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MAYOR

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION

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August 27, 2004

Mr. David Manning, Director of Finance
Metropolitan Government of Nashville and Davidson County
225 Polk Avenue, Suite 250
Nashville, TN 37203

Report of Internal Audit Section

Dear Mr. Manning:

We have completed a review of Nashville Speedway financial operations for the fiscal year ending June 30, 2000. This review was conducted at your request when the Board of Fair Commissioners raised concerns about the steep decline in Speedway lease revenues after the Speedway was purchased by Dover Downs (currently Dover Motorsports, Inc.). The Speedway had net income of approximately $560,000 in fiscal year 1998, net income of $482,946 in fiscal year 1999, and a reported net loss of $66,188 for fiscal year 2000. Under the lease agreement, the Fair Board received 50% of the Speedway's net income as compensation for use of the racetrack at the Fair Grounds.

In completing this review we retained the services of Crosslin, Vaden & Associates (CV&A) in October 2001. Working under our direction, CV&A reviewed the financial results of the Speedway's fiscal year June 30, 2000 operations, and they issued a report of their findings and conclusions, which is included with this report.

This work was started in late 2001, and most of the fieldwork was substantially completed in the late spring of 2002. Additional analysis and development of the findings and conclusions followed fieldwork. Because of the nature of this work and Metro's desire to be fair to Dover, the issuance of this report was delayed by a series of finding reviews, issues raised by Dover, and additional information provided by Dover. Dover, Metro Internal Audit and CV&A and their respective legal representatives participated in these reviews and dialogs. This report and attachment represent the final analysis of all additional information provided by Dover after they completed two reviews of CV&A's findings in early 2003, then again in late 2003.

Objectives, Scope and Methodology

The objectives and methods for conducting this review were to determine through interviews, analysis, and review of Dover's records whether expenses allocated to the Speedway by Dover were "ordinary and necessary business expenses for the operation" of the Speedway in accordance with the lease. Another objective was to determine whether it appeared that all Speedway revenues were reported, based on reviewing Dover's records of revenue collections. Because a high level analytical review of the Speedway's fiscal year June 30, 1999 financial results under Dover was performed as part of an Internal Audit conducted in 1999, we directed CV&A to conduct a review of the fiscal year June 30, 2000 financial results, after which we planned to consider whether it would be necessary to review additional time periods.

Findings and Recommendations

As a result of their review, CV&A issued their findings and conclusions. They have concluded that instead of a $66,188 net loss, the Speedway's fiscal year 2000 operations should have resulted in net income of $360,118, after adjustments for errors, unreported revenue, and expenses that CV&A concluded were not necessary to operate the Speedway. Details of the findings and conclusions are contained in the CV&A report.

Based on CV&A's findings and on the findings reported in the 1999 Internal Audit report, **we recommend that you take action to recover $239,431, plus interest**, from Dover as follows.

1. **$137,696 for fiscal year 2000 Speedway operations.** Dover had remitted $42,363 to the Fair Board early in fiscal year 2000, and the $137,696 represents the balance of the lease payment due to the Fair Board, based on 50% of the $360,118 net income as calculated by CV&A.
2. **$45,000 for fiscal year 1999 Speedway operations.** This represents 50% of the $90,000 annual salary paid to the former owner of the Speedway, which was charged to Speedway operations in fiscal years 1999 and 2000. Internal Audit questioned this expense in the Internal Audit report issued in 1999, and CV&A concluded as a result of their work that the expense was not appropriate. The related $45,000 for fiscal year 2000 operations is included in the $137,696 above. No action has been taken by the Fair Board to collect the $45,000 related to fiscal year 1999 operations after the 1999 Internal Audit.
3. **$56,735 for payments made to CV&A for this audit to date.** The lease requires the Speedway to bear the full cost of any audit conducted by Metro if the audit results verify that Speedway net income used to calculate the lease payment due to the Fair Board had been understated by 5% or more. Metro has paid the CV&A billings to date, and Dover is obligated to reimburse Metro for these and any additional audit expenses billed.

4. **Interest calculated from the date the additional lease payments due should have been remitted to the Fair Board (estimated at $20,000 through 6/30/04).** The lease requires interest to be paid on any amounts an audit determines were underpaid to the Fair Board. As of June 30, 2004, the estimated amount of interest due is approximately $20,000. The full amount of interest will depend on when Dover actually remits the amounts due to Metro.

In addition, our preliminary analytical review of the Speedway's fiscal year 2001 financial results of operations indicate that it is likely that Dover also underpaid Metro for use of the Fair Board's racetrack during fiscal year 2001. We are, therefore, recommending that you consider reviewing the financial results of the Speedway's fiscal year June 30, 2001 operations if the recovery efforts related to the underpayment for the 2000 fiscal year are expected to be successful.

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We would like to express our appreciation for the assistance and support provided by the Fair Board staff throughout this work. This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Kim McDoniel
Internal Audit Manager

Copy: Mayor Bill Purcell
Board of Fair Commissioners
David Jeter, Tennessee State Fair Director
Howell Townes, Tennessee State Fair Accountant
Karl F. Dean, Director of Law
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Director of Finance
Metropolitan Council Audit Committee
Richard V. Norment, Director of County Audit
KPMG, Independent Public Accountant

NASHVILLE SPEEDWAY, USA

INTERNAL AUDIT MEMO
(for the year ended June 30, 2000)

April 1, 2002

August 19, 2004

Ms. Kim McDoniel
Internal Audit Director
Metropolitan Government of Nashville and Davidson County
222 3rd Avenue North, Suite 401
Nashville, TN 37201

Dear Ms. McDoniel:

We have completed our internal audit procedures on behalf of the Internal Audit division of the Metropolitan Government of Nashville and Davidson County (Metro) as set forth in our contract dated October 10, 2001. The memo presented herein includes the findings and principal conclusions from our internal audit procedures related to the Nashville Speedway, USA.

