, the 1995 average daily handle has only shifted down slightly from 1994, an average difference of only \$7,508. However, after June, the difference increased to an average of \$23,149. Combined with the decline in attendance, this indicates a further deterioration in the activity at the track.

Summary

Wichita Greyhound Park has experienced declines in attendance since its first full year of operation in 1990. The continued significant decrease in attendance and the smaller decrease in handle over the past few years suggests that fewer casual gamblers are attending but that there may be a base level of gamblers that continue to wager on the races. However, it appears as if this wagering is shifting from the live races to the simulcast. The attendance and handle declines have been the primary factors determining the track's decreasing profitability. These declines are likely the result of a mix of many factors, including the opening of riverboat casinos in Missouri and the general downturn in the parimutuel industry.

**What Entities or Individuals Have Had
Significant Involvement in Wichita Greyhound Park's Operations
and Have They Benefitted Financially?**

The entities involved in the track's operation include Wichita Greyhound Park, Inc., the facility owner/manager; WGP Concessions, Inc., the track's concessionaire; and Wichita Greyhound Charities, Inc., the nonprofit organization that holds the racing license. The chart below summarizes the relationships between these organizations:



The operations of both Wichita Greyhound Park and Wichita Greyhound Charities are specified in a 1988 control agreement and subsequent amendments in 1989 and 1991. These documents were approved by the Kansas Racing Commission in conjunction with the track's initial licensing and subsequent operation.

Track Ownership and Stock Transactions

Wichita Greyhound Park, Inc. (initially incorporated as WGT, Inc.) was formed in 1988 to construct and manage a greyhound race track. The corporation initially raised \$1 million through the

issuance of 100,000 shares of stock to nine shareholders as set forth below.

<u>Shareholder</u>	<u>Shares Purchased</u>	<u>Consideration</u>
Harold Ripps	12,500	\$ 125,000
Herbert Meisler	12,500	125,000
Herman Maisel	12,500	125,000
Elliott Maisel	12,500	125,000
Wayne Strong	30,000	300,000
Yale Kaplan	6,667	66,667
Carl Chuzy	6,667	66,667
Calvin McMillan	3,333	33,333
Robert Kaplan	<u>3,333</u>	<u>33,333</u>
Total	<u>100,000</u>	<u>\$1,000,000</u>

The ownership interest remained unchanged until January, 1990, when Ed Kress purchased a total of 2,500 non-voting shares from certain stockholders at \$10 per share. Also in 1990, Mr. Meisler transferred some of his stock shares to his children for estate planning purposes.

In 1991 a major change of ownership occurred. Mr. Ripps and Mr. Meisler bought out all of the other initial stockholders at a price of \$125 per share. As a result, these stockholders realized significant capital gains as follows:

<u>Shareholder</u>	<u>Proceeds from Stock Sale</u>	<u>Book Value of Stock</u>	<u>Capital Gain</u>
H. Maisel	\$1,484,375	\$118,750	\$1,365,625
E. Maisel	1,484,375	118,750	1,365,625
W. Strong	3,750,000	300,000	3,450,000
Y. Kaplan	833,375	66,667	766,708
C. Chuzy	833,375	66,667	766,708
C. McMillan	416,625	33,333	383,292
R. Kaplan	<u>416,625</u>	<u>33,333</u>	<u>383,292</u>
Total	<u>\$9,218,750</u>	<u>\$737,500</u>	<u>\$8,481,250</u>

The above shareholders were paid in cash except Herman and Elliott Maisel, who received 5-year notes in lieu of cash payments. (The notes to Herman and Elliott Maisel were paid in 1991 and 1995, respectively.) A proportional distribution of accumulated income in the amount of \$2 million in total was made to the above named stockholders by the race track in order to fund a portion of the stock purchase. Also, Mr. Ripps and Mr. Meisler took out personal loans to raise cash for the remainder of the purchase.

In 1994, Wichita Greyhound Park purchased 46,000 shares of stock from Mr. Ripps and Mr. Meisler at \$125 per share as treasury stock. According to the track management, the owners used the \$5.75 million in proceeds to pay the outstanding loans made in

connection with the 1991 stock purchase. Wichita Greyhound Park obtained the funds for this treasury stock purchase through a refinancing of the track's construction loan, as discussed later in the report.

