

Grand Prairie Sports Facilities Development Corporation, Inc.

A Component Unit of the
City of Grand Prairie, Texas



Photo by Harry Englert

*Financial Statements
Year Ended September 30, 2006 and
Independent Auditors' Report*

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	2-3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	4
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12



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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, 2006, 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, 2006 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.

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Grand Prairie Sports Facilities Development Corporation, Inc.

Management's Discussion and Analysis For the Year Ended September 30, 2006

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, 2006.

Financial Highlights

- Total assets at the end of the year were \$92,255,013 and exceeded liabilities by \$85,057,739.
- The Corporation's total net assets increased by \$3,957,093.
- During the year, the Corporation's operating revenues decreased by \$104,986 and operating expenses decreased by \$21,897.

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 \$85,057,739 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. Sales tax revenues, which are dedicated to debt service, were \$9,812,584. Non-operation revenues (net) increased by \$407,322 due to the increase in sales tax revenue, increase in interest income and the change in amortization of the deferred loss on refundings.

Long-term debt principal and interest payments of \$8,780,000 and \$672,717 respectively, were made during the fiscal year. Included in the total were optional principal payments of \$4,000,000.

The Corporation's investment in capital assets were fully depreciated as of September 30, 2006. This investment in capital assets includes furniture and fixtures. The Corporation's investments in capital assets decreased by \$26,212 as a result of the depreciation of these assets.

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

	2006	2005
Current assets	\$ 8,424	\$ 7,486
Lease payments receivable	16,179	15,024
Deferred charges	160	355
Furniture, fixtures and equipment	-	26
Estimated unguaranteed residual value	<u>67,492</u>	<u>70,489</u>
 Total assets	 <u>92,255</u>	 <u>93,380</u>
 Current liabilities	 3,530	 4,832
Long-term debt	3,667	7,447
	<u>7,197</u>	<u>12,279</u>
 Net assets:		
Invested in capital assets	-	26
Restricted for debt service	299	446
Restricted for lease--net of related debt	76,638	74,911
Unrestricted	<u>8,121</u>	<u>5,718</u>
 Total net assets	 <u>\$ 85,058</u>	 <u>\$ 81,101</u>
	 2006	 2005
Operating revenues	\$ 1,663	\$ 1,768
Operating expenses	3,401	3,423
 Operating loss	 (1,738)	 (1,655)
 Non-operating revenues	 5,558	 5,151
Contribution to City of Grand Prairie	-	(1,600)
Contributions	<u>137</u>	<u>242</u>
 Net income	 3,957	 2,138
 Beginning assets	 <u>81,101</u>	 <u>78,963</u>
 Total net assets	 <u>\$ 85,058</u>	 <u>\$ 81,101</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, 2006

ASSETS

CURRENT ASSETS:

Unrestricted:

Cash and cash equivalents	\$ 6,287,824
Sales tax receivable	1,691,472
Rent and other receivables	11,983
Minimum lease payments receivable - current portion	134,553
Restricted assets--cash and cash equivalents	<u>298,520</u>

Total current assets 8,424,352

INVESTMENT IN CAPITAL LEASE:

Minimum lease payments receivable	16,178,831
Estimated unguaranteed residual value	<u>67,491,511</u>

Total investment in capital lease 83,670,342

DEFERRED CHARGES 160,319

TOTAL ASSETS 92,255,013

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	4,794
Accrued interest liability	25,603
Payable from restricted assets--current portion of long-term debt	3,500,000

Total current liabilities 3,530,397

LONG-TERM DEBT--Net of current portion--sales tax revenue bonds 3,666,877

TOTAL LIABILITIES 7,197,274

NET ASSETS:

Restricted for debt service	317,270
Invested in capital lease--net of related debt	76,638,018
Unrestricted	<u>8,102,451</u>

