

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.

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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, 2010, 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, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United 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 inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, LLP

January 28, 2011
Dallas, Texas

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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, 2010.

Financial Highlights

- Total assets at the end of the year were \$84,508,019 and exceeded liabilities by \$84,507,423.
- The Corporation's total net assets decreased by \$1,953,634.
- During the year, the Corporation's operating revenues increased by \$90 and operating expenses decreased by \$210,992.

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 \$84,507,423 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) increased by \$68,057 due to the increase in interest earnings.

The Corporation's investment in capital assets were fully depreciated as of September 30, 2010. 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):

| | 2010 | 2009 |
|--|-------------------------|-------------------------|
| Current assets | \$ 8,716 | \$ 7,597 |
| Non-current assets | 4,513 | 4,000 |
| Lease payments receivable | 15,362 | 15,591 |
| Estimated unguaranteed residual value | <u>55,917</u> | <u>59,285</u> |
| Total assets | <u>84,508</u> | <u>86,473</u> |
| Current liabilities | <u>1</u> | <u>12</u> |
| Total liabilities | <u>1</u> | <u>12</u> |
| Net assets: | | |
| Restricted for prepaids | - | 40 |
| Restricted for lease - net of related debt | 71,508 | 75,087 |
| Unrestricted | <u>12,999</u> | <u>11,334</u> |
| Total net assets | <u>\$ 84,507</u> | <u>\$ 86,461</u> |
| | 2010 | 2009 |
| Operating revenues | \$ 1,546 | \$ 1,546 |
| Operating expenses | <u>3,592</u> | <u>3,803</u> |
| Operating loss | <u>(2,046)</u> | <u>(2,257)</u> |
| Non-operating revenues | 101 | 33 |
| Contribution to City of Grand Prairie | (40) | (950) |
| Contributions | <u>31</u> | <u>258</u> |
| Change in net assets | (1,954) | (2,916) |
| Beginning assets | <u>86,461</u> | <u>89,377</u> |
| Total net assets | <u>\$ 84,507</u> | <u>\$ 86,461</u> |

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

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

| | <u>2010</u> |
|--|----------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Unrestricted: | |
| Cash and cash equivalents | \$ 8,461,551 |
| Rent and other receivables | 25,368 |
| Minimum lease payments receivable - current portion | <u>228,966</u> |
| Total current assets | <u>8,715,885</u> |
| INVESTMENTS | 4,512,911 |
| INVESTMENT IN CAPITAL LEASE | |
| Minimum lease payments receivable - noncurrent | 15,361,804 |
| Estimated unguaranteed residual value | <u>55,917,419</u> |
| Total non-current assets | <u>71,279,223</u> |
| | 75,792,134 |
| TOTAL ASSETS | <u>\$ 84,508,019</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued liabilities | <u>\$ 596</u> |
| Total liabilities | <u>596</u> |
| NET ASSETS | |
| Invested in capital lease | 71,508,189 |
| Unrestricted | <u>12,999,234</u> |
| TOTAL NET ASSETS | <u>\$ 84,507,423</u> |

See notes to financial statements.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2010**

| | <u>2010</u> |
|---|----------------------|
| OPERATING REVENUES | |
| Lease rental and interest | \$ 1,495,019 |
| Other | <u>51,275</u> |
| Total operating revenues | 1,546,294 |
| OPERATING EXPENSES | |
| Amortization of estimated unguaranteed residual value of lease | 3,395,444 |
| General and administrative expenses | <u>196,367</u> |
| Total operating expenses | <u>3,591,811</u> |
| OPERATING LOSS | (2,045,517) |
| NON-OPERATING REVENUES AND (EXPENSES) | |
| Interest income | <u>100,639</u> |
| LOSS BEFORE CONTRIBUTIONS | (1,944,878) |
| CONTRIBUTIONS TO CITY OF GRAND PRAIRIE | (40,000) |
| CONTRIBUTIONS | <u>31,244</u> |
| CHANGE IN NET ASSETS | (1,953,634) |
| NET ASSETS, beginning of year | <u>86,461,057</u> |
| NET ASSETS, end of year | <u>\$ 84,507,423</u> |

See notes to financial statements.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010**

| | <u>2010</u> |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Lease revenue | \$ 1,750,081 |
| Payments to suppliers of goods and services | <u>(207,310)</u> |
| Net cash provided by operating activities | <u>1,542,771</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Sale of land | 34,479 |
| Lease improvements | (62,488) |
| Contributions | <u>31,244</u> |
| Net cash provided by capital and related financing activities | <u>3,235</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment earnings received on cash and investments | 87,728 |
| Purchase of investments | (7,500,000) |
| Proceeds from sale of investments | <u>7,000,000</u> |
| Net cash used in investing activities | <u>(412,272)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,133,734 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>7,327,817</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 8,461,551</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Operating loss | \$ (2,045,517) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Amortization of cost of facilities | 3,395,444 |
| Decrease in receivables | 203,787 |
| Decrease in accounts payable | <u>(10,943)</u> |
| Net cash provided by operating activities | <u>\$ 1,542,771</u> |

Non-cash activity: During 2010, the Corporation received \$31,244 in contributions related to leasehold improvements of the capital lease.