The accompanying memo was prepared for use by Metro for its consideration of the activities of the Nashville Speedway, USA. It is intended that this memo, after concurrence by Metro Internal Audit and appropriate Metro officials, be issued by Metro Internal Audit to the Director of Finance. Notwithstanding these limitations, it is understood that this document is subject to public information laws and, as such, can be made available to the public. Neither this memo, nor any portion thereof, may be used for any other purpose without the prior written consent of Crosslin, Vaden & Associates, P.C.

The findings and conclusions contained in this memo reflect the analysis of primary and secondary sources of information. We have utilized sources that are deemed to be reliable but cannot guarantee their accuracy. We have no obligation, unless subsequently engaged, to update this memo or revise this analysis as presented due to events or conditions occurring after the date of this memo.

We have enjoyed working on this engagement and value our relationship with Metro. We look forward to the opportunity to provide you with professional services again in the future.

Sincerely,

Dell Crosslin

J. Dell Crosslin
Managing Director

Nashville Speedway, USA
Internal Audit Memo
(for the year ended June 30, 2000)
April 1, 2002

INTRODUCTION AND BACKGROUND

Crosslin, Vaden & Associates, P.C. (CV&A) was engaged by the Internal Audit Department of Metropolitan Government of Nashville and Davidson County to perform internal audit procedures under the supervision of the Metro internal audit department regarding the lease calculation between Nashville Speedway, USA (the Nashville Speedway) and the Tennessee State Fair Board (the Fair Board) for the fiscal year ended June 30, 2000. The engagement was not intended to be an audit in accordance with generally accepted auditing standards nor an agreed-upon procedures engagement, but an internal audit project. The original lease calculation was performed for 2000, as well as for several prior years, by a local certified public accountant. The lease payment due to the Fair Board is calculated at 50% of net income as defined in the lease agreement.

The Nashville Speedway, wholly owned and operated by Dover Downs Entertainment, Inc., (currently Dover Motorsports, Inc.), at June 30, 2000, held rights to several NASCAR and other automobile touring racing series events. It also hosted a weekly NASCAR racing series during the summer. The Nashville Speedway is located near downtown Nashville and leases the track and surrounding facilities used for their races from the Fair Board.

The Nashville Speedway was opened in 1904. It hosted its first Winston Cup (the largest, most visible touring series) event in 1969. The Nashville Speedway held two Winston Cup races each year from 1971 through 1984 and continued to host the NASCAR weekly racing series and other large, touring series events through the 2000 racing season. The Nashville Speedway was owned and operated by Robert Harmon and Velma Jones until 1997, when Dover purchased all outstanding shares of the Nashville Speedway's stock. All race rights became the property of Dover at that time, as did the Nashville Speedway's lease with the Fair Board.

Dover also announced that it was their intention to build a Superspeedway in the Nashville area. The Superspeedway opened in the spring of 2001; and the Busch Series Grand National Race and the Craftsman Series Truck Race moved from the Nashville Speedway to the Superspeedway for the 2001 racing season. Dover continued to operate the Nashville Speedway until January 2002.

The annual lease calculation for the track and surrounding facilities is based on revenues and operating expenses of the Nashville Speedway. The calculation is defined by the original lease agreement, entered into in 1995. Once the net income, as defined, for any year is appropriately derived, fifty percent of that net income is due to the Fair Board as lease revenue. For purposes of the calculation of the operating expenses, the relevant standard set forth in the lease was that of "...ordinary and necessary business expenses for the operation of the Racetrack and Grandstand as defined by Internal Revenue Code, Sec. 162...". Based on discussion with Metro Internal Audit personnel the intent of the agreement was that "ordinary and necessary" expenses as defined by Internal Code, Sec. 162 did not merely mean that they are an item that could be tax deductible. Their understanding of the intent of the agreement was that the various expense items be those that were "ordinary and necessary" for the operation of a short track in Nashville, Tennessee. The propriety of the various items should be based on the necessity of the expense based on experience in our particular business community. These types of items are defined by IRC Code Sec. 162 as to categories, but that alone does not make the expense proper or ordinary and necessary.

Certain situations noted during our internal audit procedures in our judgment appeared to not meet the ordinary and necessary test as described above to operate the Nashville Speedway. Several of those situations included having two general managers, an expensive ticketing system and certain marketing expenses. Each of these items will be addressed specifically in the following sections of this memo.

Annual net income for the Nashville Speedway peaked in 1996 at $959,728. Since 1996, the net income dropped significantly through 2000 when the Nashville Speedway reported a loss of $66,188. Following is a summary of the past three fiscal years of Nashville Speedway operating results, which is the basis for calculating the lease payments payable to the Fair Board. The 1998 fiscal year amounts are estimated based on monthly statements used during previous Internal Audit work, and the 1999 and 2000 fiscal year amounts were reported by Dover.

	1998	1999	2000
Revenue	$3,471,168	$3,923,763	$3,610,134
Expenses	2,911,342	3,440,817	3,676,322
Net income/(loss)	$ 559,826	$ 482,946	$ (66,188)

The drastic decline in fiscal year 2000 operating results for the Nashville Speedway and, hence, the absence of lease revenues for the Fair Board, caused concern, and Metro Internal Audit contracted CV&A to assist their internal audit department in reviewing the July 1, 1999 through June 30, 2000 fiscal year operating results.

