Harris County Sports & Convention Corporation

(A Component Unit of Harris County, Texas)

Basic Financial Statements as of and
for the Year Ended February 28, 2017,
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 28, 2017, 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 21.2% and 21.5% of the revenues in the government-wide statement of activities and of the revenues of the general fund, respectively. 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 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 28, 2017, 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 7, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 Basic 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 component unit in the County's basic financial statements. This analysis presents information about the Corporation and the operations and activities of the Corporation only, not the entire County.

Management's Discussion and Analysis

The MD&A section of the Corporation's annual report presents an overview of the Corporation's financial performance during the year ended February 28, 2017. 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 Basic 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, created in January 1999 by the Commissioners Court of Harris County, Texas, 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, currently known as NRG Park. In addition to generating revenue from park activities, the redevelopment of NRG Park but also to generate sales and hotel tax revenues and to provide an economic stimulus to the area surrounding NRG Park.

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 and Rodeo. 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, the 2016 NCAA Men's Final Four Basketball Championship, and the NFL Super Bowl LI. In addition, Beyoncé and Guns N' Roses had concert appearances at NRG Stadium in 2016. Upcoming events include concerts by U2, Metallica, and Coldplay in addition to the Disney on Ice and Monster Truck shows throughout the year.

NRG Center—A 1.37 million square foot exposition and meeting room facility. Harris County provided funding for NRG Center. The Center hosts several major conventions and expositions throughout the year, including, but not limited to, the Houston Ballet Nutcracker Market, Houston Auto Show, and livestock exhibits associated with the Houston Livestock Show & Rodeo.

NRG Arena—A facility with exhibit halls, meeting rooms, and a club room, this facility includes 350,000 square feet of meeting space. Included in the Arena, is an 8,000 seat general session meeting area and a 2,000 seat general session meeting area in the Arena Pavilion. The Arena hosts many events and concerts throughout the year, including the Harlem Globetrotters, Cheer America competitions, and Dolly Parton.

NRG Astrodome—This 131,000 square foot facility is currently not available for public use. The Harris County Commissioners Court authorized a major renovation project designed for the Astrodome. The engineering phase of this project is currently in process. This plan will reimage and transform the Astrodome into a multifunctional park and event space, and create multiple revenue streams for the taxpayers of Harris County.

NRG Park—NRG Park is a 350-acre sports and entertainment complex with more than 26,000 parking spaces available to event patrons. In addition to the four facilities discussed above, NRG Park has outdoor spacing that is available for festivals and concerts. Annual attendance at NRG events during fiscal year 2017 exceeded 4 million patrons.

Financial Analysis

The following sections will discuss the significant changes in the Corporation's financial position for the Fiscal Year Ended February 28, 2017. Additionally, the report provides economic factors and industry trends that contribute to the Corporation's operations. 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 decreased by $3,649,640 during the fiscal year ended February 28, 2017. Primarily attributed to work in NRG Stadium in preparation for Super Bowl LI, including the installation of a Wi-Fi system, a new playing surface and protective cover, and corrosion repair to the pedestrian ramps.

Exhibit I

Government-wide Condensed Schedules of Net Position

	February 28, 2017	February 29, 2016
Current assets	$ 19,929,699	$ 24,642,021
Equipment—net	561,947	2,730,727
Other long-term assets	18,222,366	22,352,434
Total assets	38,714,012	49,725,182
Deferred outflows of resources	17,615	-
Current liabilities	9,233,417	10,359,606
Long-term liabilities	20,009,755	26,227,481
Total liabilities	29,243,172	36,587,087
Net position	$ 9,488,455	$ 13,138,095

