Harris County Sports & Convention Corporation

(A Component Unit of Harris County, Texas)

Basic Financial Statements as of and for the Year Ended February 29, 2016, and Independent Auditors' Report

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Harris County Sports & Convention Corporation:

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Harris County Sports & Convention Corporation (the "Corporation"), a component unit of Harris County, Texas, as of and for the year ended February 29, 2016, and the related notes to the basic financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic financial statements based on our audit. We did not audit the financial statements of NRG Park Operating Account ("NRG Park") maintained by LMI/HHI, Ltd., a Texas limited partnership, d.b.a. Leisure Management International (as Manager of NRG Park), which represents 21.8% and 23.6%, respectively, of the revenues in the government-wide statement of activities and of the revenues of the general fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in revenues in the government-wide statement of activities and in the general fund, is based solely on the report of the other auditors. 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 Corporation's preparation and fair presentation of the basic 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 Corporation'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 financial statement 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, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Corporation, as of February 29, 2016, and the respective changes in financial position 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 management's discussion and analysis information on pages 3 through 7 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 and other auditors 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.

Deloitte & Touche LLP

July 11, 2016

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

Introduction of the Annual Report

This annual report consists of three parts: Management's Discussion and Analysis (MD&A), Basic Financial Statements, and Notes to the Financial Statements.

The Harris County Sports & Convention Corporation ("Corporation") is a component unit of Harris County, Texas (the "County"), and is included as a blended unit in the County's basic financial statements. This analysis presents information about the Corporation and the operations and activities of the Corporation only. It is not intended to provide information about the entire County.

MD&A

The MD&A section of the Corporation's annual report presents an overview of the Corporation's financial performance during the year ended February 29, 2016. It provides an assessment of how the Corporation's position has improved or deteriorated and identifies the factors that, in management's review, significantly affected the Corporation's overall financial position.
The Basic Financial Statements include:

- The Statement of Net Position and Balance Sheet, which provides the information about the nature and amounts of investments in resources (assets) and the obligations to the Corporation's creditors (liabilities).
- The Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance, which account for the current year's revenues and expenditures and measures the success of the Corporation's operations over the past year and can be used to determine how the Corporation has funded its costs.

The Notes to the Financial Statements provide:

- Information that is essential to understanding the basic financial statements, such as the Corporation's accounting methods and policies.
- Details of contractual obligations, future commitments, and contingencies of the Corporation.
- Any other events or developing situations that could materially affect the Corporation's financial position.

The Corporation's Business

The Corporation was created in January 1999 by the Commissioners Court of the County as a public nonprofit corporation for the purpose of managing, operating, maintaining, and developing the sports and entertainment complex located on the property owned by the County, known as NRG Park (formerly Reliant Park). In addition to generating revenue from park activities, the redevelopment of NRG Park was also done to generate sales and hotel tax revenues and to provide an economic stimulus to the area surrounding NRG Park.

On March 19, 2014, the Corporation's Board of Directors (Board) approved an agreement with NRG Energy, Inc. (NRG) regarding a rebranding project. Names of all facilities in the complex changed from Reliant Stadium, Reliant Center, Reliant Arena, and the Reliant Astrodome to NRG Stadium, NRG Center, NRG Arena, and the NRG Astrodome. All costs associated with the rebranding project were paid by NRG.

NRG Stadium – A 1.9 million square foot facility is the home of the National Football League (NFL) Houston Texans and the Houston Livestock Show & Rodeo, Inc. (HLSR). Reliant Stadium hosted the 2004 Super Bowl NFL Championship football game, the 2010 National Collegiate Athletic Association (NCAA) Regional men's basketball finals, and the 2011 NCAA men's basketball finals. NRG Stadium hosted the 2015 NCAA South Regional Men's Basketball tournament. Upcoming events include the 2016 NCAA Men's Final Four Basketball Championship, Beyoncé and Super Bowl LI in 2017. In addition, other events such as the Ringling Bros-Barnum & Bailey Circus, Disney on Ice, and Monster Truck shows are held in the Stadium throughout the year.

NRG Center – A 1.37 million square foot exposition and meeting room facility. NRG Center was funded with capital budget funds provided by the County and hosts several major conventions and expositions throughout the year, including the Houston Ballet Nutcracker Market, Mecum Auto Auction, and livestock exhibits associated with the HLSR.

NRG Arena ("Arena") – A facility with exhibit halls, meeting rooms, and a club room, this facility includes 350,000 square foot of meeting space. Included in the Arena are an 8,000-seat general session meeting area and a 2,000-seat general session meeting area in the Arena Pavilion. Many events and concerts are held in the Arena during the year.

NRG Astrodome ("Astrodome") – This 131,000 square foot facility is currently not available for public use. The Corporation's Board commissioned a study by the Urban Land Institute to evaluate and provide strategic advice regarding the reuse of the Astrodome. The Corporation, along with Harris County, is pursuing many design and finance options for the future of the Astrodome. This included a visit to Germany to see an indoor water park.

NRG Park –The Offshore Technology Conference is held annually at NRG Park. This conference utilizes the entire NRG Park complex. Numerous other events including outdoor concerts and festivals are also hosted at NRG Park. Attendance at NRG Park for FY 2015-2016 totaled 4.3 million. This was 472,000 greater than anticipated.

Financial Analysis

The following sections will discuss the significant changes in the Corporation's financial position for the fiscal year ended February 29, 2016. Additionally, economic factors and industry trends that have contributed to the Corporation's operations are provided. It should be noted, that for purposes of the MD&A, summaries of the basic financial statements and the various exhibits presented are in conformity with the Corporation's basic financial statements in accordance with accounting principles generally accepted in the United States of America.

