



FINANCIAL INVESTIGATION REPORT OF  
**TUCSON GREYHOUND PARK, INC.**

*Prepared for:*  
Arizona Department of Racing

*Report Date:*  
May 15, 2014

Veriti Consulting LLC

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Forensic Accounting • Fraud Investigation  
Business Valuation • Litigation Support

May 15, 2014

**CONFIDENTIAL**

William Walsh, Director  
Arizona Department of Racing  
1110 West Washington, Suite 260  
Phoenix, Arizona 85007

*Re: Investigation of Tucson Greyhound Park, Inc.*

Dear Mr. Walsh:

Veriti Consulting LLC (“Veriti”) was contracted by the Arizona Department of Racing (“ADOR”) to conduct the tri-annual investigation related to the renewal of the commercial racing permit for Tucson Greyhound Park, Inc. (“TGP”) for the period from January 1, 2011 through December 31, 2013 (“Investigation Period”). This report (“Report”) details the nature of that investigation and our findings with respect to TGP. Working on behalf of Veriti in conducting this investigation were Elizabeth B. Monty (“Monty”) and John P. White (“White”), whose curricula vitae are included in Appendix A.

**Background**

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TGP was organized as an S corporation in the state of Arizona on June 6, 1987. TGP operations include live and simulcast greyhound dog racing and simulcast horse racing at its racing facility in Tucson, Arizona, as well as off-track betting at various sites.

Where within this Report reference is made to “Management,” it includes the following individuals: Philip Robert Consolo, Jr., president and 45 percent owner; Joseph Zappala, vice president and 50 percent owner; and Dale Popp, general manager.

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### **Scope of the Investigation**

The purpose of the investigation (“Investigation”) is to evaluate TGP’s business structure, sustainability of business, review owners’ net worth, review insurance policies and coverage, and conduct an overall financial assessment of TGP. We were also instructed to make recommendations on these matters, as applicable.

### **Procedures Performed**

During the course of our investigation, the following procedures were performed.

- Reviewed the documentation provided by Management, which is detailed in Appendix C of this Report.
- Discussed the nature of the Investigation and the issues to be reported upon herein with ADOR officials.
- On April 14, 2014, Veriti conducted an interview with Dave Barber of TGP’s outside auditing firm, Regier Carr & Monroe, L.L.P. Regier Carr & Monroe, L.L.P. was fully cooperative in all aspects of the Investigation.
- Conducted Management interviews (“Management Interviews”) with Philip Consolo, Jr., president and owner; Joseph Zappala, vice president and owner; and Dale Popp, general manager on May 7, 2014.
- Researched information pertinent to the Investigation of TGP, including the economic climate, industry trends, financial statistics, and other data as disclosed herein.

### **Information Analyzed**

Information from both internal and external sources was considered and analyzed as part of our investigative procedures. Internal documents are those provided by Management. External documents are all other sources of information utilized to reach the findings herein. Following is a list of these documents.

*Internal Documents:* A list of document requests was provided to Management through our request for information from ADOR and is included in Appendix B. Documents received from Management in response to our requests are listed in Appendix C.

*External Documents:* The following sources of information were used as part of our analysis.

- Integra Reports, including Five-year Industry Report and Industry Growth Outlook Report for North American Industry Classification System (“NAICS”) 713290 - Other Gambling Industry and 711219 - Other Spectator Sports.
- “Predicting Business Bankruptcy Using Z Score with Excel,” [www.exceluser.com](http://www.exceluser.com).
- A.M. Best’s Rating Center, [www.ambest.com](http://www.ambest.com), April 14, 2014.

#### **Assumptions and Limiting Conditions**

This Report has been prepared based upon and subject to the following assumptions and limiting conditions.

- Veriti has not prepared a business valuation of TGP or any entity associated with it. As such, Veriti is not opining on the value of TGP.
- Veriti is authorized to rely on documents and information provided by Management as fairly representing the status and activities of TGP. Therefore, neither our Investigation nor this Report is intended to disclose any misrepresentations, fraud, or deviations from generally accepted accounting principles. Veriti has taken no steps to detect if the subject’s accounting departs from generally accepted accounting principles or tax reporting requirements.
- Veriti’s findings based upon the analysis of TGP’s historical performance and financial position are limited to the Investigation Period.
- Per instructions from ADOR, Veriti did not perform the following procedures due to scope limitations on the engagement:

- Conduct background investigations on the owners, management, or other personnel of TGP.
  - Conduct a site visit at TGP's racing facilities.
  - Perform a formal internal control assessment.
  - Investigate issues related to the safety, code violations, present condition, or deficiencies of the facilities used, owned, or leased by TGP.
  - Verify the validity of permits or licenses issued by other agencies as they related to TGP's operations.
- Analysis of the financial position for owners was limited to those individuals owning in excess of a 10 percent interest in TGP.
  - No investigator who worked on this Investigation is an expert in the adequacy or type of insurance coverage an entity such as TGP should keep in force. As such, the analysis of insurance coverage detailed herein is from the perspective of individuals who are not specialists in this field.
  - Veriti has not investigated whether any environmental issues are present in the facilities or real estate holdings of TGP. To the extent they may exist, the identification of environmental issues is outside the expertise of Veriti and the scope of this Investigation.

This Report is subject to additional assumptions and limiting conditions, as indicated herein.

### **Ownership**

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Following is a schedule of ownership of TGP for the years ended December 31, 2010 through 2013.

