Grand Prairie Sports Facilities Development Corporation, Inc.

A Component Unit of the City of Grand Prairie, Texas



Financial Statements Year Ended September 30, 2008 and Independent Auditors' Report

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CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors Grand Prairie Sports Facilities Development Corporation, Inc.

We have audited the accompanying basic financial statements of the Grand Prairie Sports Facilities Development Corporation, Inc., a component unit of the City of Grand Prairie, Texas (the "Corporation") as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation at September 30, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the Unites States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Weaver and Tiduell, L.I.P.

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Grand Prairie Sports Facilities Development Corporation, Inc.

Management's Discussion and Analysis For the Year Ended September 30, 2008

As Management of the Grand Prairie Sports Facilities Development Corporation, Inc. ("Corporation), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2008.

Financial Highlights

- Total assets at the end of the year were \$89,439,700 and exceeded liabilities by \$89,376,500.
- The Corporation's total net assets decreased by \$4,006,881.
- During the year, the Corporation's operating revenues increased by \$1,184,058 and operating expenses increased by \$676,847.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's financial statements are composed of financial statements and notes to the financial statements.

The basic financial statements are designed to provide readers with an overview of the Corporation's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the corporation's financial position. The Corporation's assets exceeded liabilities by \$89,376,500 at the close of the fiscal year.

The Corporation's revenues are primarily from rental income, and its expenses are primarily from the amortization of the estimated unguaranteed residual value of the lease. Non-operation revenues (net) decreased by \$10,539,789 due to the decrease in sales tax revenue.

The Corporation's investment in capital assets were fully depreciated as of September 30, 2008. This investment in capital assets includes furniture and fixtures.

A condensed Statement of Net Assets and condensed Statement of Revenues, Expenses and Changes in Net Assets follows (in thousands):

	2008		2007	
Current assets	\$ 11,476	\$	12,668	
Lease payments receivable	15,802		15,998	
Deferred charges	-		-	
Estimated unguaranteed residual value	 62,162		64,722	
Total assets	 89,440	-	93,388	
Current liabilities	63		5	
Long-term debt	 			
Total liabilities	 63		5	
Net assets:				
Restricted for debt service	-		-	
Restricted for leasenet of related debt	78,160		80,901	
Unrestricted	 11,217		12,482	
Total net assets	\$ 89,377	\$	93,383	
	2008		2007	
Operating revenues	\$ 2,868	\$	1,683	
Operating expenses	 4,029		3,352	
Operating loss	 (1,162)		(1,669)	
Non-operating revenues	330		10,869	
Contribution to City of Grand Prairie	(3,846)		(1,109)	
Contributions	 671		234	
Net income	(4,007)		8,325	
Beginning assets	 93,383		85,058	
Total net assets	\$ 89,377	\$	93,383	

Request for Information

This report is designed to provide a general overview of the Corporation's finances and to demonstrate the Corporation's accountability of the funds it receives. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to P.O. Box 534045, Grand Prairie, Texas 75053-4045

STATEMENT OF NET ASSETS SEPTEMBER 30, 2008

ASSETS	
CURRENT ASSETS:	
Unrestricted:	
Cash and cash equivalents	\$ 11,151,363
Rent and other receivables	128,811
Minimum lease payments receivable - current portion	195,616
Total current assets	11,475,789
INVESTMENT IN CAPITAL LEASE:	
Minimum lease payments receivable	15,802,407
Estimated unguaranteed residual value	62,161,503
Total investment in capital lease	77,963,910
TOTAL ASSETS	89,439,700
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	63,200
TOTAL LIABILITIES	63,200
NET ASSETS:	
Invested in capital lease	78,159,526
Unrestricted	11,216,974
TOTAL NET ASSETS	\$ 89,376,500

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2008

OPERATING REVENUES	Φ.	1 (21 201
Lease rental and interest Other	\$	1,621,301
Total operating revenues		1,246,335 2,867,636
Total operating revenues		2,007,030
OPERATING EXPENSES:		
Amortization of estimated unguaranteed residual value of lease		3,904,024
General and administrative expenses		125,239
Total operating expenses		4,029,263
OPERATING LOSS		(1,161,627)
NON OPED ATING DEVENUES AND (EVDENSES).		
NON-OPERATING REVENUES AND (EXPENSES): Interest income		333,636
Interest income Interest expense and fiscal fees		(3,752)
interest expense and risear rees		(3,732)
Total non-operating revenues		329,884
INCOME BEFORE CONTRIBUTIONS		(831,743)
CONTRIBUTIONS TO CITY OF GRAND PRAIRIE		(3,846,587)
CONTRIBUTIONS		671,448
CHANGE IN NET ASSETS		(4,006,881)
NET ASSETSBeginning of year		93,383,381
NET ASSETSEnd of year	\$	89,376,500

See notes to financial statements.