Highlights

The Corporation's net position increased by $1,289,652 during the fiscal year ended February 29, 2016. The increase in net position is primarily due to contributions received for the Wi Fi System from participating partners and a Capital Improvement contribution from Service Management Group (SMG). These contributions were offset by expenditures for repairs to the chilled water system in NRG Park. These repairs were made from proceeds received from a related lawsuit in FY 2013.

Exhibit I

Government-wide Condensed Schedules of Net Position

	February 29, 2016	February 28, 2015
Current assets	$24,642,021	$28,007,053
Current assets—net	2,730,727	609,449
Other long-term assets	22,352,434	21,206,830
Total assets	49,725,182	49,823,332
Current liabilities	10,359,606	6,711,506
Long-term liabilities	26,227,481	31,263,383
Total liabilities	36,587,087	37,974,889
Net position	$13,138,095	$11,848,443

Exhibit II

Government-wide Condensed Schedules of Activities

	Year Ended February 29, 2016	Year Ended February 28, 2015
Revenues:		
Program revenues	$ 16,479,380	$ 16,943,686
Investment earnings	1,329,534	1,251,136
Insurance proceeds	189,020	588,439
Miscellaneous	14,464	
Total revenues	18,012,398	18,783,261
Expenses:		
Park operations	1,223,287	1,113,374
General administration	1,361,516	1,495,513
Interest on long-term liabilities	912,453	1,026,979
Facilities and equipment	13,225,490	6,893,092
Total expenses	16,722,746	10,528,958
Increase in net position	$ 1,289,652	$ 8,254,303

Exhibit III

Governmental Funds' Condensed Balance Sheets

	As of February 29, 2016	As of February 28, 2015
Assets—unrestricted	$ 45,034,255	$ 48,832,039
Assets—restricted	1,960,200	381,844
Total	$ 46,994,455	$ 49,213,883
Liabilities and unearned revenue	$ 27,675,685	$ 24,244,429
Fund balance	19,318,770	24,969,454
Total	$ 46,994,455	$ 49,213,883

Exhibit IV

Governmental Funds' Condensed Schedules of Revenues, Expenditures, and Changes in Fund Balance

	2016	2015
Revenues	$ 6,660,157	$ 8,589,948
Expenditures	18,995,633	10,486,811
Deficiency of revenue under expenditures	(12,335,476)	(1,896,863)
Other net financing sources	6,684,792	9,964,093
(Deficiency) excess of revenue and other financing sources (under) over expenditures	(5,650,684)	8,067,230
Fund balance—beginning of year	24,969,454	16,902,224
Fund balance—end of year	$ 19,318,770	$ 24,969,454

Economic Factors

Houston, Texas ("Houston") is home to sports organizations from the NFL – Houston Texans, Major League Baseball – Houston Astros, National Basketball Association – Houston Rockets and Major League Soccer – Houston Dynamo. Each of these organizations is located in its own facility that not only allows for highly competitive sporting events but also provides venues for concerts and other entertainment events. These facilities have resulted in the revitalization of surrounding neighborhoods within the Houston area. In addition, attendance to these events helps boost sales, hotel occupancy, mixed beverage, and automobile rental taxes that in turn benefit the Houston economy and in some instances support the various venues. The Houston Texans, a major tenant at NRG Park, ranks seventh overall in team value of 32 teams in the NFL according to "*Forbes Magazine.*" The current team value is $2.5 billion. The other major tenant is the HLSR, a Houston favorite, supports youth, education, and agriculture practices. Attendance in 2015 for HLSR was 2.48 million, including the World's Championship Bar-B-Que Cook-off.

Houston has a versatile infrastructure that supports a growing economy. A leading Port, the Texas Medical Center, and two large airports help bolster industries located within the greater Houston metropolitan area such as energy, technology, and aerospace. With the expansion of the Panama Canal, it is anticipated that the Port of Houston will benefit from an increase in its Asian imports and exports. The Houston Airport System recorded more than 55 million passengers in 2015, up from the prior year. In June 2015, the Federal Aviation Administration announced that a Spaceport will be coming to the Houston area. This development will strengthen Houston's position in the space race and potentially flow millions of dollars and numerous jobs into the Houston economy.

Despite the oil slump, which is seeing crude oil prices below $30 a barrel, the Houston housing market experienced its second best year on record. A slow in the housing market is predicted as the oil slump continues and the overall impact on the Houston economy going forward is uncertain.

Long-Term Debt

At the March 18, 2015, HCSCC Board meeting, the Corporation's Board of Directors agreed to an early pay off of the HLSR, SRO Loan, and the Houston NFL Holdings, L.P. POS Loan. Outstanding amounts, plus accrued interest and issuance costs, totaling $290,578 and $1,494,674, respectively, were remitted to each entity on April 1, 2015.

Capital Assets

The Corporation has been charged with the development and oversight responsibility for the capital assets at NRG Park under a lease agreement initially entered into in 1999 with the owner of NRG Park – Harris County. Ownership of the facilities that have been constructed and improved upon at NRG Park remains with the County and are accounted for by them. The Corporation, on behalf of the County, has retained title and control over most equipment purchased and used in the operations of the NRG Park complex. At the end of February 2016, the Corporation had $2,730,727 (net of accumulated depreciation of $9,237,446). These capital assets primarily consist of ground keeping equipment, food preparation, and serving equipment, a marquee and ground transportation vehicles. This amount also includes Construction Work in Process (CWIP) for the Wi Fi system being installed in NRG Stadium.