Exhibit II

Government-wide Condensed Schedules of Activities

	Year Ended February 28, 2017	Year Ended February 29, 2016
Revenues:		
Program revenues	$ 21,400,614	$ 16,479,380
Investment earnings	1,160,392	1,329,534
Insurance proceeds	84,296	189,020
Miscellaneous	148,423	14,464
Total revenues	22,793,725	18,012,398
Expenses:		
Park operations	1,150,808	1,223,287
General administration	1,152,138	1,361,516
Facilities and equipment	17,730,556	13,225,490
Contributions to Harris County Wi-Fi System	5,600,000	-
Interest on long-term liabilities	809,863	912,453
Total expenses	26,443,365	16,722,746
(Decrease) increase in net position	$ (3,649,640)	$ 1,289,652

An increase in program revenue from fiscal year 2016 is primarily due to a capital contribution from Aramark. This contribution, stipulated in their new food and beverage agreement, was for the purpose of renovating suite and concession areas in NRG Stadium. The $9.2 million contribution was offset by a capital contribution from SMG in fiscal year 2016 of $3.7 million. A corresponding increase in expenses for facilities and equipment was reported in fiscal year 2017 due to the Aramark renovations. Expenses for a Wi-FI system were incurred in fiscal year 2017. The Wi-FI system, installed in NRG Stadium, was contributed to Harris County since the stadium is a Harris County asset.

Exhibit III

Governmental Funds' Condensed Balance Sheets

	As of February 28, 2017	As of February 29, 2016
Assets—unrestricted	$ 35,696,225	$ 45,034,255
Assets—restricted	2,445,045	1,960,200
Total	$ 38,141,270	$ 46,994,455
Liabilities and unearned revenue	$ 22,456,082	$ 27,675,685
Fund balance	15,685,188	19,318,770
Total	$ 38,141,270	$ 46,994,455

Exhibit IV

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

	2017	2016
Revenues	$ 7,498,116	$ 6,660,157
Expenditures	24,359,112	18,995,633
Deficiency of revenue under expenditures	(16,860,996)	(12,335,476)
Other net financing sources	13,227,414	6,684,792
Deficiency of revenue and other financing sources under expenditures	(3,633,582)	(5,650,684)
Fund balance—beginning of year	19,318,770	24,969,454
Fund balance—end of year	$ 15,685,188	$ 19,318,770

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. 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 ninth overall in team value of 32 teams in the NFL according to "Forbes Magazine" for the 2016 season. The current team value is $2.6 billion. The other major tenant is the Houston Livestock Show & Rodeo (HLSR), a Houston favorite, supports youth, education, and agriculture practices. Attendance in 2016 for HLSR was 2.46 million, including the World's Championship Bar-B-Que Cook-off. A highlight of the 2016 show, included $13 million in new scholarships awarded to Texas youth.

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. The Houston health care industry, already the second largest employer in the Houston area, expects to add almost 10,000 jobs in 2017 because of new facilities in the greater Houston area. Increased rig counts and oil prices in the last quarter of 2016 were a contributing factor to a sense of cautious optimism in the oil industry. As a result, investors are taking advantage of companies emerging from bankruptcy and opportunities for mergers and acquisitions.

Long-Term Debt

On July 5, 2016, the Harris County-Houston Sports Authority made a $5,088,420 payment to Harris County, Texas. The County applied this payment to the $12 million outstanding loan due from the Corporation. This reduced the notes payable by the Corporation to $6,911,580 as of February 28, 2017.

The Corporation entered into a finance agreement with KS State Bank for the purchase of a radio system for use throughout NRG Park. The total financed amount of $746,880 has annual payments with the final payment due in December 2020.

Capital Assets

The Corporation has 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 2017, the Corporation had $561,947 (net of accumulated depreciation of $9,488,806). These capital assets primarily consist of ground-keeping equipment, food preparation and serving equipment, a marquee and ground transportation vehicles.

Budgetary Controls

The board of directors ("Board") of the Corporation approves an operating budget on an annual basis. Once approved, the budget is formally transmitted to the Harris County Commissioners Court. Monthly monitoring of the budget performed and the results reported to the Board. This process helps insure the Corporation's financial performance and provides assurance that operational goals are maintained.