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Lease revenue	\$ 1,660,586
Other revenue	1,273,591
Payments to suppliers of goods and services	(67,265)
Net cash provided by operating activities	2,866,912
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid and fiscal fees	(3,752)
Contribution to City of Grand Prairie	(3,846,587)
Lease improvements	(1,342,896)
Contributions	671,448
Net cash used in capital and related financing activities	(4,521,786)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Sales Taxes	1,883,647
Net cash provided by noncapital financing activities	1,883,647
CASH FLOWS FROM INVESTING ACTIVITIESInterest received on investments	333,636
NET INCREASE IN CASH AND CASH EQUIVALENTS	562,408
CASH AND CASH EQUIVALENTSBeginning of year	10,588,955
CASH AND CASH EQUIVALENTSEnd of year	\$ 11,151,363
RECONCILICATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating loss	\$ (1,161,627)
Adjustments to reconcile operating loss to net cash	
provided by operating activities:	
Decrease in lease receivable	180,809
Amortization of cost of facilities	3,904,024
Increase in lease revenue and other receivable	(114,268)
Increase in accounts payable	57,974
Net cash provided by operating activities	\$ 2,866,912

Non-cash activity: During 2008, the Corporation received \$671,448 in contributions related to the lease.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Grand Prairie Sports Facilities Development Corporation, Inc. (the "Corporation") as reflected in the accompanying financial statements for the year ended September 30, 2007 conform to accounting and financial reporting principles issued by the Governmental Accounting Standards Board ("GASB"). Accordingly, transactions are accounted for using the accrual basis of accounting. Under Alternative 1 of GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Corporation has elected to apply all private sector standards issued on or before November 30, 1989, in addition to all GASB standards.

Reporting Entity—The financial statements of the Corporation include all activities, organizations and functions as required by accounting principles generally accepted in the United States of America. The Corporation is a discretely presented component unit of the City of Grand Prairie, Texas ("City").

The Corporation was incorporated June 10, 1992, under the provisions of the Development Corporation Act of 1979, as amended, Article 5190.6, Texas Revised Civil Statues Annotated, as amended ("Act") by Resolution No. 2841 of the City Council of the City of Grand Prairie, Texas ("Council"). The Corporation operates under a seven member Board of Directors appointed by the Council. The Board of Directors of the Corporation consists of four council members and three citizen members. The purpose of the Corporation is to promote economic development within the City in order to reduce unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing, and financing projects authorized under the Act.

Basis of Accounting—The activities of the Corporation are similar to those of proprietary funds of local jurisdictions and, therefore, are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board. The activities of the Corporation are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the Corporation are included in a single fund. Transactions are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents—For purposes of the statement of cash flows, the Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Assets—Bond covenants of the Corporation's outstanding bonds and note require portions of the debt proceeds as well as other resources to be set aside for various purposes. These amounts are reported as restricted assets.

Furniture, Fixtures and Equipment—Furniture, fixtures and equipment are recorded at cost. Assets placed into service are depreciated using the straight-line method over five years.

2. SALES AND USE TAX

The City may levy a one-half cent sales and use tax for the benefit of the Corporation if the tax is authorized by a majority of the qualified voters in an election. On January 18, 1992, a majority of the voters approved a proposition to the levy and collect an additional one-half cent sales and use tax for the purpose of constructing a horse racetrack.

The one-half cent sales and use tax may be used to pay the costs of the project or the principal, interest and other costs relating to any bonds or obligations issued to pay the costs of the project or to refund bonds or obligations issued to pay the cost of the project.