As a result of this purchase, the number of outstanding shares of stock was reduced from 100,000 to 54,000. The current ownership of Wichita Greyhound Park is summarized below:

Harold Ripps	25,750 shares
Herbert Meisler (including family transfers)	25,750 shares
Ed Kress	<u>2,500</u> shares
Total	<u>54,000</u> shares

Additionally, in 1991 common stock of WGP Concessions, Inc. was issued to the current shareholders in connection with its incorporation. The individual owners' interest is nearly identical to that of Wichita Greyhound Park's stock. The stockholders paid a total of \$10,000 for 10,000 shares of common stock, divided as follows:

Harold Ripps	4,875 shares
Herbert Meisler (including family transfers)	4,875 shares
Ed Kress	<u>250</u> shares
Total	<u>10,000</u> shares

No transactions involving the WGP Concessions stock have occurred since the initial issuance.

Thus, the main beneficiaries from Wichita Greyhound Park stock transactions appear to be the former stockholders. They realized gains of almost \$8.5 million in the sale of stock to the current owners. A sizeable portion of the purchase was provided through the 1994 refinancing of the track, which included \$5.75 million to the current owners through a treasury stock purchase.

Track Payments to Stockholders and Related Parties

Since its inception, the track has made payments to stockholders individually and to companies owned or operated by stockholders. The table at Appendix A summarizes by year these disbursements. Currently, the stockholders of Wichita Greyhound Park are receiving money from the track through distributions of the track's net income, consulting fees from an entity owned by the shareholders, and interest payments to a stockholder who has personally guaranteed the track's long term debt. However, in prior years, numerous other owners and related organizations received payments from the track. Including the treasury stock purchase from shareholders previously discussed, total disbursements to owners have exceeded \$15 million. Below is a description of payment to each individual or entity.

Income Distributions to Shareholders:

Wichita Greyhound Park, Inc. and WGP Concessions, Inc. are Subchapter S-Corporations under the Internal Revenue Code. As such, the corporations do not pay corporate income taxes. Instead, the individual shareholders are responsible for payment of the taxes on their share of the companies' net income on their personal income tax returns. Track management has stated that certain shareholder distributions were made solely to satisfy the distribution requirements established by the tax code. These distributions have amounted to almost \$3.3 million since the track began operations.

Additionally, as previously discussed, the track distributed \$2 million of accumulated earnings to stockholders in 1991. These funds were included in the proceeds paid to former owners for their stock shares.

The Rime Companies

The group of entities collectively known as the Rime Companies has provided consulting services to Wichita Greyhound Park since 1988. These companies, owned by current track stockholders, have received a total of \$2.2 million in consulting fees. Rime Construction, Inc. consulted on the initial construction of the race track at a cost of \$500,000. Since 1991, the Rime Companies have provided consulting services "for the operation of the parimutuel greyhound racing business."

Under the current consulting contract dated June 13, 1994, Rime consults on all aspects of day-to-day management of the race track and corporate issues. Fees under this contract increased \$60,000 per year from the previous contract and are now \$420,000 annually. The increase in fees is mainly due to the addition of Roy Berger as a consultant and the inclusion of travel in the base cost of contract. Mr. Berger was formerly an employee of Wichita Greyhound Park as Executive Vice President. Now a consultant paid by Rime, he no longer receives a salary from the race track.

Loan Guarantee Fees

In order to secure a construction loan from AmSouth Bank, certain stockholders have personally guaranteed the corporation's debt. Mr. Harold Ripps also agreed to maintain \$12 million of his personal assets in cash, cash equivalents and marketable securities. In exchange for pledging these assets, the track has paid Mr. Ripps a monthly guarantee fee of 1% of the outstanding principal loan balance. Mr. Ripps has received guarantee fees of \$829,000 since the track's inception.

B-100, Inc.

B-100, Inc. is a corporation owned by Mr. Ripps and Mr. Meisler which owns an airplane and has billed Wichita Greyhound Park for air charter services. The track paid B-100 for flights taken by stockholders between Alabama and Wichita, Kansas. The invoices for 1994 indicate a billing rate of \$1,500 per hour, which is comparable to other air charter services. B-100 has received

over \$300,000 in total from the track. However, no payments to B-100 have been made since June 1994.

American Racing Group

American Racing Group, which is owned by Mr. Ripps, Mr. Meisler, and former shareholders Herman and Elliott Maisel, provided consulting services to Wichita Greyhound Park between 1988 and 1991. The track was billed for consulting services provided by the Maisels, as well as Mike Hallman and Roy Berger, now employed with Rime Management Group, Inc. The total amounts paid to American Racing Group, as well as to the Maisels individually were approximately \$500,000. These payments ceased when the Maisels' interests in the track were purchased by Mr. Ripps and Mr. Meisler in 1991.

Legal Fees and Salary Paid to Calvin McMillan

Mr. McMillan, a former stockholder of Wichita Greyhound Park, provided legal services to the race track between 1988 and 1991. He also served as the President of Wichita Greyhound Park in 1990 and 1991. Mr. McMillan received \$187,794 from the track for these services, including travel costs.