Budgetary Controls

An operating budget is approved by the Board of the Corporation on an annual basis. Once approved, the budget is formally transmitted to the Harris County Commissioners Court. Monthly, the budget status is reviewed and operating results reported to the Board. This process helps measure the Corporation's financial performance and provides assurance that operational goals are being obtained.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Director of Finance & Accounting, One NRG Park, Houston, TX, 77054.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

STATEMENT OF NET POSITION
AS OF FEBRUARY 29, 2016

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 14,852,592
Restricted cash and cash equivalents	1,960,200
Current notes and other receivables	7,744,582
Due from Harris County	2,010
Prepaid expenses	82,637
Notes receivable	12,000,000
Interest receivable on long-term note	10,352,434
Equipment—net of accumulated depreciation	2,730,727
TOTAL ASSETS	$ 49,725,182
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts payable	$ 1,940,177
Salaries payable	20,382
Due to Harris County	35,292
Unearned revenue	6,155,097
Accrued interest payable	517,871
Long-term liabilities:	
Due in one year:	
Musco lighting	171,768
Video board loan	1,519,019
Due in more than one year:	
Video board loan	13,671,171
Musco lighting	556,310
Advance from Harris County	12,000,000
Total liabilities	36,587,087
NET POSITION:	
Net investment in capital assets	2,730,727
Restricted	1,960,200
Unrestricted	8,447,168
Net position	13,138,095
TOTAL LIABILITIES AND NET POSITION	$ 49,725,182

See notes to the financial statements.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2016

Function/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES:				
Park operations	$ 1,223,287	$ 1,046,430	$ -	$ (176,857)
General and administrative	1,361,516			(1,361,516)
Facilities and equipment	13,225,490	5,592,063	9,840,887	2,207,460
Interest on long-term liabilities	912,453			(912,453)
TOTAL	$ 16,722,746	$ 6,638,493	$ 9,840,887	(243,366)
GENERAL REVENUES:				
Investment earnings				1,329,534
Insurance proceeds				189,020
Miscellaneous				14,464
Total general revenues and contributions				1,533,018
CHANGE IN NET POSITION				1,289,652
NET POSITION—Beginning of year				11,848,443
NET POSITION—End of year				$ 13,138,095

See notes to the financial statements.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

BALANCE SHEET—GOVERNMENTAL FUND
AS OF FEBRUARY 29, 2016

	General Fund
ASSETS	
Cash and cash equivalents	$ 14,852,593
Restricted cash and cash equivalents	1,960,200
Notes receivable	12,000,000
Receivables	7,744,581
Accrued interest receivable	10,352,434
Due from Harris County	2,010
Prepaid expenses	82,637
TOTAL ASSETS	$ 46,994,455
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 1,940,178
Salaries payable	20,381
Due to Harris County	35,292
Unearned revenue—other	6,155,097
Advance from Harris County	12,000,000
Total liabilities	20,150,948
DEFERRED INFLOW OF RESOURCES:	
Unavailable revenue—naming rights	1,482,563
Unavailable revenue—accrued interest	6,042,174
Total deferred inflow of resources	7,524,737
FUND BALANCE:	
Nonspendable	10,435,071
Restricted	1,960,200
Unassigned	6,923,499
Total fund balance	19,318,770
TOTAL LIABILITIES AND FUND BALANCE	$ 46,994,455

See notes to the financial statements.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION AS OF FEBRUARY 29, 2016

TOTAL FUND BALANCE FOR GOVERNMENTAL FUND	$ 19,318,770
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:	
Capital activities used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of $10,008,173 equipment—net of $9,237,446 accumulated depreciation. In addition, CWIP of $1,960,000 for the NRG Stadium Wi Fi Project is included.	2,730,727
Long-term liabilities applicable to the Corporation are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long term, are reported in the statement of net position. Deferred charges consist of net issuance costs related to long-term liabilities. The amounts paid for issuance costs are from governmental funds and reduce fund balance in the governmental fund-level financial statements. Amounts are deferred in the statement of net position and amortized as interest expense in the statement of activities through the life of the note payable (2032).	
NOTES PAYABLE:	
Video board loan	(15,190,190)
Musco lighting	(728,078)
Accrued interest on video board loan	(496,698)
Accrued interest on Musco lighting	(21,173)
Unearned revenue	7,524,737
Total notes payable	(8,911,402)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 13,138,095

See notes to the financial statements.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE—GOVERNMENTAL FUNDS FOR THE YEAR ENDED FEBRUARY 29, 2016

	General Fund
REVENUES:	
Revenues from operations—NRG Park	$ 5,025,022
Revenues from operations—naming rights	1,046,430
Interest and other	588,705
Total revenues	6,660,157
EXPENDITURES:	
Operations	1,223,287
General and administrative	1,361,516
Facilities and equipment	16,410,830
Total expenditures	18,995,633
OTHER FINANCING SOURCES (USES):	
Proceeds from capital contributions	9,840,887
Loan payments	(3,345,115)
Insurance proceeds	189,020
Total other net financing sources	6,684,792
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES	(5,650,684)
FUND BALANCE—Beginning of year	24,969,454
FUND BALANCE—End of year	$ 19,318,770

See notes to the financial statements.

HARRIS COUNTY SPORTS & CONVENTION CORPORATION
(A Component Unit of Harris County, Texas)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED FEBRUARY 29, 2016

NET CHANGE IN FUND BALANCES—Total governmental funds	$ (5,650,684)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which disposals and depreciation in the current period exceeded capital outlay.	
NET CHANGE IN CAPITAL ASSETS	2,121,278
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized as it accrues rather than when due under the modified accrual basis of accounting. Deferred charges consist of net issuance costs related to long-term liabilities. The amounts paid in issuance costs are from governmental funds and reduce fund balance in the governmental fund-level financial statements. Amounts are deferred in the statement of net position and amortized as interest expense in the statement of activities through the life of the note payable (2032).	
PAYMENT ON LONG-TERM LIABILITIES	3,345,115
PAYMENTS ON LONG-TERM LIABILITIES:	
Less prior-year NFL Holdings accrued interest	71,571
Less prior-year Rodeo loan accrued interest	37,679
Video board loan accrued interest	(496,698)
Less prior-year video board loan accrued interest	543,850
Musco Lighting accrued interest	(21,173)
Principal payment on StageRight loan	16,380
Amortization of deferred revenue	176,730
Total payments on long-term liabilities	328,339
ACCRUED INTEREST ON LONG-TERM NOTE RECEIVABLES SERIES 2001 C-1 NOTE	1,145,604
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 1,289,652

See notes to the financial statements.

