

Grand Prairie Sports Facilities Development Corporation, Inc.

A Component Unit of the City of Grand Prairie, Texas



Financial Statements Year Ended
September 30, 2013, and
Independent Auditors' Report

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT
CORPORATION, INC.**

FINANCIAL REPORT

SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

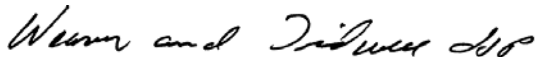
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of September 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



WEAVER AND TIDWELL, LLP

January 31, 2014
Dallas, Texas

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

As Management of the Grand Prairie Sports Facilities Development Corporation, Inc. (the 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, 2013.

Financial Highlights

- Total assets at the end of the year were \$78,444,890 and exceeded liabilities by \$78,439,215.
- The Corporation's total net position decreased by \$3,324,538.
- During the year, the Corporation's operating revenues decreased by \$248,205 and operating expenses increased by \$100,550.

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 position presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. 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 position presents information showing how the corporation's net position 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 position may serve over time as a useful indicator of the corporation's financial position. The Corporation's assets exceeded liabilities by \$78,439,215 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-operating revenues (net) decreased by \$23,455 due to the decrease in interest earnings.

The Corporation's investment in capital assets were fully depreciated as of September 30, 2013. This investment in capital assets includes furniture and fixtures.

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

ASSETS	<u>2013</u>	<u>2012</u>
Current assets	\$ 7,551	\$ 8,885
Non-current assets		
Investments	7,995	6,010
Lease payments receivable	14,112	14,574
Estimated unguaranteed residual value	48,787	52,339
Total non-current assets	<u>70,894</u>	<u>72,923</u>
Total assets	<u>78,445</u>	<u>81,808</u>
Current liabilities	<u>6</u>	<u>44</u>
Total liabilities	<u>6</u>	<u>44</u>
Net assets:		
Invested in capital lease	63,362	67,341
Unrestricted	15,077	14,423
Total net position	<u>\$ 78,439</u>	<u>\$ 81,764</u>
	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 1,448	\$ 1,697
Operating expenses	<u>3,837</u>	<u>3,736</u>
Operating loss	<u>(2,389)</u>	<u>(2,039)</u>
Non-operating revenues	24	47
Contributions from	40	1,983
Contributions to	<u>(1,000)</u>	<u>(790)</u>
Change in net position	(3,325)	(799)
Beginning net position	<u>81,764</u>	<u>82,563</u>
Total net position	<u>\$ 78,439</u>	<u>\$ 81,764</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.

BASIC FINANCIAL STATEMENTS

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

ASSETS

CURRENT ASSETS

Unrestricted:

Cash and cash equivalents	\$ 7,066,064
Rent and other receivables	22,266
Minimum lease payments receivable - current portion	<u>462,759</u>

Total current assets 7,551,089

INVESTMENTS 7,994,693

INVESTMENT IN CAPITAL LEASE

Minimum lease payments receivable - noncurrent	14,111,784
Estimated unguaranteed residual value	<u>48,787,324</u>
	<u>62,899,108</u>

Total non-current assets 70,893,801

TOTAL ASSETS \$ 78,444,890

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 5,675</u>
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TOTAL LIABILITIES 5,675

NET POSITION

NET POSITION

Invested in capital lease	63,361,867
Unrestricted	<u>15,077,348</u>

TOTAL NET POSITION \$ 78,439,215

The Notes to Financial Statements are an integral part of this statement.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013**

OPERATING REVENUES	
Lease rental and interest	\$ 1,388,948
Other	<u>59,429</u>
Total operating revenues	1,448,377
OPERATING EXPENSES	
Amortization of estimated unguaranteed residual value of lease	3,630,539
General and administrative expenses	<u>205,953</u>
Total operating expenses	<u>3,836,492</u>
OPERATING LOSS	(2,388,115)
NON-OPERATING REVENUES	
Interest income	<u>23,999</u>
LOSS BEFORE CONTRIBUTIONS	(2,364,116)
CONTRIBUTIONS FROM GLOBAL GAMING	39,578
CONTRIBUTIONS TO CITY OF GRAND PRAIRIE	<u>(1,000,000)</u>
CHANGE IN NET POSITION	(3,324,538)
NET POSITION, beginning of year	<u>81,763,753</u>
NET POSITION, end of year	<u><u>\$ 78,439,215</u></u>

The Notes to Financial Statements are an integral part of this statement.