See notes to financial statements.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 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, 2010 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 Statutes 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.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

NOTE 2. CASH AND INVESTMENTS

The cash and investment policies of the Corporation are governed by State statute. At September 30, 2010, the carrying amount of the Corporation's deposits included in cash and cash equivalents was \$57,157 while the bank balance of the Corporation's deposits was \$57,531. 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, 2010, all investments of the Corporation were held by the Corporation's agent in the Corporation's name.

At September 30, 2010, the Corporation's investments consist of United States Agency and Public Funds Investment Pool (TexPool) securities and are recorded at fair value and are AAA and AAAM-rated, respectively..

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Cash and cash equivalents at September 30, 2010 were as follows:

| | | |
|--|--|-----------------------------|
| Unrestricted assets—Cash, cash equivalents and investments | | |
| Cash in bank | | \$ 57,157 |
| TexPool | | 8,404,394 |
| Total cash and cash equivalents | | <u>8,461,551</u> |
| Investments | | 4,512,911 |
| Total | | <u><u>\$ 12,974,462</u></u> |

The Corporation invested \$8,404,394 in TexPool as of September 30, 2010. The Texas State of Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and an advisory board composed of both Participants in TexPool and other persons who review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

As of September 30, 2010, the Corporation had the following investments:

| Investment Type | | Weighted Average Maturity | Minimum Legal Rating | Rating as of Year End |
|-----------------------------|-----------------------------|---------------------------------|----------------------------|-----------------------------|
| TexPool | \$ 8,404,394 | 1 day | N/A | AAAM |
| U.S. Government Obligations | <u>4,512,911</u> | 892 days | N/A | AAA |
| Total | <u><u>\$ 12,917,305</u></u> | | | |

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 3. FURNITURE, FIXTURES AND EQUIPMENT

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

| | Balance October 1, 2009 | Additions/ Completions | Disposals/ Reclassifications | Balance September 30, 2010 |
|-----------------------------------|----------------------------|---------------------------|---------------------------------|----------------------------------|
| Furniture, fixtures and equipment | \$ 310,078 | \$ - | \$ - | \$ 310,078 |
| Accumulated depreciation | <u>(310,078)</u> | <u>-</u> | <u>-</u> | <u>(310,078)</u> |
| Total | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE 4. 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.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 4. LEASE AGREEMENT – CONTINUED

The future base rent payments under the lease are as follows:

| Year Ending September 30, | Future Minimum Lease Rentals |
|--------------------------------------|---|
| 2011 | \$ 1,452,000 |
| 2012 | 1,560,900 |
| 2013 | 1,597,200 |
| 2014 | 1,597,200 |
| 2015 | 1,597,200 |
| 2016-2020 | 8,584,950 |
| 2021-2025 | 9,443,445 |
| 2026-2027 | 3,124,389 |
| Total future payments | 28,957,284 |
| Less interest | 13,366,514 |
| Net present value | 15,590,770 |
| Less current portion | 228,966 |
| Non-current portion | <u>\$ 15,361,804</u> |

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% |

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 4. LEASE AGREEMENT – CONTINUED

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, 2010 was \$3,395,444. Additional contingent rentals are recorded as revenue when received. During the year ended September 30, 2010, the Corporation incurred additional costs for improvements to the leased facility of \$31,244 and received contribution revenue of \$31,244, for a total addition to the cost of the leased facility of \$62,488. 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, 2010 as follows:

| | |
|---|----------------------------|
| Nominal interest on the lease | \$ 1,454,400 |
| Amortization of the lease | <u>(211,635)</u> |
| Net interest | 1,242,765 |
| Contingent rentals received (includes rent for simulcast facility prior to completion of project) | <u>252,254</u> |
| Total lease rental and interest | <u><u>\$ 1,495,019</u></u> |

On March 5, 2009, Magna Entertainment Corp. (MEC) the parent company of MEC Lone Star Park LP (Lone Star filed for bankruptcy under Chapter 11 federal bankruptcy protection). Subsequently on September 14, 2009 Lone Star filed for bankruptcy protection. Since the bankruptcy filing, Lone Star has been current on all rent payments with the exception of \$5,289 of additional rent that is due to the Corporation for September 2009.

On October 23, 2009, an auction for Lone Star was conducted with Global Gaming LSP, LLC (a wholly owned subsidiary of the Chickasaw Nation) winning the auction for \$47 million. Global Gaming is in the process of obtaining a license from the Texas Racing Commission. Once the licensing process is completed, the sale of MEC Lone Star will be completed.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 4. LEASE AGREEMENT – CONTINUED

Under the terms of the purchase agreement Global Gaming has agreed to assume the lease agreement between Lone Star and the Corporation. Until then MEC Lone Star will operate under the Chapter 11 bankruptcy protection with DIP financing provided by MEC, Inc. The licensing process is not expected to be completed until sometime in early 2011.