Planning Procedures

During the initial planning phase of the engagement, team members met with employees of the Fair Board and Metro Internal Audit to discuss their preliminary concerns about the lease calculation and areas of possible concentration. Employees from the Fair Board represented instances in which their concern was that Dover incurred costs on behalf of the Superspeedway and expensed them to the Nashville Speedway. This approach would reduce the rent paid to the Fairgrounds. Some concerns mentioned in particular included:

- A significant increase in the number of employees

- It was reported that Superspeedway materials were being copied and printed in the Nashville Speedway office

- The concern that the Nashville Speedway's revenues and expenses were not separated from those of the Superspeedway in the general ledger maintained at Dover.

- It was reported that one of the Nashville Speedway employees showed a Fairgrounds employee a marketing campaign he was going to pitch to a national soft drink company that incorporated the Nashville Speedway and the Superspeedway. These comments raised questions about expense allocations and the portion of that employee's time spent on the Superspeedway.

- Several expense line items increased drastically from 1999 to 2000 without apparent business reasons or justification as to why the additional expenses were ordinary and necessary to the operations of the Nashville Speedway. The significant cost increases were of significant concern in light of the historical perspective that Dover, shortly after the time period in question, moved its local presence to the new Superspeedway and discontinued operations at the Nashville Speedway.

- A former Nashville Speedway employee approached the Fair Board staff about renting additional space in order to segregate employees working on the Superspeedway from employees working on the Nashville Speedway. All employee salaries at that time were paid by the Nashville Speedway.

After that initial meeting, it was determined that the procedures would include gaining an understanding of how Dover was operating the Nashville Speedway in relation to the Superspeedway, reviewing documentation for certain revenues and expenses, and analytically reviewing revenues and expenses to determine their reasonableness based on past operations and being ordinary and necessary to the Nashville Speedway. Also, the procedures were to include interviewing current and former Dover employees, reviewing certain agreements related to the Nashville Speedway, examining invoices and other support for expenses, and other procedures as approved by Metro Internal Audit which resulted from the results of the initial work to be performed.

Following is an overview of our understanding of Dover's operations and the accounting for the Nashville Speedway, followed by a description of the internal audit procedures performed and findings for each revenue and expense category.

The information below was gathered through vouching of expenses and analytical review of financial information as well as through various communications with Metro and Fair Board personnel and interview sessions. We communicated with all levels of Nashville Speedway, USA personnel.

Dover's Operation of the Nashville Speedway

Dover increased the total number of employees at the Nashville Speedway. The employee roster, which included no more than ten full-time employees before Dover Downs took control of the operation, included fifteen full-time employees at June 30, 2000. On the employee roster was a general manager, a president, a director of operations, a ticketing department consisting of three employees, a receptionist, a bookkeeper, two maintenance personnel, a director of public relations, a director of sales and a marketing and sales staff of three other persons. Several of these employees were added in 1999 or 2000, only months before construction of the new Superspeedway were to be completed.

Per comments obtained during the interview process, Dover Downs management attended events at Nashville Speedway. Dover Down's personnel frequently traveled to Nashville to train and evaluate Nashville Speedway's staff's performance at race events as well as the overall conduct of the event. Though Dover Downs personnel were often present at the track, attendance for weekly racing series events and general public enthusiasm appeared to suffer per analysis of the weekly series revenues, conversations with former track employees and discussions with Fair Board personnel.

Per discussions in the interview process, Dover Downs used a ticket sales software package (Paciolan) for many of its venues. Paciolan allows event tickets to be sold "in house" without using a ticket sales agency. The Paciolan system is maintained at the venue facility and apparently interfaces to the Dover Downs main server in Dover, DE. The system was implemented at Nashville Speedway USA in late 1999. Until this time, a third party ticketing agency (Ticketmaster) was used for the three larger racing events. Near the time the Superspeedway was to open, Dover Downs installed the Paciolan system at the Nashville Speedway for the three reserved seat events held at Nashville Speedway. Dover Downs trained the Nashville Speedway USA employees on using the program which was more complicated than Nashville Speedway's previous ticket sales program. Dover subsequently moved to the Superspeedway both this ticketing system and the numerous employees who had been trained on the system while working at the Nashville Speedway. Installing the system also had a definite financial impact on expenses related to ticket sales for the touring series races in 2000, the final season that these series races would compete at Nashville Speedway. Nashville Speedway had always used Ticketmaster for the larger events. A $50 ticket for an event sold through Ticketmaster would net the Nashville Speedway $50 because there were no ticket charges. All Ticketmaster charges were in the form of handling fees paid directly by the consumer. On the other hand, with the Paciolan system, there were additional costs which have not been quantified for the tickets, credit card fees, and the personnel and training costs that were associated with the Nashville Speedway implementing the Paciolan system. It is a subjective judgment as to whether the costs incurred relating to this system were ordinary and necessary for the operation of the Nashville Speedway. (Per conversations with a Nashville Fairboard employee, there were no significant operational issues with Ticketmaster in prior years.)

Additionally, Dover Downs heavily increased advertising for the special event races at the Fairgrounds, like the annual BUSCH series Grand National race and the Craftsman Series Truck Race. Advertisements included a large increase in magazine and newspaper ads, television spots and radio announcements, even though each of the two races mentioned above and some of the other touring circuit races were sold to near capacity in past years. Due to this fact, it appears that increased advertising dollars apparently would yield limited increased revenues. The ordinary and necessary aspect of such increased advertising costs are also questioned since these races were subsequently moved to the Superspeedway and no longer would benefit the Nashville Speedway.