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 & Administration, 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 28, 2017

	Governmental Activities
ASSETS	
CASH AND CASH EQUIVALENTS	$10,323,772
RESTRICTED CASH AND CASH EQUIVALENTS	2,445,045
CURRENT NOTES AND OTHER RECEIVABLES	7,074,852
DUE FROM THE COUNTY	4,126
PREPAID EXPENSES	81,904
PENSION PLAN ASSET	10,795
NOTES RECEIVABLE	6,911,580
INTEREST RECEIVABLE ON LONG-TERM NOTE	11,299,991
EQUIPMENT—Net of accumulated depreciation	561,947
TOTAL ASSETS	$38,714,012
DEFERRED OUTFLOWS OF RESOURCES	
PENSION CONTRIBUTIONS AFTER MEASUREMENT DATE	$ 13,928
DIFFERENCE IN PROJECTED AND ACTUAL EARNINGS ON PENSION PLAN ASSETS	3,614
CHANGES IN EXPERIENCE	73
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$ 17,615
LIABILITIES AND NET POSITION	
LIABILITIES:	
Accounts payable	$ 396,879
Salaries payable	9,873
Due to the County	25,514
Unearned revenue	6,463,212
Accrued interest payable	461,753
Long-term liabilities:	
Due in one year:	
Musco lighting	178,429
Video board loan	1,519,019
Radio system financing	178,738
Due in more than one year:	
Video board loan	12,152,152
Musco lighting	377,881
Radio system financing	568,142
Advance from the County	6,911,580
Total liabilities	29,243,172
NET POSITION:	
Net investment in capital assets	561,947
Restricted	2,445,045
Unrestricted	6,481,463
Net position	9,488,455
TOTAL LIABILITIES AND NET POSITION	$38,731,627

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 28, 2017

Function/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES:				
Park operations	$ 1,150,808	$ 1,046,430	$ -	$ (104,378)
General and administrative	1,152,138	-	-	(1,152,138)
Facilities and equipment	17,730,556	6,267,158	14,087,026	2,623,628
Contributions to Harris County Wi-Fi System	5,600,000	-	-	(5,600,000)
Interest on long-term liabilities	809,863	-	-	(809,863)
TOTAL	$ 26,443,365	$ 7,313,588	$ 14,087,026	(5,042,751)
GENERAL REVENUES:				
Investment earnings				1,160,392
Insurance proceeds				84,296
Miscellaneous				148,423
TOTAL GENERAL REVENUES AND CONTRIBUTIONS				1,393,111
CHANGE IN NET POSITION				(3,649,640)
NET POSITION—Beginning of year				13,138,095
NET POSITION—End of year				$ 9,488,455

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 28, 2017

	General Fund
ASSETS	
CASH AND CASH EQUIVALENTS	$ 10,323,772
RESTRICTED CASH AND CASH EQUIVALENTS	2,445,045
NOTES RECEIVABLE	6,911,580
RECEIVABLES	7,074,852
ACCRUED INTEREST RECEIVABLE	11,299,991
DUE FROM THE COUNTY	4,126
PREPAID EXPENSES	81,904
TOTAL ASSETS	$ 38,141,270
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 396,878
Salaries payable	9,873
Due to the County	25,514
Unearned revenue—other	6,463,212
Advance from the County	6,911,580
Total liabilities	13,807,057
DEFERRED INFLOW OF RESOURCES:	
Unavailable revenue—naming rights	1,482,563
Unavailable revenue—accrued interest	7,166,462
Total deferred inflow of resources	8,649,025
FUND BALANCE:	
Nonspendable	11,381,895
Restricted	2,445,045
Unassigned	1,858,248
Total fund balance	15,685,188
TOTAL LIABILITIES AND FUND BALANCE	$ 38,141,270