TABLE 1 Tucson Greyhound Park, Inc. Schedule of Ownership				
Owner Name	Ownership Percentages			
	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Joseph Zappala	50.0%	50.0%	50.0%	50.0%
Philip Robert Consolo, Jr.	45.0%	45.0%	45.0%	45.0%
Jeffrey Gidney	2.5%	2.5%	2.5%	2.5%
Gail Gidney	2.5%	2.5%	2.5%	2.5%
Total	100.00%	100.00%	100.00%	100.00%

Sources: Information as of 12/31/2010 through 12/31/2012, per TGP tax returns. Information as of 12/31/2013 was obtained from Management.

TGP is an S corporation, which means it does not pay taxes at the entity level. Rather, all income passes through the corporation to its shareholders, who report earnings or losses on their individual tax returns. During the Management Interviews, interviewees stated to the best of their knowledge, TGP was fully compliant with respect to all taxing authorities and all taxes, including but not limited to federal and state taxes, sales tax, liquor tax, payroll tax, and property tax. Veriti relied upon these representations in reaching its conclusions herein without independent verification.

Our Investigation did not reveal any areas of concern related to TGP ownership. Additionally, we did not identify any ownership changes during the Investigation Period.

### **Financial Assessment**

The financial assessment includes consideration of historical operations through analysis of financial statements and ratios, analysis of the sources and uses of cash generated by TGP, a quantitative measure of TGP's probability of going bankrupt, and analysis of debt obligations. The following exhibits to the Report detail the analysis schedules:

- Exhibit 1: Analysis of Historical Operating Results
- Exhibit 2: Ratio Analysis Compared with Industry Results
- Exhibit 3: Historical and Forecasted Growth Compared with Industry Results

- Exhibit 4: Insurance Coverage

Industry results were compared to TGP using NAICS code 713290—Other Gambling (excluding casinos and hotel casinos) and 711219—Other Spectator Sports (including owners of racing participants such as dogs). These were the closest NAICS codes available for comparison with TGP. For purposes of our analysis, performance and outcomes when comparing TGP to the industry were rated as better, similar, or worse.

*Historical Operating Results (Exhibit 1)*

As presented in Exhibit 1, TGP's revenues declined from 2010 through 2013. According to Management, the decline is attributable to the decrease in the number of live racing days and competition from Indian gaming venues and other spectator sports. The Management Interviews indicated internal operational problems were not the cause of the decline in revenues.

TGP generated a net loss in each year between 2009 and 2013, as presented in Exhibit 1. Net loss in 2010 excludes the impact of approximately \$2.1 million in income from insurance proceeds related to a fire. Removing this extraordinary one-time item from income allows Veriti to better analyze and compare normalized operating results for TGP over recent historical periods. Net losses fluctuated from approximately (\$191,000) in 2009, which was (4.4) percent of revenues, to a loss of approximately (\$544,000) in 2013, which was (12.3) percent of revenues.

Between 2009 and 2013, total assets declined from approximately \$3.1 million in 2010 to \$2.7 million in 2013. During this same period, total liabilities fluctuated and were approximately \$3.3 million as of December 31, 2013. As of December 31, 2013, TGP's liabilities included approximately \$1.8 million of management fees payable to related parties. Management indicated the management fees would not be paid any time in the foreseeable future.

*Analysis of Sources and Uses of Cash Flow*

Sources of cash flow are an important consideration when assessing the financial condition of an entity. Accounting principles break sources and uses of cash into the following categories:

- *Cash provided by or used in operating activities:* These are sources of funds from the primary operations of the entity. A healthy entity is expected to generate cash from operating activities.
- *Cash provided by or used in investing activities:* Transactions involving the purchase or sale of equipment, as well as notes receivable activity, fall into this category. There is no particular guideline for this category in terms of using or generating cash, as healthy businesses buy and sell fixed assets, and engaged in various other transactions that are considered investing activities.
- *Cash provided by or used in financing activities:* Borrowings and repayment of cash fall into this category. Also, transactions involving the equity of a business are financing activities, such as purchase or sale of stock, payment of dividends or distributions, and other such activities. As with investing activities, there are no set stand-alone guidelines against which to evaluate a company's financing activities.

Table 2 details the sources and uses of cash for each activity type for the past five years.



<b>TABLE 2</b>					
<b>Tucson Greyhound Park, Inc.</b>					
<b>Analysis of Sources and Uses of Cash</b>					
<b>Description</b>	<b>Years Ended December 31,</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Net cash provided by:</b>					
Operating Activities	\$39,889	\$13,006	(\$158,841)	(\$179,240)	(\$378,253)
Investing Activities	(33,291)	1,954,117	(8,594)	(9,226)	(755)
Financing Activities	(20,000)	(1,600,000)	(200,000)	0	722,500
Net change in cash	(\$13,402)	\$367,123	(\$367,435)	(\$188,466)	\$343,492
Source: Audited financial statements.					

In two of the last five years included in the analysis in Table 2, TGP generated positive cash flow from operations, although during 2013 the increase of cash was a result of proceeds from long-term notes received from stockholders. In addition, the positive net cash flow in 2010 is attributable to approximately \$2.1 million in proceeds from insurance claims classified in investing activities. TGP appears to be having challenges effectively utilizing its operations to generate cash on a consistent basis. Management indicated they would fund operations for the foreseeable future; however, the audit report for 2013 states it is management's opinion TGP has sufficient financial resources to meet its obligations through January 1, 2015.<sup>1</sup>

*Ratio Analysis (Exhibit 2)*

As presented in Exhibit 2, TGP's liquidity ratios indicate a fluctuating liquidity position, relative to industry averages, which are fairly steady. Veriti compared TGP to both the "other gambling industry" and "other spectator sports" industry. Overall, TGP is less liquid than both industries during the analysis period. This is especially apparent in TGP's negative working capital to revenues ratios, which indicate TGP does not have sufficient current assets to meet its current liabilities. While the other gambling industry ratios are also negative, they are better than TGP's.