1. THE FINANCIAL REPORTING ENTITY

The Harris County Sports & Convention Corporation (the "Corporation"), a component unit of Harris County, Texas (the "County"), was created by the Commissioners Court Of Harris County, Texas (the "Court"), on January 26, 1999, as a local government corporation under the Texas Transportation Act for the purposes of aiding and acting on behalf of the County in managing, operating, maintaining, and developing the sports and entertainment complex located on property owned by the County, known as the Astrodomain Complex (the "Complex"), which is currently known as the NRG Park complex. This includes developing and implementing a long-term management plan for the facility, development of other sports and entertainment facilities, and other site development and transportation issues related to the management and development of the Complex.

The Corporation is a public nonprofit corporation incorporated under the Texas Nonprofit Corporation Act. The Corporation is governed by a Board of Directors ("Board") consisting of five members, appointed and approved by the Court. The Corporation is a component unit of the County, under the Governmental Accounting Standards Board (GASB) Statement No. 14**,** *The Financial Reporting Entity,* which defines the reporting entity. The basic financial statements of the Corporation are included as a blended component unit of the County's basic financial statements as the members of the Corporation's governing board are appointed by the Court.

The Corporation entered into a lease agreement with the County on April 7, 1999, in which the County transferred and assigned to the Corporation its rights, title, and interest in a leasehold purchase agreement for the management and development of the Complex and letter agreement dated October 19, 1998, between the County, Harris County Houston Sports Authority ("Sports Authority"), the Houston Livestock Show & Rodeo, Inc. (HLSR), Houston NFL Holdings, L.P. (the "NFL Club"), the City of Houston and the Metropolitan Transit Authority of Harris County relating to the development and management of a 69,000-seat stadium facility for use by a National Football League (NFL) team.

The Corporation entered into a property management agreement with LMI/HHI, Ltd., d.b.a. Leisure Management International ("LMI") to manage, operate, and market the Complex. Effective March 1, 2004, the agreement was amended and restated whereby LMI, a wholly owned subsidiary of Service Management Group (SMG), assigned all of its rights under the original agreement to SMG and SMG assumed all of LMI's obligations thereunder. SMG is paid a management fee for its services. On May 20, 2015, the Board approved a new Facilities Management with SMG.

In October 2000, the Corporation entered into an agreement with Reliant Energy, Incorporated to transfer the naming rights to the Complex, then known as Reliant Park. This 32-year agreement transferred the naming rights for the Complex and associated buildings to Reliant Energy, Incorporated, including the football stadium, exposition center, Astrodome, and Astroarena. Reliant Energy, Incorporated was subsequently acquired by NRG Energy and the naming rights were transferred. In March 2014, NRG Energy and the Corporation's Board agreed to rename the Park and all facilities as NRG Park.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to governmental units as promulgated by the GASB. A summary of the Corporation's more significant accounting policies is as follows:

Financial Statement Presentation, Measurement Focus, and Basis of Presentation

Corporation-Wide Financial Statements—The Corporation-wide basic financial statements consist of the statement of net position and the statement of activities. These basic financial statements report information on all of the nonfiduciary activities of the Corporation. The Corporation reports operating activities only, which normally are supported by revenues from operations.

The Corporation-wide basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of cash flows.

The statement of activities demonstrates the degree to which the direct expenses of the Corporation's programs are offset by those programs' revenues. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues are generated from events held at NRG Park.

Fund Accounting—The Corporation's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Corporation's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with activities or objectives specified for those resources. The Corporation is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Governmental funds are used to account for the Corporation's activities using the flow of current financial resources measurement focus. The Corporation uses the general fund, a governmental fund type, to account for its operations. The Corporation is responsible for overseeing the development and improvement of capital facilities at the Complex, under the terms of the lease agreement with the County. Capital expenditures for the development and improvement of the Complex are financed either by the County or the Sports Authority. Ownership of all capital improvements remains with the County, under terms of the lease agreement. Expenditures for capital improvements made by the Corporation with County funds are recorded as capital expenditures by the County at the time the funds are transferred to the Corporation and the County includes those expenditures as additions to the County's fixed assets. Capital expenditures related to the construction of the NFL stadium were recorded and disbursed by the Sports Authority and were not reflected as expenditures by the Corporation.

Basis of Accounting—Basis of accounting refers to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. The fund financial statements of the Corporation are presented on the modified accrual basis of accounting. Revenues are recognized when they become measureable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred. Those revenues susceptible to accrual prior to receipt are interest earnings on the Corporation's demand deposit account and the money market account and have a 60-day availability period.

Cash and Cash Equivalents—The Corporation considers all financial instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Capital Assets—Capital expenditures are recorded in the governmental fund type. At the government-wide level, the Corporation capitalized equipment that is relatively permanent and of significant value. Relatively permanent is defined as a useful life of one year or longer. Significant value is defined as $5,000 or more. All costs related to the construction and improvement of capital assets at the Corporation are considered additions to the County's capital assets and are not accounted for as capital expenditures by the Corporation.

Capital assets are depreciated in the government-wide financial statements using the straight-line method over the following useful lives:

Equipment 3-20 years
Vehicles 4-15 years

Land, buildings, and improvements are considered assets of Harris County and are reported on their basic financial statements.