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 28, 2017

TOTAL FUND BALANCE FOR GOVERNMENTAL FUND	$ 15,685,188
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 $10,050,753 equipment—net of $9,488,806 accumulated depreciation.	561,947
Pension plan asset	10,795
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).	
DEFERRED OUTFLOWS:	
Pension Contributions after Measurement Date	13,928
Difference in projected and actual earnings on pension plan assets	3,614
Changes in experience	73
NOTES PAYABLE:	
Video board loan	(13,671,171)
Musco lighting	(556,310)
Radio system financing	(746,880)
Accrued interest on Video board loan	(444,968)
Accrued interest on Musco lighting	(16,178)
Accrued interest on Radio system financing	(607)
Unearned revenue	8,649,024
Total notes payable and deferred outflows	(6,769,475)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 9,488,455

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 FUND FOR THE YEAR ENDED FEBRUARY 28, 2017

	General Fund
REVENUES:	
Revenues from operations—NRG Park	$ 5,817,207
Revenues from operations—naming rights	1,046,430
Interest and other	634,479
Total revenues	7,498,116
EXPENDITURES:	
Operations	1,150,808
General and administrative	1,180,548
Facilities and equipment	22,027,756
Total expenditures	24,359,112
OTHER FINANCING SOURCES (USES):	
Proceeds from capital contributions	14,087,026
Proceeds from Radio system financing	746,880
Loan payments	(1,690,788)
Insurance proceeds	84,296
Total other net financing sources	13,227,414
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES	(3,633,582)
FUND BALANCE—Beginning of year	19,318,770
FUND BALANCE—End of year	$ 15,685,188

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 FUND TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED FEBRUARY 28, 2017

NET CHANGE IN FUND BALANCES—Total governmental funds	$ (3,633,582)
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	(2,168,780)
Some adjustments to expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an adjustment to expenditures in the governmental funds	28,410
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).	
PROCEEDS OF DEBT ISSUANCE RADIO SYSTEM FINANCING	(746,880)
PAYMENT ON LONG-TERM LIABILITIES	1,690,788
ACCRUED INTEREST ON LONG-TERM LIABILITIES:	
Video board loan accrued interest	496,697
Less prior-year video board loan accrued interest	(444,968)
Musco Lighting accrued interest	21,173
Principal payment on StageRight loan	(16,178)
Accrued interest on Radio system financing	(607)
Amortization of deferred revenue	176,730
Total payments on long-term liabilities	232,847
ACCRUED INTEREST ON LONG-TERM NOTE RECEIVABLES SERIES 2001 C-1 NOTE	947,557
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (3,649,640)

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, 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. (the 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 ("Leisure Management") to manage, operate, and market the Complex. Effective March 1, 2004, the agreement was amended and restated, whereas LMI, a wholly owned subsidiary of Service Manage 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, Inc., including the football stadium, exposition center, Astrodome, and Astroarena. Reliant Energy was subsequently acquired by NRG Energy and the naming rights transferred. In March 2014, NRG Energy and the Corporation's Board agreed to rename the Park and all facilities of 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 are as follows:

Financial Statement Presentation, Measurement Focus, and Basis of Presentation

Corporation-Wide Statements—Corporation-wide basic financial statements consist of the statement of net position and the statement of activities. The 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 for financial statements of the Corporation are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable 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, considered assets of the County, are reported on their basic financial statements following acceptance by the Court.

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 28, 2017, all the Corporation's funds were invested and the carrying amount of the Corporation's demand and time deposits was $403,229. 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 which 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 US 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 (SEC), 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 28, 2017, held by the Corporation is as follows:

	Governmental Activities
Government-wide statement of net position:	
Cash and cash equivalents	$ 10,323,772
Restricted cash and cash equivalents	2,445,045
	$ 12,768,817

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 28, 2017, 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	$ 9,920,543	80.23 %	$ 9,920,543	N/A	AAAm/Aaa
Fidelity Institutional Class I Treasury	2,445,045	19.77	2,445,045	N/A	AAAm/Aaa
Total investments	12,365,588	100.00 %	$ 12,365,588		
Demand and time deposits	403,229				
Total cash and investments	$12,768,817				