<sup>1</sup> Audited financial statements as of December 31, 2013, page 11.

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The risk analysis for TGP indicates it is in a worse risk position than the industry. An analysis of TGP's Z-score is discussed in greater detail in the Risk Assessment section of this Report. The fixed assets to net worth ratio for TGP was below industry averages and negative in three of the last five years due to negative net worth. The improvement in 2010 is a reflection of a one-time payment of insurance proceeds and not an operational improvement.

TGP's debt position is worse than industry averages, since its debt to asset ratio is higher, which indicates debts are a greater percentage of total assets than comparable companies. The ratio improved in 2010 when insurance proceeds were used to pay down debt.

The profitability ratios indicate TGP is less profitable than the typical company in both the benchmark industries, and continues to worsen. TGP's earnings before interest, taxes, depreciation and amortization ("EBITDA") ratios as a percentage of revenues have been worse than the industry in each year of analysis. Likewise, TGP's pre-tax returns on assets and revenues have been significantly below industry averages, and continued to worsen as of December 31, 2013. As indicated by the negative return ratios, TGP did not produce a profit during any of the last five years.

#### *Financial Assessment Summary*

The assessment of TGP's historical operations as indicated by all of the financial measures discussed herein indicates a worse performance than the industry. TGP's below average liquidity, higher risk, and lower profitability indicate that without external financial support from its owners, TGP's operations cannot sustain future viability. However, as previously noted, the owners are committed to funding operations for the foreseeable future.

#### **Risk Assessment**

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Included in the assessment of TGP is an overall risk analysis and assessment. Risk originates from both internal and external sources. Following is a discussion of some of the elements of risk that were deemed notable from the Investigation.

#### *Contingent Liabilities*

Based on the Management Interviews, there is no evidence indicating TGP is the subject of any contingent liabilities not included in the audited financial statements. Per the

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audited financial statements dated December 31, 2013, Veriti identified the following commitments and contingencies:

- *Totalisator Services:* Amtote International, Inc. provided totalisator services to TGP and the contract renews annually in March of each year. Total payments for these services were \$156,201 in 2013.
- *Communication Equipment Leases:* TGP has an equipment lease with a communications vendor for satellite equipment that broadcasts races to off-track betting locations. Payments for this equipment totaled \$245,850 for the year ended December 31, 2013.
- *Office Equipment Leases:* TGP has various operating leases on office equipment. The leases expire at various times from 2013 to 2015. Payments for this equipment totaled \$61,847 for the year ended December 31, 2013.
- *Lawsuits:* TGP was the defendant in two lawsuits brought during 2013 by an equipment leasing company. Both actions have been settled out of court for a total of \$92,000.

When the leases expire, TGP intends to renew them at similar rates as indicated in the audited financial statements.

There is no off-balance sheet financing according to Management, and the Investigation did not identify any liabilities of this nature.

As part of the audit process, auditors send letters to a company's legal counsel asking for disclosure of any threatened or pending litigation that could have a negative affect on that company's operations. Dave Barber, of Regier Carr & Monroe, L.L.P., stated he was not aware of any material contingent liabilities from existing or threatened litigation or other potential unreported liability.

#### *Z-score Analysis (Exhibit 2)*

No financial assessment measure can be an exact predictor of future profitability for an organization, particularly in light of the current economic situation. There are certain analyses, however, that allow a financial analyst to evaluate the potential of future solvency problems. One such tool is the Z-score, which measures a company's financial

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distress. It is an economic indicator of how closely a company resembles other companies that have filed for bankruptcy.

The Z-score applied to TGP is the Z2 model, which is the Z-score applicable to general privately held business enterprises, as opposed to publicly traded companies or firms in the manufacturing sector. Exhibit 2 shows the calculation of TGP's Z-scores for 2009 through 2013, with a comparison to the industry averages. TGP's Z-scores in the past five years were negative and far below industry averages, ranging between (2.23) and (6.72). As of December 31, 2013 TGP's Z-score was (6.51). Z-scores are compared to the following scale to evaluate a company's potential for filing bankruptcy:

Zones of Discrimination

Z-score greater than 2.6 indicates a "Safe Zone"

Z-score between 1.1 and 2.6 indicates a "Gray Zone"

Z-score less than 1.1 indicates as "Distress Zone"

During the analysis period from 2009 through 2013, TGP's Z-score was in the Distress Zone, meaning there was a higher likelihood it would file bankruptcy. The industry averages for comparable companies are shown on Exhibit 2, and TGP's measure was consistently worse than its industry counterparts, which ranged between 2.07 and 2.53 during the Investigation Period, for the other gambling industry.

It should be noted the Z-score measures the likelihood of bankruptcy as of a particular point in time, in this case at the end of each calendar year.

In summary, the analysis of TGP's Z-score indicates TGP is in financial distress and as such there is a higher likelihood it would file bankruptcy without the financial support of its owners. In the interviews with Veriti, majority owners Zappala and Consolo represented they were committed to providing financial backing to TGP to ensure it continues to operate indefinitely. The owners' financial backing is a necessary component to TGP's future viability, and should they cease to fund operations, TGP will likely go bankrupt. Veriti conclusions herein assume the owners continue to provide the necessary resources to keep TGP operating until such time it is self sustaining.