TOTAL NET ASSETS \$ 85,057,739

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006**

OPERATING REVENUES--Lease rental and interest	\$ 1,662,909
OPERATING EXPENSES:	
Amortization of estimated unguaranteed residual value of lease	3,271,024
Depreciation expense	26,212
General and administrative expenses	<u>104,025</u>
Total operating expenses	<u>3,401,261</u>
OPERATING LOSS	<u>(1,738,352)</u>
NON-OPERATING REVENUES AND (EXPENSES):	
Sales and use taxes	9,812,584
Interest income	365,804
Interest expense and fiscal fees	<u>(4,619,982)</u>
Total non-operating revenues	<u>5,558,406</u>
INCOME BEFORE CONTRIBUTIONS	3,820,054
CONTRIBUTIONS	<u>137,039</u>
CHANGE IN NET ASSETS	3,957,093
NET ASSETS--Beginning of year	<u>81,100,646</u>
NET ASSETS--End of year	<u><u>\$ 85,057,739</u></u>

See notes to financial statements.

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Lease revenue	\$ 1,701,297
Payments to suppliers of goods and services	<u>(100,926)</u>
Net cash provided by operating activities	<u>11,197,331</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Interest paid and fiscal fees	(729,911)
Bond principal payments	(8,780,000)
Lease improvements	(274,078)
Contributions	<u>137,039</u>
Net cash flows used in capital and related financing activities	<u>(9,646,950)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Sales Taxes	<u>9,596,960</u>
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CASH FLOWS FROM INVESTING ACTIVITIES--Interest received on investments	<u>365,804</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	1,916,185
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CASH AND CASH EQUIVALENTS--Beginning of year	<u>4,670,159</u>
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CASH AND CASH EQUIVALENTS--End of year	<u><u>\$ 6,586,344</u></u>
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RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating loss	\$ (1,738,352)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	26,212
Decrease in lease receivable	30,415
Amortization of cost of facilities	3,271,024
Change in lease revenue and other receivable	7,973
Change in accounts payable	<u>3,099</u>
Net cash provided by operating activities	<u><u>\$ 1,600,371</u></u>

Non-cash activity: During 2006, the Corporation received \$137,039 in contributions related to the lease.

See notes to financial statements.

GRAND PRAIRIE SPORTS FACILITIES DEVELOPMENT CORPORATION, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2006

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, 2006 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.

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.

Deferred Charges—Costs of issuance on the Series 1999A, 2003A, and 2003B Sales Tax Refunding Bonds (see Note 6) were deferred and capitalized by the Corporation. These costs are amortized using the straight-line method as a component on interest expense over the remaining life of the refunding bonds. Amortization of total deferred issue costs during fiscal year 2006 was \$195,156.

Long-Term Debt—The Corporation records the long-term portion of long-term debt at face value, and the current portion is shown in current liabilities.

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, 2006, the carrying amount of the Corporation's deposits included in cash and cash equivalents was \$73,920 while the bank balance of the Corporation's deposits was \$74,070. 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, 2006, all investments of the Corporation were held by the Corporations' agent in the Corporation's name.

At September 30, 2006, 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, 2006 were as follows:

Unrestricted assets—Cash and cash equivalents	
Cash in bank	\$ 73,920
Money market funds	6,213,904
Restricted assets—Cash and cash equivalents	
Money market funds	<u>298,520</u>
Total	<u>\$ 6,586,344</u>

4. FURNITURE, FIXTURES AND EQUIPMENT

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

	Balance October 1, 2005	Additions/ Completions	Disposals/ Reclassifications	Balance September 30, 2006
Furniture, fixtures and equipment	\$ 310,078	\$ -	\$ -	\$ 310,078
Accumulated depreciation	<u>(283,866)</u>	<u>(26,212)</u>	<u>-</u>	<u>(310,078)</u>
Total	<u>\$ 26,212</u>	<u>\$ (26,212)</u>	<u>\$ -</u>	<u>\$ -</u>

5. LONG-TERM DEBT

As a result of prior years' debt refinancing, the lease agreement between the Corporation and MEC Lone Star was amended. The lease rentals from Lone Star are now pledged to the taxable bonds. There is also a cap on the annual amount of the lease revenues that can be transferred to the City while the new tax exempt bonds are outstanding. The cap on the lease revenues will be eliminated once the tax exempt bonds are paid off.