Salary Paid to Wayne Strong

Mr. Strong, a former stockholder of Wichita Greyhound Park, served as the company's president in 1988 and 1989. He received payments for salary and travel reimbursements of \$95,520 during this period.

Payments for Owner Travel

The accounting records of the race track indicate that additional travel payments have been made totaling \$61,357 in the form of reimbursements paid directly to certain stockholders, as well as payments to hotels, credit card companies, travel agencies, and others which were charged to the company's Owner Travel Account.

Summary

Thus, as detailed above, certain stockholders have benefitted substantially over the years through direct payments from the race track and through related party companies doing business with the track. However, track officials have properly identified these related entities. For example, all recent related party transactions, such as with the guarantee fees, B-100, Inc. and Rime Management were disclosed to the Kansas Racing Commission as required. In the case of Rime Management's consulting contract, the Commissioners approved the track's hiring of the company in a 1991 hearing. No evidence was found during our audit to suggest that the track has attempted to conceal its dealings with any related party organization.

Track Financing Arrangements

Financing of the race track's construction was obtained

through AmSouth Bank of Birmingham, Alabama and secured by a mortgage on the property, security agreement, and personal guarantees from individual stockholders. On March 7, 1989 the bank committed \$18 million for the track's construction, however only \$15 million was actually financed at a term of 25 years. According to the track's financial statements, the proceeds correspond to the track's construction costs of \$13.7 million plus \$1.3 million of organizational costs. The following guarantees were made by stockholders:

Harold Ripps: 50% of principal balance outstanding
Herbert Meisler: 50% of principal balance outstanding
Elliott Maisel: 50% of the principal balance outstanding
Herman Maisel: 50% of the principal balance outstanding
Wayne Strong: 30% of the principal balance outstanding

Additionally, Mr. Ripps agreed to keep \$12 million of his personal assets in cash, cash equivalents and marketable securities. According to track officials, the guarantees enabled the company to obtain a favorable interest rate. The loan agreement indicated that interest was charged at the floating prime rate, which varied between 6% and 10%. An additional 1% of the outstanding loan balance is paid to Mr. Ripps as a guarantee fee.

Changes occurred to the financing arrangements in 1991 as a result of the change in track ownership. In connection with the sale of their stock, Mr. Strong and the Maisels were released from their guarantee obligations. At that point, Mr. Ripps and Mr. Meisler became the sole guarantors of the track's debt. Also, the repayment schedule for the loan was accelerated so that the note would be paid off entirely in 1997, due to strong earnings by the track in 1990 and 1991. This increased principal repayments to AmSouth from \$145,000 to \$2 million annually.

In 1994, the track obtained a refinancing of its long term debt through AmSouth. On April 18 of that year an amended note was executed in the amount of \$14 million. The repayment schedule was extended to ten years, which reduced annual principal payments in the first year to \$1.1 million. Track officials sought this extension due to declining revenues. The interest rate remained the prime rate, and guarantees of the outstanding loan principal balance were made by Mr. Ripps and Mr. Meisler. Mr. Ripps is obligated to maintain \$12 million of personal funds in cash and liquid investments.

Of the \$14 million borrowed, only \$8 million represented the outstanding obligation under the original loan. The remaining \$6 million was paid to Wichita Greyhound Park, which in turn purchased treasury stock from Mr. Ripps and Mr. Meisler for \$5.75 million. Loan documents indicate the additional \$6 million proceeds from AmSouth were provided for the sole intent of the purchase of the treasury stock.

Therefore, although the stockholders have increased the track's debt level, they remain personally liable for the loan balance should the track cease operations. This fact highlights that the current ownership has a sincere interest in ensuring that the track is successful. While a 1% interest charge is being paid