Net Position and Fund Balances

Net Position Classifications—Net position in the government-wide financial statements are classified in three categories: (1) net position invested in capital assets, net of related debt; (2) restricted net position; and (3) unrestricted net position. Net position is shown as restricted, if constraints placed on its use are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Corporation's restricted net position is restricted for debt service and certain capital items.

Classification of Fund Balance—In the fund financial statements, the governmental fund reports fund balance in the following three categories: (1) nonspendable, (2) restricted, and (3) unassigned. Fund balance should be reported as restricted when constraints placed on those resources are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Corporation's resources held on behalf a third party are restricted based on the terms of the documents governing those resources. The Corporation's lease agreement for the facilities owned by the County specifies funding requirements for the capital repair and replacement expenditures in those facilities. The funds to pay for those expenditures are restricted. Fund balance is classified as restricted based on the Corporation's lease agreement with the County.

The Corporation has funds set aside for capital repair costs. The Corporation considers restricted amounts to have been spent from restricted fund balance when available.

Use of Estimates—The preparation of basic financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

3. DEPOSITS AND SHORT-TERM INVESTMENTS

Deposits—Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act. This act provides guidelines for the amount of collateral that is required to secure the deposit of public funds. Federal Depository Insurance Corporation (FDIC) coverage is available for funds deposited at any one financial institution up to a maximum of $250,000 each for demand deposits, time and savings deposits, and deposits pursuant to indenture. The Public Funds Collateral Act requires that the deposit of public funds be collateralized in an amount not less than the total deposit, reduced by the amount of FDIC insurance available.

The custodial credit risk for deposits is the risk that the Corporation will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial risk if they are not insured or collateralized. At February 29, 2016, all the Corporation's funds were invested and the carrying amount of the Corporation's demand and time deposits was $236,523. The Corporation's deposits are not exposed to custodial risk since all deposits are either covered by FDIC insurance of collateralized with securities held by the Corporation or its agent in the Corporation's name, in accordance with the Public Funds Collateral Act.

Investments—Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the Corporation to invest its funds pursuant to a written investment policy that primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity.

The Corporation's investment policy is reviewed and approved annually by the Board. The investment policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type, and the maximum weighted-average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy. Additionally, the policy includes specific investment strategies for fund groups that address each group's investment options and describes the priorities for suitable investments.

Corporation funds may be invested in the following investment instruments provided that such instruments meet the guidelines of the investment policy:

a. Obligations of the United States or its agencies and instrumentalities.

b. Direct obligations of the State of Texas or its agencies and instrumentalities.

c. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, with a stated final maturity of 10 years or less.

d. Other obligations, the principal, and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of this state or the United States.

e. Obligations of states, agencies, counties, cities, and other political subdivisions of any state related as to investment quality by a nationally recognized investment-rating firm not less than AA or its equivalent.

f. Certificates of deposit issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state that are guaranteed or insured by the FDIC or secured by authorized investments that have a market value of not less than the principal amount of the certificates.

g. Fully collateralized repurchase agreements that the Corporation has obtained a signed master repurchase agreement with the company into which the agreement is entered, as authorized by the Public Funds Investment Act.

h. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.

i. No-load money market mutual funds regulated by the Securities and Exchange Commission, with a dollar-weighted-average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable new asset value of $1 per share as authorized by the Public Funds Investment Act.

j. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.

k. Public Funds Investment Pools as authorized by the Public Funds Investment Act.

Summary of Cash and Investments - The Corporation's cash and investments are stated at fair value. A summary of cash and investments at February 29, 2016, held by the Corporation is as follows:

	Governmental Activities
Government-wide statement of net position:	
Cash and cash equivalents	$ 14,852,592
Restricted cash and cash equivalents	1,960,200
	$ 16,812,792

The Corporation reports cash received from the Sports Authority and the NFL Club for stadium operations, maintenance, and repairs as restricted cash in the balance sheet. The disbursement of these funds is overseen by a committee consisting of representatives from the Corporation, the NFL Club, and HLSR.

The table below indicates the fair value and maturity value of the Corporation's investments as of February 29, 2016, summarized by security type. Also demonstrated are the percentage of total portfolio and the modified duration in years for each summarized security type.

Security	Fair Value	Percentage of Portfolio	Maturity Amount	Modified Duration (Years)	Credit Rating S&P/Moody's
Money market mutual funds:					
Dreyfus Cash Management	$ 14,753,956	89.01 %	$ 14,753,956	N/A	AAAm/Aaa
Fidelity Institutional Class I Treasury	1,822,313	10.99	1,822,313	N/A	AAAm/Aaa
Total investments	16,576,269	100.00 %	$ 16,576,269		
Demand and time deposits	236,523				
Total cash and investments	$ 16,812,792				

Risk Disclosures

Interest Rate Risk — All investments carry the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Corporation manages its exposure to interest rate risk is by purchasing a combination of shorter- and longer-term investments and by matching cash flows from maturities so that a portion of the portfolio is maturing evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

According to the Corporation's investment policy, no more than 25% of the portfolio, excluding those investments held for future capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, may be invested beyond 24 months. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed two years.

Credit Risk and Concentration of Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Corporation mitigates these risks by emphasizing the importance of a diversified portfolio. All funds must be sufficiently diversified to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 50% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer. Concentration by issuer for other investment instruments is not specifically addressed in the investment policy. However, the policy does specify that acceptable investment instruments must have high quality credit ratings and, consequently, risk is minimal.

The Corporation's investment policy establishes minimum acceptable credit ratings for certain investment instruments. Securities of states, agencies, counties, cities, and other political subdivisions must be rated as to investment quality by a nationally recognized investment rating firm as AA or its equivalent. Money market mutual funds and public funds investment pools must be rated Aaa by Moody's investor rating service.