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 investment policy, no more than 50% 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 three years. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed three 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 over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In particular, no more than 25% 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 28, 2017, 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 than 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 on the Corporation 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 28, 2017, amounts due from Harris County consisted of $4,126 related parking space rental. At February 28, 2017, receivables included $37,283 due from the NFL Club, $20,939 due from the HLSR related to Tri-Party marketing revenue, $225,000 due from the Stadium Park Redevelopment Authority, $375,000 from the NFL as a Wi-Fi system contribution and $6,398,673 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 $17,957 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, 2016	Additions	Disposals and Transfers	Balance February 28, 2017
Equipment	$ 10,008,173	$ 42,580	$ -	$ 10,050,753
Accumulated depreciation	(9,237,446)	(251,360)	-	(9,488,806)
CWIP Wi-Fi system	1,960,000	3,640,000	(5,600,000)	-
Total	$ 2,730,727	$ 3,431,220	$ (5,600,000)	$ 561,947

Depreciation expense totaled $251,360, which is recorded in facilities and equipment expenses in the statement of activities. The disposal represents the transfer of the Stadium Wi-Fi System to the County. The total Wi-Fi project cost was donated to the County in February 2017.

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, 2016	Issued	Payment	Principal Balance February 28, 2017	Current Portion
Video board loan	$ 15,190,189	$ -	$ 1,519,019	$ 13,671,170	$ 1,519,019
Lease purchase—sports lighting	728,079	-	171,769	556,310	178,429
Radio System Financing	-	746,880	-	746,880	178,738
Advance from Harris County	12,000,000	-	5,088,420	6,911,580	-
Total	$ 27,918,268	$ 746,880	$ 6,779,208	$ 21,885,940	$ 1,876,186

Outstanding debt as of February 28, 2017, is as follows:

	Original Issue Amount	Interest Rates (%)	Issue Date	Outstanding as of February 28, 2017
Video board loan	$ 16,709,208	5.50 %	2013	$ 13,671,170
Lease purchase—sports lighting	900,000		July 2014	556,310
Radio System Financing	746,880		December 2016	746,880
Advance from Harris County	12,000,000		November 2002	6,911,580
	$ 30,356,088			$ 21,885,940

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% 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. The accrued interest receivable related to these notes was $11,299,991 at February 28, 2017.

On July 5, 2016, the Harris County—Houston Sports Authority paid $5,088,420 to the County. This was a partial payment of the Series 2001 C-1 Note owed to the Corporation to be passed through to the County. As a result, the remaining balance on the Series 2001 C-1 Note is $1,911,580.

The outstanding balance on these investments is still held by the Corporation and are reflected as notes receivable in the Corporation's financial statements.

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, but changed only the payback 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.

Radio System Financing—In December 2016, the Corporation entered into a finance agreement with KS State Bank for the purpose of obtaining a radio communications system for use in NRG Park. The financed balance of $746,880 will be paid over a four-year period.

Annual debt service requirements to maturity as of February 28, 2017, are as follows:

	Equipment Financing			County Funding Advance		
Period	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2018	$ 1,876,186	$ 795,294	$ 2,671,480	$ -	$ -	$ -
2019	1,888,323	699,611	2,587,934	-	-	-
2020	1,900,881	603,506	2,504,387	-	-	-
2021	1,713,875	508,340	2,222,215	-	-	-
2022–2032	7,595,095	1,253,648	8,848,743	6,911,580	-	6,911,580
	$14,974,360	$3,860,399	$18,834,759	$6,911,580	$ -	$6,911,580

Unearned/Unavailable Revenue—The Corporation has unearned or unavailable revenue in the governmental funds of $15,112,237 as of February 28, 2017, consisting of $11,299,991 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 $2,329,683 in escrow funding for stadium project expenses directed by Houston NFL Holdings. The Corporation received naming rights income as specified in the Stadium Tri-Party 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

Plan Description—As of January 1, 2016, the Corporation provides retirement, disability, and survivor benefits for all of its employees through a nontraditional defined benefit pension plan in the statewide Texas County & District Retirement System (TCDRS). The board of trustees governs TCDRS, responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS issues a comprehensive annual financial report (CAFR) on an annual basis. The CAFR is available upon request and may be obtained from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX 78768-2034 or the TCDRS website at www.TCDRS.org.