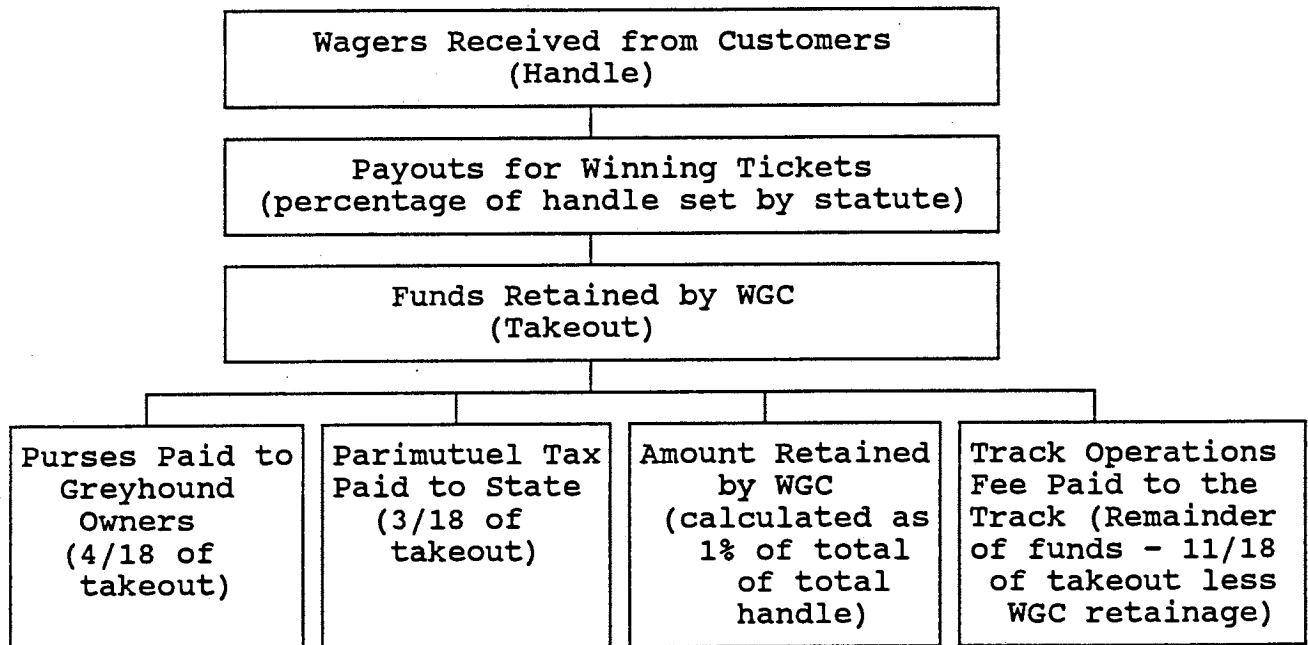
directly to one stockholder, this has ensured that the track has been able to obtain bank financing at a prime interest rate. Thus, the financing arrangements obtained in connection with the track's construction seem reasonable and proper.

Wichita Greyhound Charities Operations

Wichita Greyhound Charities (WGC) is the non-profit entity that has been granted a license to conduct races at Wichita Greyhound Park. As established at the time of licensing, it leases the racing facilities from Wichita Greyhound Park and pays the Park a fee to operate the facility. WGC derives its revenues from wagering at the track and on an administrative fee it receives from the Park.

Kansas law requires WGC to distribute all its net earnings from greyhound racing to Kansas nonprofit charities who must distribute that money within the State of Kansas. Net earnings at WGC are calculated as the amount taken in from wagering, less amounts paid from purses, winning wagers, track operations fees and administrative expenses.

All mutuel activity is processed through WGC accounts. Likewise, the payments of purses to dog owners and parimutuel taxes are made by the nonprofit organization. Under the control agreement between Wichita Greyhound Park, Inc. and WGC, a set percentage of the remaining funds is remitted to the Park as the track operations fee. The chart below illustrates the flow of money through Wichita Greyhound Charities to the various entities:



As shown above, WGC retains one percent of the total handle. This is used for its operating expenses and payments to charity. In addition, the Park reimburses WGC for all salaries of mutuel and racing employees, as well as \$100,000 annually to cover a portion of WGC's administrative expenses.

The operating arrangement between the track and Wichita Greyhound charities has allowed WGC to accumulate and distribute funds independent of the track's management. As a result, WGC has distributed \$3,765,942 to charitable organizations in Kansas since 1990. The distributions by year are summarized below:

<u>Year</u>	<u>Charity Distributions</u>
1990	\$ 671,942
1991	789,000
1992	650,000
1993	600,000
1994	505,000
1995	<u>550,000</u>
Total	<u>\$3,765,942</u>

Given the results of WGC's operations, charity distributions have declined significantly since 1991, as the handle has decreased. The payments are declining approximately 7% per year, which is comparable to the 6.6% reduction in handle previously discussed.

As previously stated, a portion of WGC's revenues are paid out for administrative expenses of the nonprofit agency. Since 1990, these expenses have remained relatively constant, between \$190,000 and \$210,000 per year while the track has reimbursed WGC \$100,000 annually. However, as revenues decline, administrative expenses are taking up a greater percentage of WGC's total revenues. (Administrative expenses were 28% of available income in 1994, compared to 21% in 1991.) Despite the presence of these administrative expenses, WGC has made quite significant contributions to Kansas-based charities since it was founded.