## **Insurance Coverage**

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During the Investigation, Veriti reviewed documentation provided by Management, which includes copies of TGP's insurance policies. Exhibit 4 contains a summary of insurance coverage disclosed to Veriti. Through the assessment of TGP's insurance coverage, Veriti gained a greater understanding of the general business risks of TGP and the overall adequacy of coverage. However, Veriti is not expressing an opinion on the adequacy of TGP's insurance coverage, as that is outside our expertise. We have relied upon Management representations in reaching our conclusion that insurance coverage is adequate and TGP is not lacking in that area.

### *Analysis of Insurance Coverage (Exhibit 4)*

Key to understanding the adequacy of coverage requires evaluating the financial stability of TGP's insurance providers. Veriti used A.M. Best ratings for this purpose. A.M. Best provides independent opinions of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. The ratings are based on a comprehensive evaluation of a company's balance sheet strength, operating performance, and business profile. Ratings range from "A++" for superior to "F" for companies in liquidation. These ratings are broken out into two general categories—secure and vulnerable.

A.M. Best considers companies between A++ and B+ as secure, meaning these companies have a good ability to meet their ongoing insurance obligations. Companies rated between B and F are considered vulnerable due to the determination of their financial strength. A.M. Best also rates a company as "S" if the company has recently undergone a sudden significant event that might affect its rating and A.M. Best has not yet been able to determine the implications of this event on the company's rating.

Exhibit 4 is a table with general descriptions of TGP's insurance policies, including issuer, coverage periods, policy description, and a note on issuer credit ratings. The information included in Exhibit 4 is based on policy declaration pages provided by Management. The insurance provider used by TGP has an A+, or superior financial strength rating and an aa-, or stable, long-term issuer credit rating, indicating the company is not in financial or operational distress.

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### *Conclusion Regarding Insurance Coverage*

Based on our analysis of insurance documentation provided, TGP appears to have adequate coverage to meet insurable business risks. The insurance provider used by TGP has a superior financial strength rating and a stable long-term issuer credit rating, indicating the company is not in financial or operational distress.

### **Owners' Financial Position**

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Veriti reviewed the personal financial information for the two primary owners of TGP—Philip Robert Consolo, Jr. and Joseph Zappala—including personal financial statements, tax returns, and documentation of liquid assets.

Our analysis of the personal financial position for the two primary owners of TGP indicated they are liquid and have the financial wherewithal to provide financial backing to TGP. In addition, during the Management interviews, the primary owners indicated they would be willing to contribute additional capital if necessary to maintain ongoing operations at TGP.

### **Related Party Transactions**

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This section discusses all related party transactions involving TGP and its owners. We relied upon Management and audited financial statements to disclose all such relationships.

According to the footnotes to the financial statements as of December 31, 2013, TGP has not incurred management fees since 2011. Amounts owed to the management company were approximately \$1.83 million at December 31, 2013. Management noted these amounts were owed to two companies called Zapcon, Inc. and C&Z Management, LLC, which were controlled by the primary owners of TGP.

Two of the shareholders loaned TGP a total of \$762,500 during 2013. The notes are unsecured with principal and interest due on December 31, 2018. Interest accrues at a rate of 1 percent annually. During 2013, TGP paid interest totaling \$4,219 to the shareholders. In addition, the shareholders owe TGP \$155,895 related to reimbursements as of December 31, 2013.

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### **Internal Controls**

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Veriti did not conduct an assessment of internal accounting controls during the course of the Investigation and is not opining on the internal controls of TGP. In addition, Veriti did not conduct a site visit to TGP's facilities or offices, per ADOR's request. However, per Veriti's management interviews, internal controls in the accounting department appear to be weak. Weak internal controls, particularly those involving the safeguarding of cash, can have a detrimental impact upon the viability of a business if there is prolonged and undetected malfeasance.

### **Conclusion**

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TGP's financial position is unstable and it cannot sustain itself for the permit renewal period. However, based on TGP's owners' statements, they are willing to continue funding its operations and their respective financial wherewithal to provide the funding, Veriti recommends the renewal of TGP's racing license as long as the owners do in fact commit to continue funding operations.

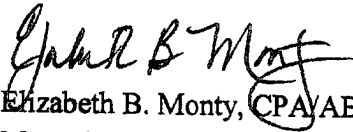
This Report has been prepared only for the purpose stated and shall not be used for any other purpose. Neither this Report nor any portions thereof shall be disseminated to third parties outside the context of this matter by any means without the prior written consent and approval of Veriti Consulting LLC. In the event additional documents are made available to Veriti after submission of this Report, we respectfully reserve the right to amend and modify this Report as appropriate. The Statements of Qualifications of the professionals involved in this Investigation are included herein as Appendix A.

It has been our pleasure to work with the Arizona Department of Racing on this matter. Please contact us if you have questions regarding this Report or if we can be of further assistance.