From interviews with former employees of Nashville Speedway and discussions with Fair Board personnel, there was concern that because separate general ledgers were not used for the two tracks, mailings supporting the Superspeedway could have been produced, mailed, and expensed to Nashville Speedway.

Deficiencies in the Accounting and Financial Reporting Processes

All local financial activities for Nashville Speedway and the Superspeedway were recorded in the same general ledger. Whenever attempts were made to test an allocation of expenses between the Nashville Speedway and the Superspeedway, the allocations were difficult to support and test. It appeared that limited effort was made to distinguish the proper classification of expenses between the two tracks. It appears logical that a separate general ledger and accounts would have been maintained for the Nashville Speedway.

Before March 2000, when Dover Downs hired a new bookkeeper, most general ledger activity was extremely difficult to trace. General ledger entries did not agree, in large part, to supporting documentation and there were entries that were unexplainable by the current Nashville Speedway staff. Procedures performed could not reconcile race purse fees for numerous months of the 1999-2000 race season to proper monthly general ledger postings. We also could not reconcile admissions and pit credential sales revenues to race documentation.

There were numerous inter-company general ledger entries between Dover Downs and Nashville Speedway. Given the nature of their relationship, inter-company entries are understandable. However, when supporting documentation for these entries was requested, usually Dover Downs personnel supplied an inter-company journal entry form or an inter-company allocation spreadsheet. In these cases, no substantive supporting documentation explaining why the expense was allocated to the Nashville Speedway or why the expenditure was necessary to operate the Nashville Speedway was given. From the evidence provided, we were not able to determine the appropriateness of several charges, as described below. We also found certain instances where charges for another Dover Downs facility were made to Nashville Speedway. These charges were generally travel, meeting and lodging expenses, meals and entertainment expenses and advertising expenses.

Employees were not required to track time or expenses spent on projects for either of the racetracks. As a result, all wages paid by Dover to local employees were charged to the Nashville Speedway.

REVENUE AND EXPENSE TESTING AND FINDINGS

Considering the above accounting deficiencies and after a thorough variance analysis, we determined the areas of revenue and expense to test and the means by which they would be tested. The specific approach was reviewed with and approved by Metro Internal Audit. Below is an outline of procedures performed for each revenue and expense line item, including a description of any adjustments recommended in order to fairly reflect the Nashville Speedway's results of operations. A comparison of fiscal year 1999 and fiscal year 2000 revenues and expenses is included as attachment A.

Revenues

Admissions revenue

Admissions revenue decreased $143,229 from 1999 to 2000. We examined race records and reconciled ticket sales to cash receipt logs for each race night during fiscal year 2000. The cash receipt logs were then reconciled to deposit slips and the corresponding deposit entry in the appropriate bank statement. Except for the item below, all procedures specified were performed satisfactorily without exceptions that would affect the lease calculation.

Documented ticket sales of $7,676 could not be reconciled to postings as revenue in the general ledger. The ticket sales were for weekly racing events, and the amounts were taken from ticket sales information in the weekly race folders. It was concluded that these revenues were never recorded by the Nashville Speedway, and an adjustment was proposed to record this amount.

Program ads

We examined the race programs for the two major races during the 1999-2000 race season and reconciled advertisements with customer lists and corresponding revenues recorded in the program ad, billboard and signage general ledger accounts. Except for the item below, all procedures specified were performed satisfactorily without exceptions that would affect the lease calculation.

The Nashville Speedway ran a full color, two-page ad on pages 24 and 25 of the 2000 BUSCH race program detailing the progress of the construction of the new track and the amenities it would offer when completed. No charge was paid to the Nashville Speedway from the Superspeedway or Dover Downs for the ad. Based on a discussion with a former marketing department employee of the Nashville Speedway, such an ad would cost approximately $2,300 to $2,500 if purchased by an outside vendor. It was recommended that an adjustment be made to program ad revenues for $2,300 to compensate the Nashville Speedway for the Superspeedway ad.

Billboards and signage revenues

We obtained a copy of the schedule for billboard and signage revenue for the fiscal year and reconciled the contracted amounts to invoices from the Nashville Speedway to the corresponding vendor or to executed contracts. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Television /Radio revenues

The general ledger activity for television and radio revenues was satisfactorily tested. Entries for each race were reconciled to contracts from NASCAR and the Motor Racing Network for the applicable races. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Pit credential revenues

Race documentation and pit credential logs were reviewed for each race of the 1999-2000 season. The pit credential sales log for each weekend race was reconciled to the cash receipts logs. The amounts were then reconciled to the corresponding deposit slip and the deposit amount in the applicable bank statement. Except for the item below, all procedures were performed satisfactorily without exceptions noted that would affect the lease calculation.

We could not reconcile $1,382 of documented pit credential sales to revenue in the general ledger. This amount represents pit pass sales per the pit credential sales information in the weekly race folders. It was concluded that these revenues were never recorded by the Nashville Speedway, and an adjustment was proposed to record this amount.