Review of Revenues and Expenses

We examined the relationship between the track and its vendors, as well as reviewed cash operations, in order to determine whether track officials were unfairly benefiting from Wichita Greyhound Park's operations despite declining profits at the track. Specifically, we did the following:

- determined who owned the vendors that Wichita Greyhound Park did business with to determine whether transactions were arms-length.
- performed tests to ensure that vendors exist and that goods or services were received.
- examined prices charged by vendors to determine whether they were reasonable.
- examined documentation of expenses.
- reviewed internal controls over cash receipts and revenues.

The results of our review did not indicate that track officials have understated revenues or overstated expenses to purposely distort the financial condition of the track. As previously discussed, our trend analyses indicated a general decline of track revenues over many years, rather than a sudden, sharp decline which might be expected if management was recently

attempting to misstate the track's financial operations. A detailed discussion of our reviews and analysis are discussed below.

Controls over cash received in daily operations are adequate to provide reasonable assurance that money is being reported and deposited. We examined controls over cash received for admissions, parking, program sales, gift shop sales and concession areas. (Cash from wagering is being reviewed under a separate audit of the automated wagering system.) The controls over cash appear to be adequate to provide reasonable assurances that moneys are being properly secured.

The track owners have an ownership interest in a greyhound race track in Wisconsin (Dairyland Greyhound Park), however we found no evidence that there was any diversion of funds from Wichita Greyhound Park. Our review of cash disbursements for 1994 and 1995 included a search for payments to Dairyland Greyhound Park, which is owned in part by Mr. Ripps and Mr. Meisler. No payments were made to the track. However, Mr. Berger, who consults at Wichita Greyhound Park, also performs services at Dairyland. The expenses paid by Wichita Greyhound Park appear to relate to services performed only in Wichita.

We sampled payments to 111 different vendors receiving at least \$5,000 in payments during 1994 or 1995 to verify that the vendors exist, to ensure proper documentation of the payments, and to determine whether the amounts paid for goods and services were reasonable. In addition, we looked into the ownership of these vendor companies in order to determine whether any transactions may have been less than arms-length.

Our review disclosed that all vendors did exist and that documentation supporting payment on all invoices tested were properly maintained. The prices for goods and services paid by the track appeared reasonable in relation to market prices and those prices paid by the Woodlands race track for items involving similar goods or services.

The track made payments to two related party vendors in 1994 and 1995, both of which have previously been discussed: B-100, Inc. and Rime Management Group, Inc. We reviewed in detail the amounts paid to these two companies.

B-100 billed the track \$28,300 in 1994 for a charter airplane owned by the track's shareholders. The rate charged for the service was \$1,500 per hour. We contacted air charter companies and determined this rate to be comparable to the market rate for air charters. We did not attempt to analyze the nature of each charter trip or its overall effectiveness for track business.

Rime Management, also owned by track stockholders, was paid \$30,000 per month for consulting services in January through June of 1994 and has received \$35,000 per month since July, 1994. The contract states, "the Consulting Group has been organized for the express purpose of consulting and management related services to business engaged in conducting parimutuel greyhound racing." The nature of consulting services provided are unique because of the

specialization of the industry and the actual services provided. Also, the consultants are based in Alabama, which has in prior years resulted in significant travel costs billed to the track. However, in the current contract, all travel costs of consulting employees are now the responsibility of Rime.

The existence of the Rime consulting has not been the cause of the track's declining profits. The consulting contract began in 1991, with payments of \$30,000 per month at a time when profits were high. As previously noted, the contract was approved in advance by the Kansas Racing Commission. However, no changes in the payment terms occurred between 1991 and 1994. Thus, the decrease in track profits were not attributable to any increased consulting fees paid to Rime Management.

We reviewed the compensation levels of the track's executives and department heads and found the salaries to be reasonable. On average, the annual salaries of the general manager and the department directors at Wichita Greyhound Park were approximately \$48,000. This is considerably less than the average compensation paid to executives of the Woodlands. We also reviewed the fringe benefits provided to track employees and did not find them to be excessive.

Conclusion

The current and former stockholders of Wichita Greyhound Park have been the primary financial beneficiaries of the track. To date, the track has paid these stockholders and their related companies over \$15 million through consulting fees, loan guarantee fees, treasury stock purchases and other various payments. In addition, former stockholders realized profits of almost \$8.5 million through their sale of stock to current owners.

However, the current owners are personally obligated for the race track's debt, whose outstanding loan balance is approximately \$12.4 million. The owners stand to lose the most should the track cease operations. Our trend analysis does show that track attendance, revenue and profitability have been in decline for several years, and that these decreases are accelerating.

We found no evidence to suggest that the decline in Wichita Greyhound Park's profits were the result of misrepresentations of the track's finances. The deterioration of the track's profitability has been consistent with the downturn in attendance and wagers. The track is paying vendors (including related parties) at comparable market rates for goods and services.