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Sincerely,

**VERITI CONSULTING LLC**



Elizabeth B. Monty, CPA/ABV, CFF, CVA, CFE, DABFA  
Managing Director



John P. White, MBA, CPA/ABV, CFF, CBA, CFE, ASA  
Managing Director

Attachments



## EXHIBITS

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- Exhibit 1: Analysis of Historical Operating Results
- Exhibit 2: Ratio Analysis Compared with Industry Results
- Exhibit 3: Historical and Forecasted Growth Compared with Industry Results
- Exhibit 4: Insurance Coverage

**EXHIBIT 1**  
**Tucson Greyhound Park, Inc.**  
**Analysis of Historical Operating Results**

	Year Ended December 31,					Trends in Recent Years
	2009	2010	2011	2012	2013	
<b><u>INCOME STATEMENT</u></b>						
Revenues	\$ 4,327,570	\$ 5,877,772	\$ 5,775,381	5,568,279	\$ 4,410,490	Declining
Revenue growth rate	-12.8%	35.8%	-1.7%	-3.6%	-20.8%	
Expenses	4,428,670	5,980,246	6,092,392	5,891,316	4,950,254	Fluctuating
As % of revenues	102.3%	101.7%	105.5%	105.8%	112.2%	
Operating inc.	(101,100)	(102,474)	(317,011)	(323,037)	(539,764)	Declining
As % of revenues	-2.3%	-1.7%	-5.5%	-5.8%	-48.0%	
Other inc/exp	(90,347)	(34,512)	(277)	(240)	(4,219)	Fluctuating
As % of revenues	-2.1%	-0.6%	0.0%	0.0%	-0.1%	
Net loss [1]	\$ (191,447)	\$ (136,986)	\$ (317,288)	\$ (323,277)	\$ (543,983)	Declining
As % of revenues	-4.4%	-2.3%	-5.5%	-5.8%	-12.3%	
<b><u>BALANCE SHEET</u></b>						
Current assets	\$ 626,901	\$ 795,929	451,709	\$ 383,859	\$ 779,445	Fluctuating
% of total assets	21.6%	25.7%	17.3%	15.8%	28.8%	
Fixed assets	2,277,485	2,297,753	2,163,066	2,040,214	1,929,258	Declining
% of total assets	78.4%	74.3%	82.7%	84.2%	71.2%	
Other assets	-	-	-	-	-	Steady
% of total assets	0.0%	0.0%	0.0%	0.0%	0.0%	
Total assets	\$ 2,904,386	\$ 3,093,682	\$ 2,614,775	\$ 2,424,073	\$ 2,708,703	Fluctuating
Asset growth rate	-4.9%	6.5%	-15.5%	-7.3%	11.7%	
Current liabilities	\$ 2,718,374	\$ 2,303,573	2,341,954	\$ 2,474,529	\$ 2,540,642	Fluctuating
% of total assets	93.6%	74.5%	89.6%	102.1%	93.8%	
Total other liabilities	1,380,000	-	-	-	762,500	Fluctuating
% of total assets	47.5%	0.0%	0.0%	0.0%	28.2%	
Total liabilities	4,098,374	2,303,573	2,341,954	2,474,529	3,303,142	Increasing
% of total assets	141.1%	74.5%	89.6%	102.1%	121.9%	
Equity	(1,193,988)	790,109	272,821	(50,456)	(594,439)	Declining
% of total assets	-41.1%	25.5%	10.4%	-2.1%	-21.9%	
Total	\$ 2,904,386	\$ 3,093,682	\$ 2,614,775	\$ 2,424,073	\$ 2,708,703	Fluctuating

**Notes**

[1] Net loss represents net loss before extraordinary item. In 2010, TGP received \$2.1 million of insurance proceeds related to a fire. Net loss, as presented above, does not reflect this amount and analysis contained herein does not reflect this one-time gain.



Other Spectator Sports Industry	7.3%	7.1%	6.9%	6.7%	6.7%	Worsening
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse
<i>Pre-tax return on assets</i>						
TGP	-6.6%	-4.4%	-12.1%	-13.3%	-20.1%	Worsening
Other Gambling Industry	0.5%	0.5%	0.5%	0.5%	0.5%	Steady
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse
Other Spectator Sports Industry	7.3%	7.2%	7.1%	6.9%	6.9%	Worsening
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse
<i>Pre-tax return on revenues</i>						
TGP	-4.4%	-2.3%	-5.5%	-5.8%	-12.3%	Worsening
Other Gambling Industry	0.4%	0.4%	0.4%	0.4%	0.4%	Steady
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse
Other Spectator Sports Industry	5.2%	5.2%	5.2%	5.2%	5.2%	Steady
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse

Note

Some columns or amounts may not total due to rounding or truncating.  
Industry information from Integra reports (NAICS 713290 & 711219).

**EXHIBIT 3**  
**Tucson Greyhound Park, Inc.**  
**Historical and Forecasted Growth Compared with Industry Results**

**REVENUE TRENDS**

	Year Ended December 31,					5-Year Average
	2009	2010	2011	2012	2013	
<b><u>HISTORICAL REVENUE GROWTH</u></b>						
TGP	-12.8%	35.8%	-1.7%	-3.6%	-20.8%	-0.6%
Industry [1]	-5.2%	-0.5%	1.9%	2.4%	1.7%	0.1%
TGP vs. industry	Worse	Better	Worse	Worse	Worse	Worse
	Year Ended December 31,				4-Year Average	
	2014	2015	2016	2017		
<b><u>FORECASTED REVENUE GROWTH</u></b>						
Industry [1]	3.1%	1.0%	2.5%	2.2%		2.2%

**PRE-TAX INCOME TRENDS**

	Year Ended December 31,					5-Year Average
	2009	2010	2011	2012	2013	
<b><u>HISTORICAL PRE-TAX RETURN ON REVENUES</u></b>						
TGP	-4.4%	-2.3%	-5.5%	-5.8%	-12.3%	-6.1%
Other Gambling Industry [2]	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse
Other Spectator Sports Industry [2]	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
TGP vs. industry	Worse	Worse	Worse	Worse	Worse	Worse

**Notes**

Some columns or amounts may not total due to rounding or truncating.

[1] IBISWorld Industry Report 71121b Racing & Individual Sports in the U.S., November 2013.