Expenses

To estimate the financial impact of expenses incurred by Nashville Speedway that appeared to be in excess of "ordinary and necessary business expenses" for the 1999-2000 fiscal year, supporting documentation was reviewed for each expense category included in the lease calculation. The change in those expense amounts was analyzed by comparing them to the 1998-1999 fiscal year amounts. In examining the expenses, it was determined that certain categories would not be subject to change as a result of Dover Downs' approach to operations or that any change would be insignificant. For those categories, the expenses were verified and it was concluded that actual expenses for the 1999-2000 fiscal year were reasonable. For example, the increase in ambulance services is primarily due to an increase in the rate charged by the service provider. No adjustments were proposed for these categories unless specific errors were found.

For all other categories, the position has been taken that any increase over 10% of the 1998 – 1999 amount was not considered ordinary and necessary to specific operations of the Nashville Speedway. This 10% amount is subjective and was included in the appropriate calculations after consultation and approval by Metro Internal Audit.

In determining the amount (10%) to be used to apply to the 1998 – 1999 expense amounts, we considered historical expenditure data and trends, inflation, the necessity of an increase in personnel, the installation of a new ticket system, increased marketing costs offset by a drop in revenues, the lack of certain specific marketing documentation, interviews of various persons and various other observations.

Wages

Employee payroll records were reviewed for each pay period during the fiscal year. All employees on the payroll records were employed by the Nashville Speedway. We spoke with several current and former employees of the Nashville Speedway (some now employees of the Superspeedway) concerning issues presented to us by Fair Board personnel and the appropriateness of wages allocated to the Nashville Speedway. We also examined the employment agreement between Robert Harmon and Dover Downs and considered whether these expenses were ordinary and necessary business expenses for operation of the Nashville Speedway. Except for the items below, all procedures as noted were performed satisfactorily without exception that would affect the lease calculation.

Robert Harmon was listed as the President of Nashville Speedway, USA for the 1999-2000 fiscal year. Mr. Harmon was living in Prattville, Alabama and came to the Fairgrounds facility for the larger events and, occasionally, for the weekly races. However, his attendance was irregular at best, and his involvement in the daily management and operation of the track appeared insignificant. This observation was supported by our interviews. Nashville Speedway employed a full-time general manager, a full-time director of marketing, a sales and marketing staff, a full-time director of ticketing, a ticketing staff, a full-time director of public relations and a full time director of sales. Though Mr. Harmon's involvement with the track was limited, his salary exceeded the salaries of all other employees of the Nashville Speedway. Without evidence detailing more extensive involvement in daily operations of the Nashville Speedway by Mr. Harmon and considering Mr. Harmon's apparent rare presence at the facility, it was again concluded that Mr. Harmon's salary did not constitute an ordinary and necessary expense of the Nashville Speedway. and therefore should be excluded from expenses in making the lease calculations.

Also, an adjustment of $63,935 has been included to reflect the increase in salaries over a 10% increase from the 1999 fiscal year. This adjustment represents costs incurred above what would normally be considered "ordinary and necessary." This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Health insurance

The Nashville Speedway's health insurance policy and the roster of included employees were reviewed. Employees included on the roster were employees of Nashville Speedway. An adjustment of increases in health insurance expense over 10% (an adjustment of $13,616) has been included to reflect a similar adjustment to wages. All procedures were performed satisfactorily without noting any other exceptions that would affect the lease calculation.

Purses

Supporting race documentation was reviewed for each of the races during the 1999-2000 fiscal year. Nashville Speedway had documentation detailing all participants and the purses paid to each participant for each race of the year. Except for the items noted below, all procedures were performed satisfactorily without exceptions that would affect the lease calculation.

Expenses totaling $3,147 were charged to the general ledger accounts for purse expenses that were not supported by any type of documentation. Most of the race purse information was supported by records of races with payouts for each participant. These general ledger charges were unsupported and, therefore, it was recommended that these amounts be noted as an adjustment to expenses for the lease calculation.

Cancelled checks totaling $1,486 were outstanding on the December 2000 bank reconciliation. The checks represented race purse amounts that had been lost or destroyed. The Nashville Speedway reissued replacement checks. The original checks were cancelled, but were never removed from expense in the general ledger. This is an overstatement of expenses and therefore was an adjustment.

Outstanding checks totaling $7,122 on the same bank reconciliation had been outstanding for over one year. Considering check cancellation problems as detailed above, these amounts were included as an adjustment to expenses for the lease calculation.

Sanction fees

Sanction fees were verified to race documentation for each race in the 1999-2000 fiscal year. Nashville Speedway had documentation for all sanction fees paid to NASCAR and any other race sanctioning body for races held at the Fairgrounds track. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Liability Insurance

Adequate information requested from Dover regarding liability insurance was never received. An adjustment was therefore included for $22,974, which represented the increase in fiscal 2000 expense over the 1999 expense amount, plus 10%.

Marketing

All charges to the general ledger for marketing were reviewed. We examined invoices from advertising agencies, television studios, radio stations, and newspaper and magazine publications. The content of the marketing invoice was reviewed, when possible, by examining the print ad, or manuscript for the television or radio ad. During testing of marketing expenses, four invoices received from Dover Downs in 2003 totaling $5,089 did not agree with invoices examined for the same expenditures during original fieldwork in 2001. The original invoices examined included manual notation of the purpose for the expenditures. They were noted as not relating to the Nashville Speedway. The invoices received in 2003 had no such documentation. These expenditures have been disallowed due to information noted on the original invoices examined. These altered invoices cause concern regarding other marketing documentation. After discussion and approval by Metro Internal Audit, an adjustment of $103,208 has been included to reflect the increase in marketing expenses over a 10% from the 1999 fiscal year. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Telephone

Telephone records for the 1999-2000 fiscal year were reviewed. We examined long distance activity, cellular telephone charges and associated roaming and long distance charges, and the number of lines in service at the Nashville Speedway facility. Except for the included adjustment of $23,465 as noted on Schedule A for the amount that was considered as an unreasonable increase for the fiscal year ended June 30, 2000, all procedures were performed satisfactorily without exceptions that would affect the lease calculation. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

We did notice increased long distance call activity from the Fairgrounds facility to Dover Downs in 1999, the addition of a significant number of telephone lines that were not in service for prior years, and other unsupported telephone charges. The adjustment was proposed to account for these situations in the lease calculation. They were questioned as not being ordinary or necessary for operation of the Speedway.