Recommendation

To ensure that charity contributions by Wichita Greyhound Charities, Inc. are maximized, the nonprofit licensee should review its administrative expenses and determine whether any reductions can be made as a result of the declining revenues.

Has Wichita Greyhound Park Complied With
Applicable Requirements for its Operations?

The track appears to be meeting regulatory requirements in almost all the areas we reviewed. It has met simulcasting requirements, all net revenues of the nonprofit organization have been distributed to charity, the purses have been paid according to State law, and employees and concessionaires are properly licensed. We did note, however, that several contracts have not been filed with the Kansas Racing Commission as required by law. This is explained in detail in the sections that follow.

A sample of laws and regulations (similar to those checked in the Woodlands' audit) were selected for compliance testing. Examples of areas we reviewed included the licensing of persons working or doing business at the tracks, the number of races run at the track, the accounting for simulcasting purses and revenues, and the distribution of moneys to charities. To the extent feasible, we analyzed and used the efforts performed by the Racing Commission's auditor for Wichita Greyhound Park.

In general, we found Wichita Greyhound Park and Wichita Greyhound Charities to be in compliance with the following requirements:

- all officers and directors have been approved by the Racing Commission
- the simulcasting license is held jointly by Wichita Greyhound Charities and Wichita Greyhound Park
- simulcasting net revenues and expenses have been reported to the Commission on a timely basis
- officials submitted required information on combined simulcast wagering pools to the Commission on a timely basis
- all net revenues of Wichita Greyhound Charities have been distributed to charity organizations in Kansas
- a certified financial audit of Wichita Greyhound Charities has been submitted to the Commission each year
- purse amounts have been at least the minimum required by State law
- unclaimed ticket proceeds have been submitted to the Commission on a timely basis
- Wichita Greyhound Charities has retained no more than its statutory share of the total amount wagered, paying out the remainder to bettors
- the track's employees are properly licensed by the Racing Commission
- no employees of the track were found to have ownership interests in greyhounds or horses raced in the State

We feel that the presence of the Kansas Racing Commission at the race track is a significant factor in the track's overall compliance. A compliance auditor is permanently assigned to Wichita Greyhound Park to monitor the track's operations. Thus, any compliance issues which may arise are resolved in an expedient manner. At the Woodlands, the on-site auditor position has been vacant for some time.

All Contracts Not Filed with Kansas Racing Commission

We did find an instance of noncompliance related to the filing of contracts with the Kansas Racing Commission. According to KSA 74-8813(n), "An organization licensee shall submit to the Commission for approval a copy of each contract and agreement which the organization licensee which the organization proposes to enter into and any proposed modification of any such contract or agreement." The Racing Commission developed guidelines for the submission of contracts by race tracks in the State, including a listing of goods or services which contract filings are mandatory (see Appendix B).

We developed a list of vendors that have provided goods or services to Wichita Greyhound Park in 1994 and 1995 under each category listed in Appendix B. We then compared this list to contracts on file at the Kansas Racing Commission to determine whether all required contracts had been submitted by the track.

Based on our review, we noted 103 contracts or agreements which we believe should have been on file with the Commission. Of these, 15 were not on file at the Commission office. The types of contracts or agreements not on file included insurance policies, lobbying services, and advertising agreements. Also, some of the exceptions related to modifications made during 1994 or 1995 to previously-filed contracts which had not been reported. Track management was notified of the missing contracts during the course of our audit and has now provided information on all of these contracts to the Commission.

The track also paid \$50,000 in 1994 to Sunflower Racing, Inc., the facility manager of the Woodlands, in connection with the formation of a group called the Kansas Racetrack Alliance. As noted in the Woodlands' audit, Sunflower Racing used this money, along with its own, to hire a consultant to assist them in setting up and operating a telephone bank to contact Kansas citizens about pending casino legislation. The Kansas Racing Commission and Woodlands' officials dispute whether contracts involving the consultant or the Kansas Racetrack Alliance were made. However, no agreements with either group were filed with the Commission.

Conclusion

Wichita Greyhound Park appears to be in compliance with most of the laws and regulations we reviewed. The only area which we found instances of noncompliance was the requirement to submit

contracts and agreements to the Kansas Racing Commission.

Recommendation

To ensure that it is in compliance with State laws requiring contracts to be submitted to the Kansas Racing Commission, Wichita Greyhound Park should strengthen its procedures for identifying contracts and agreements for goods or services requiring submission, especially those relating to oral agreements and modifications of existing contracts.

