

# Harris County Sports & Convention Corporation

(A Component Unit of Harris County, Texas)

Basic Financial Statements as of and for the Year  
Ended February 28, 2018, and  
Independent Auditors' Report



**Deloitte & Touche LLP**  
1111 Bagby Street  
Suite 4500  
Houston, TX 77002-2591  
USA

Tel: +1 713 982 2000  
Fax: +1 713 982 2001  
[www.deloitte.com](http://www.deloitte.com)

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the governmental activities and the major fund of the Harris County Sports and Convention Corporation (the "Corporation"), a component unit of Harris County, Texas as of and for the year ended February 28, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions 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 36% and 38% of the revenues in the government-wide statements 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 of the government-wide statements 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

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 opinions.

## **Opinions**

In our opinion, based on our audit and the report of other auditors, the 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, 2018, 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 the management's discussion and analysis information on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Deloitte's Touche LLP*

June 28, 2018

# **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 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, 2018. It provides an assessment of how the Corporation's position has improved 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 revenues and expenditures. It also 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 generates sales and hotel tax revenues and provides 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 in 2015, the 2016 NCAA Men's Final Four Basketball Championship and the NFL Super Bowl LI. In addition, Metallica and U2 hosted concert performances in 2017. The group Coldplay was scheduled to play in August 2017, but was canceled due to the impending arrival of Hurricane Harvey in August 2017. Upcoming events include concerts by Beyoncé and Taylor Swift, in addition to Marvel Universe Live, 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, Mecum Auto Auction, 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 and Cheer America competitions.

**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 reimagine and transform the Astrodome into a multifunctional park and event space and create multiple revenue streams. Work is tentatively scheduled to begin in October 2018.

**NRG Park**—NRG Park is a 350-acre sports and entertainment complex with over 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 2018 was approximately 4.3 million patrons.

From August to November 2017, NRG Park served as a regional headquarters for Hurricane Harvey relief efforts. This included, but was not limited to a relief shelter at NRG Center housing up to 8,200 persons displaced by Harvey. The Houston Police and Fire Departments and the Harris County Sheriff's Department were joined by the Texas National Guard, FEMA, Texas Department of Public Safety and many other law enforcement and fire/rescue agencies from entities within the State of Texas and from other areas of the United States. NRG Arena served as an animal shelter for pets displaced by Harvey. Animals not claimed, were available for adoption.

## Financial Analysis

The following sections will discuss the significant changes in the Corporation's financial position for the Fiscal Year Ended February 28, 2018. 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 increased by \$6,022,754 during the fiscal year ended February 28, 2018. Primarily related to the receipt of Accrued Interest from the Harris County-Houston Sports Authority for the Series 2001 C-1 Note and increased net income from the NRG Park Operating account.

Expenses overall decreased for Fiscal Year 2018. Expenses for 2017 included \$5.6 million for the Stadium Wi-Fi system. This was a one-time expense and therefore does not have a correlating expense in Fiscal Year 2018. Also, capital contributions from Aramark for renovations in NRG Park facilities decreased. Contributions in their food and beverage agreement are on a sliding scale. Last year was the first year, the highest amount and will decrease going forward.

## EXHIBIT I

### GOVERNMENT-WIDE CONDENSED SCHEDULES OF NET POSITION

	<u>Year Ended February 28,</u>	
	<u>2018</u>	<u>2017</u>
Current assets	\$ 32,029,519	\$ 19,929,699
Capital assets—net	606,414	561,947
Other long-term assets	<u>5,601,633</u>	<u>18,222,366</u>
Total assets	<u>38,237,566</u>	<u>38,714,012</u>
Deferred outflow of resources	<u>42,483</u>	<u>17,615</u>
Current liabilities	\$ 11,558,791	\$ 9,233,417
Long-term liabilities	<u>11,209,852</u>	<u>20,009,755</u>
Total liabilities	<u>22,768,643</u>	<u>29,243,172</u>
Deferred inflows of resources	<u>197</u>	<u>-</u>
Net position	<u>\$ 15,511,209</u>	<u>\$ 9,488,455</u>

**EXHIBIT II****GOVERNMENT-WIDE CONDENSED SCHEDULES OF ACTIVITIES**

	<u>Year Ended February 28,</u>	
	2018	2017
Revenues:		
Program revenues	\$ 21,295,353	\$ 21,400,614
Investment earnings	804,080	1,160,392
Miscellaneous revenue	38,276	148,423
Insurance proceeds	<u>                    </u>	<u>84,296</u>
Total revenues	<u>22,137,709</u>	<u>22,793,725</u>
Expenses:		
Park operations	1,776,563	1,150,808
General administration	1,519,903	1,152,138
Interest on long-term liabilities	742,825	809,863
Contributions to Harris County Wi-Fi system		5,600,000
Facilities and grounds	<u>12,075,664</u>	<u>17,730,556</u>
Total expenses	<u>16,114,955</u>	<u>26,443,365</u>
Increase (decrease) in net position	<u>\$ 6,022,754</u>	<u>\$ (3,649,640)</u>

**EXHIBIT III****GOVERNMENTAL FUNDS CONDENSED BALANCE SHEET**

	<u>Year Ended February 28,</u>	
	2018	2017
Assets—unrestricted	\$ 34,082,192	\$ 35,696,225
Assets—restricted	<u>3,506,625</u>	<u>2,445,045</u>
Total	<u>\$ 37,588,817</u>	<u>\$ 38,141,270</u>
Liabilities and unearned revenue	\$ 7,169,516	\$ 22,456,082
Fund balance	<u>30,419,301</u>	<u>15,685,188</u>
Total	<u>\$ 37,588,817</u>	<u>\$ 38,141,270</u>