Security

All charges related to security expense in the general ledger for the 1999-2000 fiscal year were reviewed. Amounts were verified to invoices and/or documentation of security personnel on hand at race events. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Ambulance services

Race documentation of ambulance services contracted at each race was reviewed. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Interest expense

General ledger activity for interest expense for the 1999-2000 fiscal year was reviewed. We examined detailed entries for propriety and recording. All procedures were performed satisfactorily without any exceptions being noted that would affect the lease calculation. We did note, however, that $2,953 should have been classified as "taxes admissions revenues," which $514 should have been classified as 'licenses and business fees," and that other minor amounts were misclassified in this account.

Janitorial services

General ledger activity and detailed charges to the janitorial services accounts for the 1999-2000 fiscal year were reviewed. We examined invoices and race documentation (when available) for support of each charge. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Sanitation and trash removal

General ledger activity and detailed charges to the sanitation and trash removal accounts for the 1999-2000 fiscal year were reviewed. We examined invoices and race documentation (when available) for support of each charge. All procedures noted were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Contracted service firemen

All charges in the contracted firemen accounts in the general ledger were compared to race related documentation detailing firemen on duty for each race event and the amount paid to each fireman. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Contracted service announcers

Charges in the contracted announcers general ledger accounts were compared to race related documentation detailing announcers on duty for each race event and the amount paid to each announcer. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Legal and Professional

Each entry in the general ledger for legal and professional fees for the 1999-2000 fiscal year were reviewed and compared to amounts of invoices or other supporting documentation. An adjustment of $3,000 was included on schedule A for legal and professional expenses for which Dover has not provided adequate support.

Repair and maintenance

Each entry in the detailed general ledger for the repairs and maintenance expense accounts in the 1999-2000 fiscal year was reviewed. Amounts were verified to invoices or other reasonable supporting documentation. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Contracted services other

Charges in the other contracted services general ledger accounts were compared to timesheets for ticket-takers, other part-time ticketing personnel, race related documentation of other contracted employees for race events, and invoices for specific work to be performed at the track. All procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Program printing costs

General ledger activity for program printing costs was reviewed for reasonableness and appropriateness. Material or unusual items were compared to supporting documentation. All procedures were performed without any exceptions noted that would affect the lease calculation.

Miscellaneous operating supplies

The general ledger activity for miscellaneous operating supplies was reviewed for reasonableness and appropriateness. Material or unusual items were verified to supporting documentation. Except for the included $6,650 adjustment as noted on Schedule A for the amount considered as an unjustified increase for the fiscal year ended June 30, 2000, all procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Banquet expense

An adjustment of $3,402 was included for banquet expenses based on the increase in the expense for 1999-2000 over the prior year amount. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Office Supplies

The general ledger detail for office supplies expense was reviewed for reasonableness and appropriateness. Material or unusual items were verified to supporting documentation. Except for the included $5,524 adjustment as noted on Schedule A which was considered an unreasonable increase for the fiscal year June 30, 2000, all procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation.

Hospitality expense

The increase in hospitality expense for 1999-2000 over the prior year amount is related to the increase in hospitality revenues, and the actual expense is considered reasonable.

Tickets, Passes and Credentials

An adjustment of $3,136 was included for tickets, passes and credential expenses based on the increase costs in supplying tickets for all races. In the past Ticketmaster was used at a limited cost to the Nashville Speedway. The amount was calculated based on the increase in the expense over the prior year amounts. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Postage

The general ledger detail for postage expense was reviewed for reasonableness and appropriateness. Material or unusual items were compared to supporting documentation. Except for the item noted below, all procedures were performed satisfactorily without exceptions that would affect the lease calculation.

An adjustment of $7,180 was included for postage expense due to the increase in the expenses over the prior year amount. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Travel, meeting & lodging

Travel reimbursement requests, along with supporting invoices and receipts for travel expenses charged through the general ledger were reviewed for propriety. We attempted to determine the reason for each expenditure, the propriety as a business expense and who was involved. Except for $20,327 that was incorrectly posted or not adequately supported, other procedures were performed satisfactorily without exceptions noted that would affect the lease calculation. An adjustment was included for this amount, as noted on Schedule A.

Meals and entertainment

Meals and entertainment expenditures were reviewed in conjunction with travel, meeting and lodging expenditures. We attempted to determine the reason for each expenditure, the propriety as a business expense, and who was involved. We compared posted expenses in the general ledger to reimbursement requests, invoices and receipts. Except for an included $2,526 adjustment as noted on schedule A for the amount that was considered an unreasonable increase for the fiscal year ended June 30, 2000, all procedures were performed satisfactorily without exceptions noted that would affect the lease calculation. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

License and business fees

The general ledger detail for license and business fees expense was reviewed. Each entry in the account for the fiscal year was reviewed/compared to the source of the expense and subsequently the reasonableness and propriety of the charge. Except for $13,246 of intercompany allocated expenses that Dover did not provide adequate support for, all procedures were performed satisfactorily without any exceptions noted that would affect the lease calculation. An adjustment was included for this amount, as noted on Schedule A.