APPENDIX A

Summary of Payments to Stockholders and Related Parties
Inception through September 1995

SUMMARY OF PAYMENTS TO STOCKHOLDERS AND RELATED PARTIES
INCEPTION (1988) THROUGH SEPTEMBER 1995

	1988	1989	1990	1991	1992	1993	1994	1995	Total
1) Purchase of treasury stock from H. Ripps and H. Meisler	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,750,000	\$ -	\$ 5,750,000
2) Income distributions to shareholders by the track and its subsidiary	-	-	1,117,131	2,110,000	480,000	582,500	684,670	318,717	5,293,018
3) Payments to the Rime Companies (for consulting services)	-	500,000	298	299,188	374,289	366,143	390,931	315,000	2,245,849
4) Loan Guaranty fees paid to H. Ripps	-	150,000	118,309	135,053	113,921	83,784	120,618	108,205	829,890
5) Payments to B-100, Inc. (air charter services)	9,459	75,747	27,517	51,745	85,350	25,300	28,300	-	303,418
6) Payments to American Racing Group, H. Maisel and E. Maisel (consulting services)	112,499	187,815	178,218	21,750	-	-	-	-	500,282
7) Payments to C. McMillan (legal fees, salary and travel)	-	77,132	73,162	37,500	-	-	-	-	187,794
8) Payments to W. Strong (salary as company president and travel reimbursements)	41,684	53,836	-	-	-	-	-	-	95,520
9) Other payments for owner travel (direct reimbursements, hotel charges, credit card charges, etc.)	3,832	14,765	3,912	26,001	6,024	4,905	1,534	384	61,357
Total Stockholder and Related Party Payments	\$ 167,474	\$ 1,059,295	\$ 1,518,547	\$ 2,681,237	\$ 1,059,584	\$ 1,062,632	\$ 6,976,053	\$ 742,306	\$ 15,267,128

APPENDIX B

**Contract Filing Guidelines
per Kansas Racing Commission**

Contracts For:

1. Personnel service
2. Management service
3. Consulting service
4. Professional service
 - A) Legal
 - B) Medical
 - C) Veterinarian
 - D) Audit/accounting
 - E) Tax preparation
 - F) Architectural
5. Lease of facilities
6. Lease of real estate
7. Lease of equipment (value over \$5,000)
8. Lease of personal property
9. Concession (for which the track collects or receives a fee)
 - A) Food and beverage)
 - B) Tip sheet) must provide
 - C) T-shirts/souvenirs)
10. Building and grounds contractors
11. Marketing/public relations
12. Insurance
13. Tote
14. Hiring process
15. Control and management agreement
16. Advertising
17. Financing/loan/master note

18. Charter air service
19. ATM/Bank Teller/Cash Advance/Com Check
- / 20. Vehicle lease
21. Money transportation/electronic transfer
22. Facility/Infrastructure maintenance
23. Photo finish
24. Video replay/closed circuit TV
25. Pay for view TV
26. Simulcasting contracts
 - A) Host track
 - B) Up-link
 - C) Decoder/dish
27. Telephone system/data lines
28. Lure rental/lease
- / 29. Gas, electric, water
30. Food (over \$25,000/annually)
31. Beverage (over \$10,000/annually)
32. Alcohol (over \$10,000/annually)
33. Kennel contracts
34. Lobbyist
35. Stock purchase/transfer
36. Security/alarm system
37. Courier service
38. Program printing
39. Gate/starting box/walker and its maintenance
- , 40. Any other contract over \$25,000/annually

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APPENDIX C

Listing of Principals of Wichita Greyhound Park,
WGP Concessions and Wichita Greyhound Charities

Listing of Principals

Wichita Greyhound Park, Inc.

Officers and Directors

Harold Ripps, Chairman of the Board
Birmingham, Alabama

Herbert Meisler, President and Treasurer
Mobile, Alabama

Allen Meisler, Secretary
Birmingham, Alabama

Roy Berger, Executive Vice President
Wichita, Kansas

Stockholders

Ben Meisler
Mobile, Alabama

Irving Meisler
McDonough, Georgia

Lori Movsovit
Atlanta, Georgia

Ed Kress
Dayton, Ohio

WGP Concessions, Inc.

The officers, directors and stockholders of WGP Concessions, Inc. are identical to those of Wichita Greyhound Park, Inc. as listed above, with the following addition:

Don Hess, Assistant Secretary
Wichita, Kansas

Wichita Greyhound Charities, Inc.