[2] Industry information from Integra reports (NAICS 713290 - Other Gambling & 711219 - Other Spectator Sports).

**EXHIBIT 4**  
**Tucson Greyhound Park, Inc.**  
**Insurance Coverage**

Type of Insurance	Insurance Company	Coverage Period	Limit of insurance	A.M. Best Rating
Property insurance including: Blanket Building Blanket BPP Blanket Business Income	National Casualty Company	12/31/13 - 12/31/14	\$8,060,000 Included in property \$1,200,000	A+
Commercial general liability insurance including: General Liquor liability Commercial crimes Products - Completed Operations Personal and Advertising Injury Limits Each occurrence Medical expense	National Casualty Company	12/31/13 - 12/31/14	\$2,000,000 \$1,000,000 \$35,000 - \$50,000 per occurrence \$2,000,000 \$1,000,000 \$1,000,000 Excluded	A+
Commercial automobile insurance including: Bodily injury and property damage Medical payments Uninsured motorist Underinsured motorist	National Casualty Company	12/31/13 - 12/31/14	\$1,000,000 each accident \$5,000 each person \$1,000,000 \$1,000,000	A+

## APPENDICES

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- Appendix A: Statement of Qualifications
- Appendix B: Information Request Submitted by Veriti Consulting LLC
- Appendix C: Information Provided by Management

## APPENDIX A

### Statement of Qualifications

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#### **ELIZABETH B. MONTY, CPA/ABV, CFF, CFE, CVA, DABFA**

Elizabeth B. Monty is a co-founder and managing director with Veriti Consulting, LLC, which provides litigation support, business valuation and fraud and forensic accounting services. She was also previously a Managing Director at American Express Tax and Business Services, Inc. for 12 years, where she led the Litigation Support and Business Valuation Group in Phoenix, AZ. In that position, she has served as a testifying expert, consulting expert or project director in fraud detection, forensic analysis, calculation of damages and business valuation matters. Additionally, Ms. Monty was a member of the National Business Valuation and Litigation Support Steering Committees, which developed operating policies for the national practice of American Express Tax & Business Services.

Ms. Monty has more than 25 years of public accounting experience including performing tax and auditing services in addition to managing complex litigation support, business valuation, fraud examinations and forensic accounting procedures. In addition to business valuation and litigation support matters, Ms. Monty's experience includes extensive consulting with large privately held and publicly traded corporations and Indian tribal and other gaming entities on matters such as valuation, special financial projects, financial modeling, compensation calculations, internal control assessment, fraud investigations, and other related services. Other services include forensic accounting and fraud examinations for governmental agencies, including the State of Arizona's Game and Fish Division and the Arizona Department of Financial Institutions. She has also been appointed as a receiver for the Arizona State Board of Education.

She is licensed as a Certified Public Accountant in Arizona, and is Accredited in Business Valuation by the American Institute of Certified Public Accountants. She is also a Certified Fraud Examiner accredited by the Association of Certified Fraud Examiners, a Certified Valuation Analyst accredited by the National Association of Certified Valuation Analysts, a Certified Forensic Accountant, accredited by the American College of Forensic Examiners Institute, and a candidate member of the American Society of Appraisers.



*Credentials and Professional Associations*

Certified Public Accountant (CPA)

Accredited in Business Valuation (ABV)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Certified Valuation Analyst (CVA)

Diplomate of the American Board of Forensic Accounting (DABFA)

Memberships: American Institute of Certified Public Accountants, Arizona Society of Certified Public Accountants, Association of Certified Fraud Examiners, Arizona Association of Certified Fraud Examiners, and American Institute of Certified Public Accountants Litigation Steering Committee - 2004 through 2006.

*Education*

Ms. Monty received her Bachelor of Science degree with a major in accounting from Arizona State University (ASU) (Tempe, AZ), and has also completed advanced studies in the field of taxation. She has also served on the School of Accountancy's Advisory Board for the W.P. Carey School of Business at ASU.

*Litigation Support Experience*

Ms. Monty is highly experienced in areas such as fraud detection and prevention in various financial transactions, including investigation, criminology and legal elements of fraud, assisting counsel in forensic analysis of financial records, assisting counsel in calculation of economic damages, lost profits and breach of contract damage calculations, personal injury and wrongful death analysis, investigations of fraudulent conveyances, analysis of indicators of wealth related to punitive damage claims and valuation of closely-held businesses in connection with dissenting shareholder, marital dissolution and other matters. She has also been appointed as Examiner by the U.S. Bankruptcy Court in the District of Arizona, and has been an Investigative Reviewer for the Arizona State Board of Accountancy.

*Expert Testimony*

Ms. Monty has testified numerous times as an expert and has been designated as an expert witness or consulting expert in areas such as business valuation, lost profits and economic damage analysis, wrongful death and personal injury, marital dissolution matters, forensic accounting and analysis of financial records, and fraud detection and prevention in various financial transactions. She has testified on a wide array of matters in these courts:

- Maricopa County Superior Court, Phoenix, AZ
- Clark County Superior Court, Las Vegas, NV
- United States District Court, District of Arizona
- United States Bankruptcy Court, District of Arizona
- American Arbitration Association

*Publications and Presentations*

Ms. Monty has written several articles and given numerous presentations regarding business valuation, lost profit analysis, employee theft, and fraud and forensic accounting to law firms, brokerage and investment firms and various other organizations.