Bank service charges

General ledger activity for bank service charge expenses was reviewed. We examined each entry in the account for the fiscal year, determined the source of the expense and the reasonableness and propriety of the charge. Except for an included $9,280 adjustment as noted on schedule A for the amount that was considered an unreasonable increase for the fiscal year ended June 30, 2000, all procedures were performed satisfactorily without exceptions noted that would affect the lease calculation. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Miscellaneous expenses

General ledger detail for miscellaneous expenses was reviewed. We examined each entry in the account for the fiscal year, determined the source of the expense and the reasonableness and propriety of the charge. An adjustment of $11,724 was included for miscellaneous expenses based on the increase in the expense for 1999-2000 over the prior year amount. This 10% amount is subjective and was included in the calculation after consultation and approval by Metro Internal Audit. See the second paragraph on page eight for a more detailed explanation of the factors used to arrive at the 10% calculation.

Other procedures were performed satisfactorily without exceptions being noted that would affect the lease calculation.

Total expenses increased only 7% from 1999 to 2000, however, two expenses decreased significantly which caused the percentage increase to not accurately reflect the trend in expenses. Purses expense decreased $87,555 due to lower prizes being paid to participants and television production services expense decreased $229,600 due to no races at the Speedway being broadcast on television for fiscal 2000. Adjusting for the effects of these two accounts yields an increase in all other expenses of approximately 33% from 1999 to 2000. Furthermore, accounts for expenses which were adjusted using the 10% increase calculation as identified earlier in this report increased in total $321,156 from 1999 to 2000, an increase of approximately 47%.

CONCLUSION

Due to the adjustments identified in this memo and detailed in Attachment A, it was concluded that Dover should remit an additional payment of $137,696 to the Fair Board to satisfy the lease requirements for the 2000 fiscal year. This amount is calculated as follows:

Fiscal Year 2000 net loss reported by Dover	$(66,188)
Add recommended adjustments to:	
Increase revenues	11,358
Decrease expenses	414,948
Revised net income	360,118
Multiplied by percentage due to Fair Board	50%
Total lease payment due to Fair Board	180,059
Less: Amount remitted to Fair Board	(42,363)
Amount due to Fair Board for fiscal year 2000	$137,696

Although it requires a subjective judgment, it appears that expenses were paid by the Nashville Speedway beyond those that were reasonable and necessary to operate the Nashville Speedway in a manner comparable to prior years. Certain expenses appear that they might be reasonable for Dover, but they do not appear to be ordinary and necessary for the operation of the Speedway.

Furthermore, upon consideration of the items and adjustments considered in this memo, and after review of the initial 2000-2001 annual lease calculation, it is recommended that the 2000-2001 Nashville Speedway lease calculation be reviewed for similar situations.

Nashville Speedway, USA
Attachment A

Summary of 6.30.00 Revenue and Expense Testing Results

Revenue Category	Actual for Fiscal Year 6.30.99	Actual for Fiscal Year 6.30.00	Recommended Adjustments for 6.30.00	
Admissions	$ 1,514,228	$ 1,370,999	$ 7,676	(a)
Parking	-	5,474	-	
Programs	11,889	18,358	-	
Program Ads	-	1,000	2,300	(b)
Billboards and Signage	74,998	165,659	-	
Banquet Revenues	10,600	10,890	-	
Miscellaneous Revenues	88,521	79,373	-	
Interest Income	25,124	9,350	-	
Hospitality Income	123,314	244,270	-	
Race Sponsor	455,870	477,699	-	
Television/Radio Revenue	744,438	477,611	-	
Other Operating Revenue	247,207	177,797	-	
Pit Credentials	509,157	490,092	1,382	(c)
Souvenir Revenue	57,343	50,881	-	
Tire Revenue	61,074	30,681	-	
Total Revenues	$ 3,923,763	$ 3,610,134	$ 11,358	

(a) Adjustment consists of $4,188 for complimentary race tickets given to Wilson County officials for various races and $3,488 for revenues received for documented ticket sales that were never recorded to revenues through the general ledger.

(b) Adjustment is for a two page, full color ad for the new Superspeedway on pages 24 & 25 of the 2000 BUSCH series race program.

(c) Adjustment is for documented pit credential pass sales that were never recorded to revenues through the general ledger.