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Lease revenue	\$ 1,876,109
Payments to suppliers of goods and services	<u>(244,627)</u>
Net cash provided by operating activities	<u>1,631,482</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Contributions to City of Grand Prairie	<u>(1,000,000)</u>
Net cash used in non-capital financing activities	<u>(1,000,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Lease improvements	(79,156)
Contributions from Global Gaming	<u>39,578</u>
Net cash used in capital and related financing activities	<u>(39,578)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings received on cash and investments	23,360
Purchase of investments	<u>(1,984,738)</u>
Net cash used in investing activities	<u>(1,961,378)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,369,474)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,435,538</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,066,064</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$ (2,388,115)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Amortization of cost of facilities	3,630,539
Decrease in receivables	427,732
Increase in accounts payable	<u>(38,674)</u>
Net cash provided by operating activities	<u>\$ 1,631,482</u>

The Notes to Financial Statements are an integral part of this statement.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS**

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, 2013 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.

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 (the 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 (the 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.

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Subsequent Events

The Corporation has evaluated subsequent events through, January 31, 2014, which is the date the financial statements were available to be issued, and determined that no events have occurred subsequent to September 30, 2013, that warrant additional disclosure.

NOTE 2. CASH AND INVESTMENTS

The cash and investment policies of the Corporation are governed by State statute. At September 30, 2013, the carrying amount of the Corporation's deposits included in cash and cash equivalents was \$423,239 while the bank balance of the Corporation's deposits was \$424,035. 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, 2013, all investments of the Corporation were held by the Corporation's agent in the Corporation's name.

At September 30, 2013, 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**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Cash and cash equivalents at September 30, 2013 were as follows:

Unrestricted assets—Cash, cash equivalents and investments		
Cash in bank	\$	423,239
TexPool		6,642,825
Total cash and cash equivalents		7,066,064
Investments		7,994,693
Total	\$	15,060,757

The Corporation invested \$6,642,825 in TexPool as of September 30, 2013. 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, 2013, the Corporation had the following investments:

Investment Type	Weighted Average Maturity	Minimum Legal Rating	Rating as of Year End
TexPool	\$ 6,642,825	1 day	N/A
U.S. Government Obligations	7,994,693	546 days	N/A
Total	\$ 14,637,518		

**GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. FURNITURE, FIXTURES AND EQUIPMENT

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

	Balance October 1, 2012	Additions/ Completions	Disposals/ Reclassifications	Balance September 30, 2013
Furniture, fixtures and equipment	\$ 310,078	\$ -	\$ -	\$ 310,078
Accumulated depreciation	(310,078)	-	-	(310,078)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. LEASE AGREEMENT

On September 15, 1995, the Corporation and LSJC Development Corporation (LSJC) entered into a lease agreement of Lone Star Race Park (the Facility). The lease became effective April 1997 and meets the requirements for accounting as a direct-financing lease. On October 23, 2002, MEC Lone Star Park LP (Lone Star), LSJC, and Magna Entertainment Corp. (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 on October 23, 2002. Lone Star and LSJC assigned to MEC all rights and obligations under the lease and certain ancillary agreements with the Corporation.

On March 5, 2009, MEC, the parent company of Lone Star, filed for bankruptcy under Chapter 11 federal bankruptcy protection. Subsequently, on September 14, 2009, Lone Star filed for bankruptcy protection. On October 23, 2009, an auction for Lone Star's assets was conducted with Global Gaming LSP, LLC (Global Gaming), a wholly owned subsidiary of the Chickasaw Nation, winning the auction for \$47 million. The sale was not completed until May 16, 2011, after Global Gaming received licensing with the Texas Racing Commission. Under the terms of sale within the purchase agreement, Global Gaming has agreed to assume the lease agreement between Lone Star and the Corporation.

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4. LEASE AGREEMENT – CONTINUED

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

<u>Year Ending September 30,</u>	<u>Future Minimum Lease Rentals</u>
2014	\$ 1,597,200
2015	1,597,200
2016	1,597,200
2017	1,716,990
2018	1,756,920
2019-2023	9,092,061
2024-2027	<u>6,989,613</u>
Total future payments	24,347,184
Less interest	<u>9,772,641</u>
Net present value	14,574,543
Less current portion	<u>462,759</u>
Non-current portion	<u><u>\$ 14,111,784</u></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:

<u>Cumulative Net Wagering Income</u>	<u>Percentage</u>
\$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, 2013 was \$3,630,538. Additional contingent rentals are recorded as revenue when received.

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4. LEASE AGREEMENT – CONTINUED

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, 2013 as follows:

Nominal interest on the lease	\$ 1,599,600
Amortization of the lease	<u>(427,732)</u>
Net interest	1,171,868
Contingent rentals received	<u>217,080</u>
Total lease rental and interest	<u><u>\$ 1,388,948</u></u>

NOTE 5 COMMITMENTS

At September 30, 2013 the Corporation had approved contributions to the City of Grand Prairie totaling \$5,873,413. The only project identified at September 30, 2013 was a \$2,500,000 contribution for the new Fire Station #1. The \$2,500,000 was transferred to the City on November 19, 2013. Projects for the remaining \$3,373,413 were not identified at September 30, 2013.

The Corporation had approved a matching capital contribution with Global Gaming LSP totaling \$501,963 at September 30, 2013. No project for these funds had been identified as of September 30, 2013.