3. CASH AND INVESTMENTS

The cash and investment policies of the Corporation are governed by State statute. At September 30, 2008, the carrying amount of the Corporation's deposits included in cash and cash equivalents was \$93,868 while the bank balance of the Corporation's deposits was \$102,681. The bank balance was entirely covered by Federal depository insurance or collateral held by the Corporation's agent in the Corporation's name.

The Corporation is authorized to invest in obligations of the United States or its agencies and instrumentalities; certain repurchase agreements; municipal securities with a rating of at least A; collateralized or insured certificates of deposit; SEC-registered, no-load money market mutual funds comprising securities allowed under the Public Funds Investments Act; and public funds investment pools. At September 30, 2008, all investments of the Corporation were held by the Corporation's agent in the Corporation's name.

At September 30, 2008, all of the Corporation's investments consist of money market funds and are recorded at fair value and are AAA-rated.

Cash and cash equivalents at September 30, 2008 were as follows:

Unrestricted assets—Cash and cash equivalents
Cash in bank
Money market funds

\$ 93,869 _11,057,494

Total \$11,151,363

4. FURNITURE, FIXTURES AND EQUIPMENT

A summary of changes in furniture, fixtures and equipment follows:

	Balance October 1, 2007	Additi Comple		Dispo Reclassif		Balance otember 30, 2008
Furniture, fixtures and equipment Accumulated depreciation	\$ 310,078 (310,078)	\$	<u>-</u>	\$	-	\$ 310,078 (310,078)
Total	\$ -	\$	_	\$		\$ _

5. LEASE AGREEMENT

On September 15, 1995, the Corporation and LSJC entered into a lease agreement of the Facility. The lease became effective April 1997 and meets the requirements for accounting as a direct financing lease. On October 23, 2002, Lone Star, LSJC, and MEC entered into an asset purchase agreement whereby MEC agreed to purchase substantially all of the racing assets of Lone Star and LSJC. The Master Agreement between the Corporation, Lone Star, and LSJC was terminated. Lone Star and LSJC assigned to MEC all of their rights and obligations under the lease and certain ancillary agreements with the Corporation. The future base rent payments under the lease are as follows:

T. T. M. T.	Future Minimum Lease Rentals	
Year Ending		
September 30,		
2009	\$	1,452,000
2010		1,452,000
2011		1,452,000
2012		1,560,900
2013		1,597,200
2014-2018		8,119,100
2019-2023		9,238,471
2024-2027		6,989,613
Total future payments		31,861,284
Less interest		15,863,261
Net present value		15,998,023
Less current portion		195,616
Non-current portion	\$	15,802,407

Additional contingent rentals are due monthly based upon 1% of gross revenues from the operation of the track for each month plus an amount equal to the net wagering income from the live races and the simulcast races multiplied by the following percentage:

Cumulative Net Wagering Income	Percentage
\$0 to less than \$20 million	1%
\$20 million to less than \$40 million	3
\$40 million to less than \$60 million	5
\$60 million or more	7

The lease has been accounted for as a capital lease. However, only the base rent payments are determinable and are included in the lease payments receivable at the net present value of future rent payments. The remaining portion of the cost of the Facility is recorded as estimated unguaranteed residual value of the lease. Its fair value is estimated to be approximately equal to the difference between the original cost plus capitalized improvements of the Facility, net of what accumulated depreciation would be, and the fixed lease payments receivable. Therefore, this amount is being amortized over the life of the lease (30 years). Amortization for the year ended September 30, 2008 was \$3,904,024. Additional contingent rentals are recorded as revenue when received. During the year ended September 30, 2008, the Corporation incurred additional costs for improvements to the leased facility of \$671,448 and received contribution revenue of \$671,448, for a total addition to the cost of the leased facility of \$1,342,896. This amount increased the unguaranteed residual value of the lease. Management believes that there have been no events which impaired the residual value of the lease.

The capital lease is being amortized using the interest method over the 30-year life of the lease. The Corporation has recorded lease rental and interest for the year ended September 30, 2008 as follows:

Nominal interest on the lease Amortization of the lease	\$ 1,454,400 (180,809)
Net interest	1,273,591
Contingent rentals received (includes rent for simulcast facility prior to completion of project)	347,710
Total lease rental and interest	\$ 1,621,301

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