Nashville Speedway, USA
Attachment A

Summary of 6.30.00 Revenue and Expense Testing Results

Expense Category	Actual for Fiscal Year 6.30.99	Expected Increase based on 1999	Projected for Fiscal Year 6.30.00	Actual for Fiscal Year 6.30.00	Recommended Adjustments for 6.30.00	
Wages	$ 267,235	$ 26,723	$ 293,958	$ 357,893	$ 63,935	(12)
Former president's salary	90,000	N/A	-	90,000	90,000	(1)
Health Insurance	17,699	1,770	19,469	33,085	13,616	(12)
Other Payroll Costs	28,398	Actual	11,625	11,625	-	(2)
Purses	1,525,629	Actual	1,438,074	1,438,074	11,755	(3)
Appearance Money	-	Actual	1,120	1,120	-	(4)
Sanction Fees	257,165	Actual	305,537	305,537	-	(4)
Trophies	6,267	Actual	4,207	4,207	-	(4)
Liability Insurance	10,503	1,050	11,553	34,527	22,974	(12)
Advertising, Promotions & Billboards	300,037	30,004	330,041	433,249	103,208	(12)
Utilities	32,271	Actual	37,073	37,073	-	(6)
Telephone	17,616	1,762	19,378	42,843	23,465	(7)
Security	33,171	Actual	49,994	49,994	-	(4)
Television Production Services	240,000	Actual	10,400	10,400	-	(4)
Ambulance Services	17,340	Actual	43,541	43,541	-	(4)
Interest Expense	1,435	Actual	6,664	6,664	-	(4)
Personalty Tax	-	Actual	31	31	-	(4)
Janitorial, Sanitation & Trash	10,332	Actual	31,140	31,140	-	(8)
Contracted Service Firemen	5,550	Actual	6,698	6,698	-	(4)
Contracted Service Announcers	-	Actual	2,275	2,275	-	(4)
Legal and Professional	3,921	392	4,313	9,376	3,000	(9)
Repair and Maintenance	12,077	Actual	30,461	30,461	-	(4)
Contracted Services Other	190,778	Actual	201,455	201,455	-	(4)
Program Costs Printing	12,954	Actual	34,277	34,277	-	(10)
Equipment Rental		Actual	1,655	1,655	-	(4)
Miscellaneous Operating Supplies	12,085	1,209	13,294	19,944	6,650	(12)
Banquet Expense	7,049	705	7,754	11,156	3,402	(12)
Office Supplies	15,109	1,511	16,620	22,144	5,524	(12)
Hospitality Expense	64,474	Actual	133,216	133,216	-	(4)
Rule Book Costs	822	Actual	-	-	-	(4)
Tickets, Passes, Credentials	10,395	1,040	11,435	14,571	3,136	(12)
Postage	18,237	1,824	20,061	27,241	7,180	(12)
Miscellaneous Administrative Supplies	-	Actual	157	157	-	(4)
Travel, Meeting and Lodging	16,390	1,639	18,029	35,807	20,327	(11)
Meals and Entertainment	1,310	131	1,441	3,967	2,526	(12)
Dues and Subscriptions	2,990	Actual	1,923	1,923	-	(4)
Licenses and Business Fees	1,457	Actual	15,643	15,643	13,246	(13)
Taxes Admissions Revenues	128,612	Actual	108,528	108,528	-	(4)
Bank Service Charges	10,209	1,020	11,229	20,509	9,280	(12)
Equipment Rental	26,323	Actual	10,411	10,411	-	(4)
Donations	900	Actual	150	150	-	(4)
Miscellaneous Expenses	10,141	1,014	11,155	22,879	11,724	(12)
Capital Expenses	33,936	Actual	10,876	10,876	-	(4)
Total Expenses	$ 3,440,817	$ 71,794	$ 3,286,861	$ 3,676,322	$ 414,948	

See explanations for (1) through (13) on the following page.

Nashville Speedway, USA
Attachment A

Summary of 6.30.00 Revenue and Expense Testing Results

Expense Explanations

(1) The former president's salary was excluded from other wage expenses because that salary was not considered ordinary and reasonable to operate the Speedway. It could have been reasonable for Dover's purposes, but was not considered necessary to operate the Nashville Speedway.

(2) Other Payroll Costs include Payroll Taxes, Sick Pay, Employee Pensions Costs and Other Employee Benefits. Actual amounts are considered reasonable for the year.

(3) Purses expense adjustments for $3,147 of expenses recorded in the general ledger that could not be supported by race documentation, $1,486 of purse checks that were cancelled with the bank but never cancelled in the general ledger, and $7,122 of outstanding checks on the bank reconciliation that were at least one year old and should be written off. This total of $11,755 is recommended for adjustment.

(4) Actual amounts are considered reasonable for these items for the year.

(5) Advertising, Promotions & Billboard expenses were combined on this line due to the changing of expenditure codings in 2001. Expenses that were previously coded to billboard expense and promotions expense were coded to advertising expense in fiscal 2000. An adjustment of $103,208, representing the excess over a 10% increase from 1999, is recommended for adjustment.

(6) Electricity and Gas were combined for this line item. Actual expenses are considered reasonable for the year.

(7) Telephone expenses included a significant number of telephone lines added, an increased volume of calls from Nashville Speedway, USA to Dover Downs for the year, payments posted in excess of invoiced amounts and several unsupported charges. The recommended adjustment is based on a reasonable expectation of a 10% increase over 1999.

(8) Janitorial, Sanitation and Trash Services and Disposal/Waste Services expenses were combined on this line due to the changing of expenditure codings in 2001. Expenses that were previously coded to disposal/waste services were coded to janitorial and sanitation and trash services expenses in fiscal 2000. Also, these expenses are similar in nature and should be combined in determining reasonableness. Actual expenses were considered reasonable for the audit year.

(9) There was a total of $3,000 of Legal and Professional Fees expense that was not sufficiently supported with documentation by Dover Downs. This amount, rather than the $5,063 representing the excess over a 10% increase from 1999, is recommended for adjustment.

(10) There were actually $27,238 of Program expenses that were originally not sufficiently supported with documentation by Dover Downs. Sufficient supporting documentation has since been provided.

(11) There were actually $20,327 of Travel, Meeting and Lodging expenses that were not sufficiently supported with documentation from Dover Downs. This amount, rather than the $17,778 representing the excess over a 10% increase over 1999, is recommended for adjustment.

(12) A 10% increase in these expenses over 1999 was considered ordinary and necessary to operate the Speedway for these accounts for the audit year.

(13) Licenses and business fees adjustments totaling $13,246 of intercompany allocated expenses were not sufficiently supported by Dover.