**JOHN P. WHITE, MBA, CPA/ABV, CFF, CBA, CFE, ASA**

John P. White is a co-founder and managing director of Veriti Consulting LLC, which provides litigation support, business valuation, receivership, forensic accounting, and fraud investigation services throughout the U.S. Mr. White's background includes adjunct faculty positions in Finance and Accounting at Radford University (Radford, VA), Mary Baldwin College and Virginia Western Community College (both in Roanoke, VA), and he served as controller for a multi-state wholesale company based in Virginia.

Mr. White is licensed as a Certified Public Accountant in Arizona. He also holds credentials in the business valuation discipline, including Accredited Senior Appraiser–Business Valuation from the American Society of Appraisers, Certified Business Appraiser from the Institute of Business Appraisers, and Accredited in Business Valuation from the American Institute of Certified Public Accountants. Mr. White is also a Certified Fraud Examiner, a credential conferred by the Association of Certified Fraud Examiners, a Certified Forensic Accountant, a credential conferred by the American College of Forensic Examiners, and is Certified in Financial Forensics by the American Institute of Certified Public Accountants.

Mr. White's experience includes extensive consulting with large privately held and publicly traded corporations, governmental entities, and tribal and other gaming entities on matters such as fraud investigation, valuation, receivership, special financial projects, financial modeling, compensation calculations, internal control assessment, forensic accounting, and other related services.

*Credentials and Professional Associations*

Certified Public Accountant (CPA)

Accredited in Business Valuation (ABV)

Certified in Financial Forensics (CFF)

Certified Business Appraiser (CBA)

Certified Fraud Examiner (CFE)

Accredited Senior Appraiser – Business Valuation (ASA)

Memberships: American Institute of Certified Public Accountants, American Society of Appraisers, Arizona Society of Certified Public Accountants, Association of Certified Fraud Examiners, Institute of Business Appraisers, and American College of Forensic Examiners.

### *Education*

Mr. White received his Master of Business Administration and Bachelor of Business Administration in Accounting degrees from Radford University (Radford, Virginia). He also completed advanced graduate studies in Accounting at Virginia Tech (Blacksburg, Virginia).

### *Litigation Support Experience and Expert Testimony*

Mr. White has presided over and participated in mediations involving closely held businesses for divorce and shareholder dispute matters. He has testified in Maricopa County Superior Court (AZ), Gila County Superior Court (AZ), Yavapai County Superior Court (AZ), and U.S. Bankruptcy Court as an expert witness. He has been retained in hundreds of cases as an expert witness and a consulting expert. He has served as the government's expert in U.S. Tax Court cases related to business valuation matters, and has been retained by taxpayers for expert witness services in U.S. Tax Court.

Mr. White has performed extensive fraud investigation, valuation, and consulting services for litigation-related cases, including divorce, dissenting shareholder actions, shareholder disputes, personal injury, tax matters, and similar cases. Mr. White is experienced in areas such as forensic accounting, financial modeling, fraud detection and prevention in various financial transactions. He has assisted counsel in forensic analysis of financial records, calculation of economic damages, lost profit and breach of damages calculations, and valuation of closely-held businesses in connection with dissenting shareholder, marital dissolution, and other matters. He has been appointed receiver on multiple matters, including financially distressed entities that required turnaround services.

### *Publications and Presentations*

Mr. White has written articles and given numerous presentations regarding business valuation, lost profit analysis, employee theft, and fraud and forensic accounting to law firms, brokerage and investment firms, state accounting societies, and various other organizations. He has spoken at national and international conferences on these topics as well.

**APPENDIX B**

**Information Request Submitted by Veriti Consulting LLC**

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**INVESTIGATION OF TUCSON GREYHOUND PARK, INC.  
BY VERITI CONSULTING LLC  
Documents Requested  
Submitted to Arizona Department of Racing on January 21, 2014**

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**INFORMATION NEEDED FROM TUCSON GREYHOUND PARK, INC.**

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The following documentation should be requested from Tucson Greyhound Park, Inc. ("TGP"), for completion of our investigation for three-year commercial racing permit renewal. The investigation period is January 1, 2011 through December 31, 2013 ("Investigation Period").

- Related party agreements between TGP and any entity in which a greater than 10% owner of TGP holds an equity interest.

For example, the management agreement between TGP and ZapCon, LLC is a related party agreement. If there is no formal agreement, please provide the minutes from any board of director meetings approving the agreement.

- Lease agreements on facilities used by TGP for revenue generation not elsewhere provided. Include all leases in effect during the Investigation Period.
- Documentation is needed for insurance policy coverage for TGP as of December 31, 2013. Summary or declaration pages for policies will be sufficient.
- Documentation evidencing any changes in real property ownership associated with TGP during the Investigation Period.
- Name and phone number of the partner(s) with Regier Carr & Monroe, LLP who oversee TGP's annual audit.

Please notify the Regier Carr & Monroe, LLP partner that either John White or Liz Monty with Veriti Consulting will be calling to schedule a time to meet with them to discuss matters pertinent to our investigation of TGP and to review the audit work papers.

If this is Dave Barber, please confirm his phone number and email address.

- Name and phone number of all parties to which TGP's has outstanding third-party debt obligations.

Notify TGP's banker(s) that either John White or Liz Monty with Veriti Consulting will be calling to discuss matters pertinent to our investigation.

Note: Contact information for trade vendors does not need to be provided.