Custodial Credit Risk — Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the Corporation's name, and are held by the counterparty. In the event of the failure of the counterparty, the Corporation may not be able to recover the value of its investments that are held by the counterparty. As of February 29, 2016, all of the Corporation's investments are held in the Corporation's name.

Foreign Currency Risk — Foreign currency risk is the risk that fluctuations in the exchange rate will adversely affect the value of investments denominated in a currency other that of the US dollar. The Corporation's investment policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the Corporation is not exposed to foreign currency risk.

Fund Investment Considerations — The investment policy outlines specific investment strategies for each fund or group of funds identified in the Corporation's basic financial statements. The two investment strategies employed by the Corporation are the matching approach and the barbell approach. The matching approach is an investment method that matches maturing investments with disbursements. Matching requires an accurate forecast of disbursement requirements. The barbell approach is an investment method where maturities are concentrated at two points, one at the short end of the investment horizon and the other at the long end.

4. CURRENT NOTES, RECEIVABLES, AND DUE FROM HARRIS COUNTY

At February 29, 2016, amounts due from Harris County consisted of $2,010 related parking space rental. At February 29, 2016, receivables included $22,126 due from the NFL Club, $3,000 due from the HLSR related to funding for capital project and other stadium-related expenditures, $100,000 due from the Stadium Park Redevelopment Authority, and $7,593,675 from SMG for operations of the Complex. No allowance for uncollectible accounts has been recorded as management believes all receivables will be collected. The other receivables totaling $25,781 relate to sponsorship and park operations.

5. CAPITAL ASSETS

Capital assets of the Corporation consist of equipment that is used in the Complex's operations and benefit more than a single fiscal year.

Capital assets of the Corporation are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year**.** Capital assets are depreciated in the government-wide basic financial statements using the straight-line method over the useful lives of three to 20 years. Construction work in process (CWIP) was added for the Wi-Fi system being installed in NRG Stadium complex.

Capital asset transactions are summarized as follows:

	Balance March 1, 2015	Additions	Disposals and Transfers	Balance February 29, 2016
Equipment	$ 9,595,736	$ 412,437	$ -	$ 10,008,173
Accumulated depreciation	8,986,287	251,159	-	9,237,446
CWIP Wi-Fi system	-	1,960,000	-	1,960,000
Total	$ 609,449	$ 2,121,278	$ -	$ 2,730,727

Depreciation expense totaled $251,159, which is recorded in facilities and equipment expenses in the statement of activities.

The County has assigned the responsibility of overseeing capital repairs in NRG Park to the Corporation as part of the lease agreement entered into with Corporation for the operations and maintenance of NRG Park. The County has also requested that the Corporation oversee the acquisition and management of the property insurance coverage at NRG Park.

6. LONG-TERM DEBT AND UNEARNED/UNAVAILABLE REVENUE

Changes to the Corporation's long-term debt obligations were as follows:

	Principal Balance March 1, 2015	Issued	Payment	Principal Balance February 29, 2016	Current Portion
NFL Holdings loan-equipment financing	$ 1,416,486	$ -	$ 1,416,486	$ -	$ -
HLSR Loan	237,689	-	237,689	-	-
Video board loan	16,709,208	-	1,519,019	15,190,189	1,519,019
Lease purchase - sports lighting	900,000	-	171,921	728,079	171,768
Advance from Harris County	12,000,000	-	-	12,000,000	-
Total	$ 31,263,383	$ -	$ 3,345,115	$ 27,918,268	$ 1,690,787

Outstanding debt as of February 29, 2016, is as follows:

	Original Issue Amount	Interest Rates (%)	Issue Date	Outstanding as of February 29, 2016
NFL Holdings loan-equipment financing	$ 5,941,541	5.50%	August 2010	$ -
HLSR Loan	237,689	5.50%	April 2012	-
Video board loan	16,709,208	5.50%	2013	15,190,189
Lease purchase - sports lighting	900,000		July 2014	728,079
Advance from Harris County	12,000,000		November 2002	12,000,000
	$ 35,788,438			$ 27,918,268

Harris County Capital Funding Advance — In November 2002, the Court approved funding the Corporation's $12 million capital improvement request originally approved on July 24, 2001, that would secure a subordinate funding commitment from the Sports Authority. The Corporation used the $12 million funding from the County to purchase two subordinate lien notes from the Sports Authority – the $9 million Series 2001 C-1 subordinate lien note maturing on February 15, 2032, and the $3 million Series 2001C-2 subordinate lien note maturing on March 1, 2032. The Series 2001 C-1 note was then assigned to the HLSR as collateral for a loan agreement as previously described and the repayment of the funding advance to the County was redirected to a stadium renewal and replacement fund. Upon completion of this transaction, the Sports Authority was able to provide funding of $12 million to the Corporation to complete the NRG (formerly Reliant) Stadium project. The principal and interest on the Series 2001 C-1 and C-2 notes are secured by an irrevocable subordinate lien on and pledge of the residual revenues of the Sports Authority.

In November 2003, the Corporation and the Sports Authority executed the first omnibus modification of $12,000,000 lien notes. Under the terms of the amendment, the principal amount on the Series 2001C-1 note was reduced to $7,000,000 and the interest rate was reduced from 9.5% to 7.0% and the principal amount on the Series 2001C-2 note was increased to $5,000,000 and the interest rate was reduced to 0%. As consideration for this transaction, the Sports Authority paid the Corporation $5,000,000 to be used for stadium improvement purposes.