Benefits Provided—The approval of plan provisions in the responsibility of the HCSCC Board, within the options available in the state statutes governing TCDRS ("TCDRS Act"). Plan members must work eight years to be vested. Once vested, an employee has earned the right to receive a lifetime monthly retirement benefit and is eligible to retire at either age 60, after 30 years of service or when the sum of their age and years of service totals 75.

Benefits are determined by the sum of the employee's contributions to the plan, with interest and employer-financed monetary credits. The level of these credits is approved by the HCSCC Board within the actuarial constraints imposed by the TCDRS Act. As a result, benefits can be expected to be adequately financed by HCSCC's commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. HCSCC's current match is 225%.

Employees Covered by Benefit Terms—At December 31, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled but not yet receiving benefits	-
Active employees	5
	5

Contributions—The Corporation has elected the annually determined contribution rate (ADCR) plan under provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and HCSCC based on the covered payroll of employee members. Regulated by the TCDRS Act, the contribution rate of the Corporation is actuarially determined annually as of December 31, two years prior to the end of the fiscal year in which contributions are reported. HCSCC contributed using an actuarially determined rate of 15.18% of covered payroll for the months of the calendar year 2016. The required employee contribution rate is 7% as approved by the HCSCC Board.

The financing objective for the plan is to provide benefits for the employee members that can be adequately financed by a fixed employer contribution rate that remains level as a percentage of covered payroll. Employee and HCSCC contribution rates may be changed by the HCSCC Board with options available in the TCDRS Act.

Actuarial Assumptions—For the Corporation’s fiscal year ending February 28, 2017, the net pension liability was measured as of December 31, 2016, the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

The total pension asset in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions:

Valuation timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Normal entry age
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-line amortization over expected working life
Recognition of assumptions changes or inputs	Straight-line amortization over expected working life
Asset Valuation Method	
Smoothing Method	5 years
Recognition Method	Nonasymptotic
Corridor	None
Inflation	3.0%
Salary increases	3.5% The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion, and longevity component that on average approximates 1.4% per year for a career employee
Investment rate of return	8.10%
Cost-of-living adjustments	Cost-of-Living adjustments for HCSCC are not considered to be substantively automatic under GASB Statement No. 68. Therefore, no assumption for f cost-of-living adjustments is included in the GASB calculations. No assumption for cost-of-living adjustments is included in the funding valuation.
Retirement age	Members are assumed to retire at the later of age 60 or earliest retirement eligibility
Turnover	Turnover for eligible ages 75 and later, retirement is assumed to occur immediately
Mortality	Depositing Members—The RP-2000 Active Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that

Long-Term Expected Rate of Return—Long–term expected rate of return of TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information are based on January 2017 information for a seven- to 10-year time horizon.

Note that the valuation assumption for long-term expected return is reassessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. More details may be obtained by reviewing Milliman's TCDRS Investigation of Experience Report for the period January 1, 2009—December 31, 2012.