Board of Directors

Charles D. Belt, President
Wichita, Kansas

Thomas D. Kitch, Chairman
Wichita, Kansas

Kenneth P. Brasted II, Vice President
Wichita, Kansas

Michael Easterday, Secretary/Treasurer
Wichita, Kansas

Daniel E. Foley
Wichita, Kansas

Glen Rupe
Wichita, Kansas

Michael C. Weigand
Wichita, Kansas

June Landrith
Topeka, Kansas

Otis Milton
Wichita, Kansas

Alice Wiggins
Wichita, Kansas

Executive Director

Diana R. Johnson-Otis
Wichita, Kansas



APPENDIX D

Wichita Greyhound Park Response



Roy Berger
Executive Vice President

December 20, 1995

Legislative Post Audit Committee
Legislative Division of Post Audit
800 SW Jackson, Suite 120
Topeka, KS 66612-2212

Re: Wichita Greyhound Park Performance Audit Report

Dear Committee Members:

This letter contains the Wichita Greyhound Park, Inc. (WGP) response to the Performance Audit Report of December, 1995 (the Report). We thank you for the opportunity to respond. Our comments follow.

In large part, we agree with the conclusions reached in the Report. In particular, the Report concludes at page 6 that "the decline in parimutuel wagering has been aggravated by the expansion of casino gambling at Indian Reservations across America... (and the) emergence of riverboat and small-stakes casinos..." In light of the decline in attendance and wagering at WGP in 1995, there can be no question as to the accuracy of this conclusion. The impact of riverboat gambling in Missouri on WGP has been overwhelming - there is simply no other factor to explain the significant downturn in wagering we have experienced.

With regard to the conclusion reached in the Report regarding financial benefit to the WGP owners, we must take issue. At page 13, the Report comments that "certain stockholders have benefitted substantially" at WGP. As those comments relate to the present ownership (ownership since 1991), we must disagree. The Report notes that approximately \$15 million dollars have been paid out to ownership since the track's inception. Of that sum, however, approximately \$7.75 million was utilized to buyout prior shareholders as required by the Kansas Racing Commission (\$2 million in

distributions in 1991 and \$5.75 million in 1994 to partially reimburse Mr. Ripps and Mr. Meisler for their purchase of the stock from those shareholders). An additional \$800,000 of the distributions made, were also paid to those prior shareholders as reflected in the chart on page 22 of the Report (items 6, 7 and 8). In addition, approximately \$3.3 million of distributions have been solely for the payment of income taxes. The balance of the monies paid (approximately \$3.15 million) were paid for valuable services rendered to WGP, and certainly do not represent any "profits" paid out to the owners. Indeed, the loan guaranty fee paid to Harold Ripps is far less than what Mr. Ripps could earn on his money if he were able to otherwise invest the \$12 million he is required to keep in cash equivalents to guarantee the AmSouth loan. The sum of \$3.15 million is also far less than the \$17.6 million earned by the State of Kansas in tax revenues from WGP, or the \$3.3 million paid to charities, yet neither the State nor the charities have risked a \$15 million investment, as have Mr. Ripps and Mr. Meisler in Kansas. Additionally, WGP has paid in excess of \$19.6 million to greyhound owners and breeders and over \$21.8 million in payroll since opening in 1989. In short, any earnings from WGP received by Mr. Ripps and Mr. Meisler over the past six years have been far less than what others have received and far less than any investor would expect from a \$15 million investment.

It is not our purpose, however, to question the investment in WGP, rather, we seek only to clarify the record and to point out that to the extent "profits to owners" have been paid, those profits were to prior owners and do not indicate the declining trends at WGP are anything but a result of the unfair competition generated by riverboat gambling and other gaming options both in and out of state. It is vital, therefore, that the State of Kansas help WGP by passing the necessary legislation to help protect a tremendous income producer to the State and to the many deserving charities and employees in Kansas, as well as our large investment.


Wichita Greyhound Charities, Inc. respectfully requests to note in this response letter that in late 1994 the WGC Board of Directors recognized the need to lower overhead costs and along with staff reorganization, cost cutting measures were implemented. WGC Executive Director, Diana Otis expects operating expenses for 1995 to be approximately \$125,000; a steep decline from the \$190,000 - \$210,000 level noted in the report for years 1990-94.

Finally, we also should comment on WGP's regulatory compliance. We are sincerely gratified to see the Report reflect what we know to be true, that WGP does a tremendous job of complying with the prolific regulations which govern us. We also appreciate the fact that the Report revealed a need on our part to implement a better

system for the filing of contracts. We have already done so. Previously, we had one individual charged with the filing of contracts. We have now assigned a clerical person to meet with the management weekly to obtain new contract/modifications information and that person is then to report this data to a supervisor, who will complete the appropriate forms to file the contracts. We are confident this new system will keep us in total regulatory compliance.

Again, we thank you for the opportunity to respond to the Report and we ask that this letter in its entirety be published in the final report. If you need any additional information, please do not hesitate to contact us at any time.

Sincerely,



Roy Berger