NFL Club Loan Agreement – In August 2010, the Corporation and NFL Club began negotiating the terms of an agreement to provide funding by NFL Club for the costs to be incurred for the purchase and installation of a point of sales (POS) system in the stadium, audiovisual upgrades in the stadium, and a warning track for the stadium. The initial commitment for each was $2,750,000 for the POS system, $2,750,000 for the audiovisual upgrade, and $600,000 for the warning track. A promissory note was issued to evidence the terms of this loan agreement. The repayment schedule was developed using a total of $5,993,102 to be drawn under the loan agreement. The initial loan agreement was finalized in August 2011. The loan agreement and promissory note were restructured in May 2014 with a revised amount of $5,941,541. At the March 2015 Board meeting, it was approved to pay this loan in full. On April 1, 2015, a final payment was remitted to NFL Club in the amount of $1,416,486, plus interest and issuance costs.

HLSR Loan – In January 2012, the Corporation and the HLSR received approval from the Board for a loan agreement to provide funding related to the purchase and installation of audio speakers and supporting infrastructure to the standing room area of the Level 1 concourse in NRG Stadium. The loan will be paid with one payment due in December 2016. The loan agreement was finalized in August 2012. At the March 2015 Board meeting, it was approved to pay this loan in full. On April 1, 2015, a final payment was remitted to the HLSR in the amount of $237,689, plus interest and issuance costs.

NFL Club/HLSR Video Board Loan – On December 19, 2012, the Corporation entered into an agreement with Mitsubishi Electric Power Products, Inc. to manufacture and install a large-scale video display board above each end zone in NRG Stadium. The video display board is estimated to cost in excess of $16 million to manufacture and install. The Corporation is financing the project with a loan from the HLSR and the NFL Club. Terms for the promissory notes totaling $16,709,208 were approved by the Corporation's Board in May 2014. In July 2015, revised payment schedules were submitted by the HLSR and NFL Club. These revised schedules did not change the amount of the original promissory notes, only the pay-back schedules.

MUSCO Sports Lighting – In July 2014, the Corporation entered into a lease purchase agreement with Musco Lighting to provide 504 LED sports lighting fixtures to be installed in NRG Stadium. The $1.9 million dollar agreement was partially financed by a one-time contribution from NRG Energy of $1 million. The balance remaining, plus interest, will be financed over the following five-year period.

Annual debt service requirements to maturity as of February 29, 2016, are as follows:

	Equipment Financing			County Funding Advance		
Period	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2017	$ 1,690,787	$ 865,981	$ 2,556,768	$ -	$ -	$ -
2018	1,697,448	773,485	2,470,933	-	-	-
2019	1,704,366	683,021	2,387,387	-	-	-
2020	1,711,553	592,288	2,303,841	-	-	-
2021	1,519,019	502,650	2,021,669			
2022–2037	7,595,095	1,253,648	8,848,743	12,000,000		12,000,000
	$ 15,918,268	$ 4,671,073	$ 20,589,341	$ 12,000,000	$ -	$ 12,000,000

Unearned/Unavailable Revenue — The Corporation has unearned or unavailable revenue in the governmental funds of $13,679,835 as of February 29, 2016, consisting of $10,352,434 from the Sports Authority for accrued interest on the notes receivable, $1,482,563 from the NFL Club relating to naming rights funding received but not earned, and $1,844,838 in escrow funding for stadium project expenses directed by NFL Club. The Corporation received naming rights income as specified in the Stadium triparty agreement dated May 17, 2001, between the NFL Club, HLSR, and the Corporation. The various related agreements expire in 2032 and entitle the Corporation to certain allocated naming rights income through the termination date. The Corporation recognizes this revenue as it is earned.

7. RETIREMENT PLAN

The Corporation elected to begin participation in the Texas County District Retirement System (TCDRS) as of January 1, 2016. Due to this effective date, there were no participating employees as of the TCDRS measurement date of December 31, 2015. TCDRS is a state-wide agent with multiple-employer public retirement system governed by their board of trustees.

The Board adopted an annually determined contribution rate plan for which the employer contribution rate is actuarially determined on an annual basis. Monthly contributions by HCSCC are based on covered payroll and the employer contribution rate currently in effect. The employer contribution rate for 2016 is 15.18%.

The plan provisions were adopted by the HCSCC Board based on options available in the state statutes governing TCDRS (the "TCDRS Act"). Members may retire at age 60 or above with eight or more years of service, with 30 years of service if the sum of their age and years of service total 75.

Employee's contributions, interest, and employer-financed monetary credits determine benefit amounts. Employer financed-monetary credits are approved by the Board within the actuarial constraints imposed by the TCDRS Act.

The plan is funded monthly by contributions from the Corporation and HCSCC employees based on covered payroll. The contribution rate for employees, as approved by the Board, is currently 7%. This rate may be changed by the Board within the options available in the TCDRS Act.

For the HCSCC fiscal year ended, the pension cost for the TCDRS plan and actual contributions to TCDRS were $12,784.

8. NRG PARK COMPLEX

Facilities Lease Agreement — The Corporation entered into an agreement with the County on April 7, 1999, the second amended and restated lease agreement (the "Lease Agreement") that assigned to the Corporation the County's rights, title, and interest in and to (a) the leasehold purchase agreement; (b) the NFL agreement; and (c) certain other agreements and rights related to the Complex or NRG Park. The purpose of the Lease Agreement is to provide for the operation, management, maintenance, and development/redevelopment of NRG Park in order to aid the County in providing a public community, sports, entertainment, convention, and exhibition venues and facilities for the benefit of the County and the public. The Lease Agreement commenced on April 7, 1999, and expires on December 31, 2030. The Corporation has the right to extend the term of the Lease Agreement on the same terms and conditions for an additional 15 years. Under the terms of the Lease Agreement, the County is responsible for funding capital repair, replacement, and improvement expenditures, as well as all utilities used at NRG Park. Operating expenditures of the Corporation are partially funded by the County through the County's annual budget process. Amounts funded by the County to the Corporation for operating expenditures are transferred as requested.