Asset Class	Benchmark	Target Allocation[1]	Geometric Real Rate of Return[2]
U.S. Equities	Dow Jones US Total Stock Market Index	13.50 %	4.70 %
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index[3]	16.00	7.70
Global Equities	MSCI World (net) Index	1.50	5.00
Int'l Equities—Developed Markets	MSCI World EX USA (net)	10.00	4.70
Int'l Equities—Emerging Markets	MSCI EM Standard (net) index	7.00	5.70
Investment Grade Bonds	Bloomberg Barclays US Aggregate Bond Index	3.00	0.60
High Yield Bonds	Citigroup High Yield Cash Pay Capped Index	3.00	3.70
Opportunistic Credit	Citigroup High Yield Cash Pay Capped Index	2.00	3.83
Direct Lending	S&P/LSTA leveraged Loan Index	10.00	8.15
Distressed Debt	Cambridge Associates Distressed Securities Index[4]	3.00	6.70
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00	3.85
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00	5.60
Private Real Estate P'Ships	Cambridge Associates Real Estate Index[5]	6.00	7.20
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00	3.85

(1) Target Asset allocation adopted at the April 2017 TCDRS Board Meeting.

(2) Geometric real rates of return equal the expected return, minus the assumed inflation rate of 2%, per Cliffwater's 2017 capital market assumptions.

(3) Includes vintage years 2006—present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005—present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007—present of Quarter Pooled Horizon IRRs.

Discount Rate—The discount rate used to measure the total pension asset was 8.1%. This rates reflects the long-term rate of return on funding valuation assumption of 8%, plus 0.10% adjustment of administrative expenses as required by GASB Statement No. 68. The plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active, inactive, and retired members. The method used to determine the discount rate reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

- TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a lever percent of pay over 20-year closed layered periods.

- Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

- The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.

- Any increased cost due to the adoption of a cost-of-living adjustments is required to be funded over a period of 15 years, if applicable.

	Changes in Net Pension Liability (Asset)		
	Total Pension Liability (a)	**Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**
Balances as of December 31, 2015	$ -	$ -	$ -
Changes for the year:			
Service cost	98,958	-	98,958
Interest on total pension liability	3,930	-	3,930
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	85	-	85
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	-	-
Member contributions	-	35,370	(35,370)
Net investment income	-	-	-
Employer contributions	-	76,701	(76,701)
Other	-	1,697	(1,697)
Balances as of December 31, 2016	$102,973	$113,768	$(10,795)

Sensitivity Analysis—The following presents the net pension liability (asset) of the employer, calculated using the discount rate of 8.10%, as well as what the Corporation net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate:

	1.0% Decrease 7.10%	**Current Discount Rate 8.10%**	**1.0% Increase 9.10%**
Total pension liability	$117,348	$102,973	$ 90,933
Fiduciary net position	113,768	113,768	113,768
Net pension liability (asset)	$ 3,580	$ (10,795)	$ (22,835)

Pension Expense and Deferred Inflows/Outflows of Resources related to Pensions—For the measurement period ending December 31, 2016, HCSCC recognized pension expense of $62,219. As of February 28, 2017, HCSCC reported deferred outflows of resources related to the pension from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ -	$ 73
Changes of assumptions	-	-
Not difference between projected and actual earnings	-	3,614
Contributions made subsequent to measurement date	-	13,928

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31	
2017	$916
2018	916
2019	916
2020	916
2021	12
After	12

Payable to the Pension Plan—At February 28, 2017, HCSCC reported a payable of $10,884 for outstanding contributions to the pension plan.

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 March 2016, HCSCC Board awarded the Food, Beverage, and Merchandise Concession Contract to Aramark Sports and Entertainment Services. Along with the Corporation, the NFL Houston Texans and the HLSR are also parties to the agreement. The term of the agreement began on April 1, 2016, and shall end on May 31, 2032. Aramark shall invest $50,000,000 for the purchase of improvements to the Complex over the term of the agreement.

NRG Park Complex Management (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 HCSCC'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 $552,200 for the facilities management services and $300,000 for the annual performance bonus for the period ended February 28, 2017.

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. As of February 28, 2017, $1,831,787 remain unexpended.

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 $10,581 for the year ending February 28, 2017. This lease is for 39 months at $882 per month, divided by fiscal year as follows:

Year Ending February 28	Amount
2018	$10,584
2019	2,646

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.

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