- Personal financial statements for Philip Consolo and Joseph Zappala as of December 31, 2013.
- Provide financial statements, including balance sheet, income statement and statement of cash flows for Tucson Greyhound Park, Inc., as of December 31, 2013.
- Provide forecasted balance sheets, income statements and statement of cash flows for years ended December 31, 2014 through 2015.
- Forecast of anticipated capital expenditures in excess of \$10,000 for years ended December 31, 2014 through 2015.
- Copies of any business or operational plans prepared by TGP management that address any year beginning in 2011 through December 31, 2015.
- Aging of accounts receivable and accounts payable as of December 31, 2013.
- Schedule of fixed assets (or a depreciation schedule, if it is detailed) as of December 31, 2013.
- Documentation evidencing all new or renewed notes or loans between owners and TGP or related entities between January 1, 2011 and December 31, 2013.
- External documentation (i.e., not internally prepared) to substantiate current interest rates on all outstanding third-party debt as of December 31, 2013.
- Copies of all correspondence dated between January 1, 2011 and December 31, 2013, from lending institutions and third party lenders with which TGP has outstanding loans that relates to the loan covenants, changes in loan terms, or changes in loan conditions, of all existing third-party notes.
- Forms W-2 for salaries and wages or other amounts paid to any TGP owner or owner's family member for tax reporting years 2011 through 2013.
- Forms 1099 and supporting schedules for payments to any TGP owner or owner's family member for tax reporting years 2011 through 2013.

- Confirm there is no other pending or threatened litigation against TGP and its owners as of December 31, 2013, other than what has been previously submitted. For ongoing lawsuits, such as De Lange, please ask your legal counsel to provide a letter summarizing the probability and magnitude of any TGP loss, and the portion of the loss expected to be covered by insurance.

Please ensure all pending litigation involving TGP owners and officers is disclosed.

- Please provide a copy of TGP's audited financial statements for year ended December 31, 2010, included in the audited financial statements as of December 31, 2011. We have received the audited financial statements as of December 31, 2012 which includes December 31, 2011. Also, provide financial statements as of December 31, 2013 when available (internally prepared statements are fine, if the audited financial statements are not available).
- For Mr. Consolo – Please provide the Schedule K-1's applicable to individual tax returns as of December 31, 2011 and December 31, 2012. The Schedule K-1's submitted have an incorrect social security number on them. They may belong to his son.
- Veriti understands there was no change in TGP ownership from January 1, 2011, to present. However, if this understanding is incorrect and there was a change in ownership, please provide documentation associated with the change and prepare a schedule of ownership of TGP as of the most current date.

Also, if any ownership changes have occurred, provide an explanation of each respective change in ownership, including the date, buying and selling parties, and a narrative description of the transaction. Also include sales price and terms, and confirm whether the transaction was "arms-length" in nature.



## APPENDIX C

### Information Provided by Management

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The following information, provided by Management for purposes of this Investigation, is deemed reliable. Veriti has not taken steps to verify its accuracy or reliability, except as noted herein.

- Audited financial statements for Tucson Greyhound Park, Inc., for the years ended December 31, 2009 through 2013, prepared by Regier Carr & Monroe, LLP, CPAs.
- Tax returns for Tucson Greyhound Park, Inc., for the year ended December 31, 2009, prepared by Clifton Gunderson, LLP.
- Tax returns for Tucson Greyhound Park, Inc., for the years ended December 31, 2010 through 2012, prepared by Regier Carr & Monroe, LLP.
- Internally-prepared financial statements as of December 31, 2013.
- Renewal Application for Commercial Racing Permit for Tucson Greyhound Park, Inc., dated October 24, 2013.
- Race Track Key Persons Renewal Application for Philip Robert Consolo, received by ADOR on September 18, 2013.
- Race Track Key Persons Renewal Application for Joseph Zappala, received by ADOR on October 16, 2013.
- Race Track Key Persons Application for Dale Popp, dated December 27, 2013.
- Tucson Greyhound Park, Inc. asset depreciation report as of December 31, 2013.
- Individual income tax returns for Philip R. and Fredi Consolo, for the years 2010 through 2012, prepared by Gerson Preston Robinson and Co.
- Individual income tax returns for Joseph Zappala and Isabella Arjona-Zappala, for the years 2010 through 2012, prepared by Wells, Houser & Schatzel, P.A.
- Individual income tax returns for Dale and Susan Popp, for the years 2010 through 2012, self-prepared.
- Insurance information from National Casualty Company.
- Closing statement from Fidelity National Title Company.
- Letter from Munger Chadwick, P.L.C., dated February 10, 2014, regarding TGP's various legal issues.
- Industry information.
- Written responses to information requests from Management.
- Telephonic interviews with Management.

# CONTINUATION CERTIFICATE

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## Racing Permit Performance Bond

The **SureTec Insurance Company** (hereinafter called the Surety) hereby continues in force its Bond No. 3343677 in the sum of One Hundred Thousand and 00/100 (\$100,000.00) Dollars, on behalf of **Arizona Racing Commission**, Principal in favor of **Tucson Greyhound Park, Inc.**, Obligee subject to all the conditions and terms thereof for the current bond term April 30, 2014 through April 30, 2015 at location of risk.

This Continuation is executed upon the express condition that the Company's liability shall not be cumulative and shall be limited at all times by the amount of the penalty stated in the bond.

IN WITNESS WHEREOF, the Company has caused this instrument to be signed by its duly authorized Attorney-in-Fact and its corporate seal to be hereto affixed this 30th day of April, 2014.

SureTec Insurance Company  
Surety

By: 

Kevin Wojtowicz, Attorney-in-Fact

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Agent: Nielson, Wojtowicz, Neu & Associates  
1000 Central Avenue, Suite 200  
Saint Petersburg, FL 33705  
727-209-1803

THIS "Continuation Certificate" MUST BE FILED WITH THE ABOVE OBLIGEE.