NRG Park Concessions Agreement — In December 2002, the Corporation, the NFL Club, and HLSR entered into an amended and restated agreement with the concessionaire for NRG Park, Aramark. The agreement specifies that Aramark shall provide food, beverage, concession, catering, and retail merchandise services for NRG Park through March 31, 2017. Upon execution of this agreement, Aramark provided the Corporation and the Texans with $7.5 million to fund certain concession build-out costs and related fixtures and equipment. As of February 29, 2016, a renewal agreement with Aramark was being negotiated.

NRG Park Complex Management (the "Facilities Management") — On February 14, 2000, the Corporation entered into a Facilities Management agreement (the "Management Agreement") with Leisure Management to provide management services for the facilities at the Complex. Under the terms of the Management Agreement, Leisure Management will manage, operate, and market the facilities at the Complex. Leisure Management is a wholly owned subsidiary of SMG, a Philadelphia-based joint venture between Aramark and Hyatt Hotels and Resorts. The Management Agreement is for an initial period of three years and commenced on April 1, 2000. The Management Agreement can be renewed and extended for three successive renewal periods of three years each.

The facilities manager is obligated to pay all expenditures in connection with the maintenance, use, repair, and occupancy of the facilities at the Complex, except for capital expenditures and utilities. Capital expenditures and utility expenditures are to be funded by the County.

The Corporation entered into a new Facilities Management agreement effective May 1, 2015. The initial expiration date is February 29, 2020. HCSCC may renew and extend the agreement for two additional five-year periods. The annual management fee is $550,000, paid on a monthly basis, for the base fiscal year. This fee may be adjusted at the end of each fiscal year, according to the terms set forth in the agreement. In addition, performance compensation shall be paid, in arrears, on an annual basis. This amount shall not exceed $300,000 and will be based on the Corporation's evaluation of SMG's performance under certain measures. These weighted measures are operating revenue (40%), client satisfaction (30%), and facility maintenance (30%). The Corporation has expensed $556,070 for the Facilities Management's services and $100,000 for the annual performance bonus for the period ended February 29, 2016.

Included in the new agreement is a provision for SMG to pay a capital contribution in the amounts of $1,225,000 for capital improvements and equipment purchases; $1,225,000 to establish a reserve fund for NRG Center; $550,000 for furniture, fixtures, and equipment for NRG Park facilities; and $500,000 for redevelopment efforts of the NRG Astrodome. However, HCSCC may utilize such funds at its discretion notwithstanding the purposes indicated above. In addition, at the beginning of each renewal period, SMG shall contribute $500,000 for capital improvements and equipment purchases.

If the Corporation terminates or does not extend the agreement as specified, it may be required to repay SMG a proportionate percentage of the capital contributions that were received at the inception of entering this agreement.

NFL Stadium — On October 18, 1998, Houston, the County, the Metropolitan Transit Authority of Harris County, the HLSR, the NFL Club, and the Sports Authority entered into a letter agreement (the "Project Agreement") that governs the construction, financing, and use of a new multipurpose, retractable roof sports and entertainment facility (the "Stadium") designed to support the occupancy of a NFL franchise by the NFL Club, the annual rodeo of the HLSR, and other sporting and entertainment events.

On February 16, 2000, a second letter agreement (the "Second Letter Agreement") was entered into between the Corporation (the successor in interest to the County), the Sports Authority, the HLSR, and the NFL Club. This letter agreement modified and supplemented the terms of the agreement dated October 19, 1998, and together provided the basis by which the parties finalized the Project Agreement, the principal definitive document governing the development and construction of the Stadium.

The Second Letter Agreement provides that the Stadium will be located on property owned by the County at and adjacent to the Complex, with additional parking facilities to be located on property made available by HLSR. The letter agreement further provides that the Stadium will be constructed based on a guaranteed maximum price contract that requires the contractor to pay substantial monetary liquidated damages for failure to complete the Stadium by the agreed-upon completion dates.

On May 17, 2001, the Sports Authority issued bonds to finance certain costs of acquiring, constructing, and equipping the Stadium. In connection with this financing, 10 principal project development documents were issued that set forth the obligations of the Corporation, the Sports Authority, HLSR, and the NFL Club. Under the terms of the agreements, the Corporation is responsible for constructing, operating, and maintaining the project. The Sports Authority is responsible for the repayment of the bonds and has secured pledges of funding from the various parties to the agreements, including a pledge of up to $4 million annually by the Corporation of parking revenues. These bonds were paid off in May 2014 and, therefore, no longer require a $4 million pledge from the Corporation.

NRG Stadium Lease Agreements — In May 2001, the Corporation entered into 30-year lease agreements with the HLSR and the NFL Club for the use of NRG Stadium. Under terms of the lease, the NFL Club will pay a guaranteed payment of $4,010,000 and the Rodeo will pay a guaranteed payment of $1,500,000 annually for the use of the facility. The NFL Club will pay an additional guaranteed payment of $2,954,814 annually. In connection with the issuance of the Sports Authority Bonds issued to finance certain costs of acquiring, constructing, and equipping the Stadium; the Corporation assigned all NFL Club guaranteed payments and additional club payments to the Sports Authority and assigned all Rodeo Lease payments to the Sports Authority for the payment of principal and interest on the miscellaneous club revenue bonds, additional landlord/tenant bonds, and the miscellaneous rodeo revenue bonds.

9. OPERATING LEASES

The Corporation leases office and equipment under a noncancelable operating lease. The Corporation entered into a new lease that began March 1, 2015. Total costs for such lease was $10,224 for the year ended February 29, 2016. This lease is for 39 months at $852 per month, divided by fiscal year as follows:

Year Ending February 28/29	Amount
2017	$10,224
2018	10,224
2019	2,556

10. CONTINGENCIES

The Corporation is subject to claims and contingent liabilities in the normal course of its operations. The Corporation does not believe the resolution of these matters will have a material effect on its financial position.