Activity for long-term debt for the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006	Current Portion
Revenue refunding bonds:					
Series 1999A	\$ 2,600,000	\$ -	\$ (1,260,000)	\$ 1,340,000	\$ 1,340,000
Series 2003A	8,340,000	-	(2,465,000)	5,875,000	2,160,000
Series 2003B	5,055,000	-	(5,055,000)	-	-
Deferred loss on refunding	(3,711,683)	-	3,663,560	(48,123)	-
Discount on bonds	<u>(56,330)</u>	<u>-</u>	<u>56,330</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,226,987</u>	<u>\$ -</u>	<u>\$ (5,060,110)</u>	<u>\$ 7,166,877</u>	<u>\$ 3,500,000</u>

During 2006, in addition to the scheduled principal payments of \$4,780,000, the Corporation paid an additional \$4,000,000 in principal payments to reduce the total outstanding principal. As a result of the acceleration of the debt repayments, the Corporation changed the method of amortizing deferred loss on refunding from the straight line method to the effective interest method beginning in 2006. As a result of the acceleration of the debt repayments, an additional \$2.7 million was amortized in 2006 and recorded as current year interest expense.

As of September 30, 2006, the principal outstanding on all previously defeased sales tax bonds was \$30,200,000. The deferred loss on refunding is amortized over the shorter of the life of the refunded debt or the life of the new debt. The interest rates on the Series 1999A and 2003A bonds are 6.99%, and 5.5%, respectively.

The minimum future payments on the Corporation's long-term debt are as follows:

	Principal	Interest	Total
Year Ending September 30			
2007	\$ 3,500,000	\$ 411,984	\$ 3,911,984
2008	3,500,000	204,325	3,704,325
2009	<u>215,000</u>	<u>11,825</u>	<u>226,825</u>
Total	<u>\$ 7,215,000</u>	<u>\$ 628,134</u>	<u>\$ 7,843,134</u>
Less current portion	(3,500,000)		
Less unamortized deferred loss on refunding	<u>(48,123)</u>		
Long-term debt per statement of net assets	<u>\$ 3,666,877</u>		

6. 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:

Year Ending September 30,	Future Minimum Lease Rentals
2007	1,419,000
2008	1,452,000
2009	1,452,000
2010	1,452,000
2011	1,452,000
2012-2016	7,949,700
2017-2021	8,744,670
2022-2026	9,619,137
2027	<u>1,191,777</u>
Total future payments	34,732,284
Less interest	<u>18,418,900</u>
Net present value	<u>\$ 16,313,384</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

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, 2006 was \$3,271,024. Additional contingent rentals are recorded as revenue when received. During the year ended September 30, 2006, the Corporation incurred additional costs for improvements to the leased facility of \$137,039, and received contribution revenue of \$137,039, for a total addition to the cost of the leased facility of \$274,078. 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, 2006 as follows:

Nominal interest on the lease	\$ 1,419,000
Amortization of the lease	(30,415)
Net interest	1,388,585
Contingent rentals received (includes rent for simulcast facility prior to completion of project)	274,324
Total lease rental and interest	<u><u>\$ 1,662,909</u></u>

7. NEW ACCOUNTING PRONOUNCEMENTS

In November 2003, the Governmental Accounting Standards Board issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and Insurance Recoveries*. This Statement is effective for the Corporation beginning in the fiscal year ending September 30, 2006. The Corporation did not have any impaired capital assets or insurance recoveries during the year that would required disclosure under this statement.

In May 2004, the Governmental Accounting Standards Board issued Statement No. 44, *Economic Condition Reporting*. This Statement is effective for the Corporation beginning in the fiscal year ending September 30, 2007.

In June 2004, the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting for Post Employment Benefits Other Than Pension Plans*. This Statement is effective for the Corporation beginning the fiscal year ending September 30, 2008.

Management has not yet determined the impact of these statements on the basic financial statements.

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