**EXHIBIT IV**

**GOVERNMENTAL FUNDS CONDENSED SCHEDULES OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE**

	<u>Year Ended February 28,</u>	
	<u>2018</u>	<u>2017</u>
Revenues	\$ 20,201,709	\$ 7,498,116
Expenditures	<u>16,268,101</u>	<u>24,359,112</u>
Excess (Deficiency) of revenue over (under) expenditures	<u>3,933,608</u>	<u>(16,860,996)</u>
Other financing sources	12,676,692	13,227,414
Other financing uses	<u>(1,876,187)</u>	<u>                    </u>
Net other financing sources (uses)	<u>10,800,505</u>	<u>13,227,414</u>
Excess (Deficiency) of revenue and other financing sources over expenditures	14,734,113	(3,633,582)
Fund Balance—Beginning of year	<u>15,685,188</u>	<u>19,318,770</u>
Fund Balance—End of year	<u>\$ 30,419,301</u>	<u>\$ 15,685,188</u>

***Economic Factors***

Houston, Texas (“Houston”) is home to sports organizations from the NFL—Houston Texans, Major League Baseball (MLB)—2017 World Series Champion Houston Astros, National Basketball Association (NBA)—Houston Rockets and Major League Soccer (MLS)—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 local 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 eighth overall in team value of 32 teams in the NFL according to “Forbes Magazine” for the 2017 season. The current team value is \$2.8 billion. The other major tenant is the Houston Livestock Show & Rodeo (HLSR), a Houston favorite, which supports youth, education, and agriculture practices. Attendance in 2017 for HLSR was 2.6 million including the World’s Championship Bar-B-Que Cook-off. This was slightly up from the 2016 show. The Rodeo committed \$2.17 million to contestants and a total of \$26 million for scholarship and education to the youth of Texas.

Houston has a versatile infrastructure that supports a growing economy. The Port of Houston ranked first in foreign tonnage among US ports and two large airports, with over 54 million

passengers annually, are key components to the success and growth in the greater Houston/Harris County area. The Houston Medical Center, the largest medical complex in the world employees over 106,000 employees and is the eighth largest business district in the United States. The greater Houston area boasted over 3 million jobs up 1.6% from the previous year, a factor in a decreased unemployment rate of 4.1%. The average single-family home prices were up over 4% from 2016 prices. These are just a few of the indicators of the economic strength in the Houston area.

### ***Long Term Debt***

In November 2017, the Corporation received \$13,320,700 from the Harris County-Houston Sports Authority. This was the remaining balance of the Series 2001-C1 Notes of \$1,911,580, plus accrued interest of \$11,409,120. From this amount, the Corporation paid Harris County \$6,911,580 for the outstanding amount of the \$12 million loan due from the Corporation. The outstanding loan to the County has been paid in full. More detailed information regarding long term debt can be found in the notes to these financial statements, beginning on page 14.

### ***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 2018, the Corporation had Capital Assets \$352,653 (net of accumulated depreciation of \$9,698,100) and construction work in progress related to the southeast elevator project in the amount of \$253,761. These capital assets primarily consist of grounds keeping equipment, food preparation and serving equipment, a marquee, and ground transportation vehicles. Additional information regarding capital assets can be found in the notes to these financial statements, beginning on page 14.

### ***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 is performed and the results reported to the Board. This process helps ensure 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 and 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, 2018**

---

	<b>Governmental Activities</b>
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$16,829,425
RESTRICTED CASH AND CASH EQUIVALENTS	3,506,625
CURRENT NOTES AND OTHER RECEIVABLES	11,607,793
PREPAID EXPENSES	85,676
PENSION PLAN ASSET	42,335
NOTES RECEIVABLE	5,000,000
INTEREST RECEIVABLE ON LONG TERM NOTE	559,298
CWIP SOUTHEAST ELEVATOR	253,761
EQUIPMENT—Net of accumulated depreciation	<u>352,653</u>
<b>TOTAL ASSETS</b>	<u><b>38,237,566</b></u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension plan contributions after measurement date	14,721
Changes in experience	27,557
Changes in assumptions	<u>205</u>
Total deferred outflows of resources	<u><b>\$ 42,483</b></u>
<b>LIABILITIES &amp; NET POSITION</b>	
ACCOUNTS PAYABLE	\$ 1,578,433
DUE TO HARRIS COUNTY	138,769
SALARIES PAYABLE	19,193
UNEARNED REVENUE—Other	7,524,790
ACCRUED INTEREST PAYABLE	409,283
LONG TERM LIABILITIES:	
Due in one year:	
Video Board Loan	1,519,019
Musco Lighting	185,347
Radio System	183,957
Due in more than one year:	
Video Board Loan	10,633,133
Musco Lighting	192,534
Radio System	<u>384,185</u>
Total Liabilities	<u><b>22,768,643</b></u>
DEFERRED INFLOWS OF RESOURCES—Difference between projected and actual earnings on pension plan assets	<u>197</u>
NET POSITION:	
Investment in capital assets	606,414
Restricted	3,506,625
Unrestricted	<u>11,398,170</u>
Net position	<u><b>15,511,209</b></u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><b>\$38,280,049</b></u>

See notes to financial statements.

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

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2018**

---

	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES:				
Park operations	\$ 1,776,563	\$ 1,046,430	\$ -	\$ (730,133)
General and administration	1,519,903			(1,519,903)
Facilities and grounds	12,075,664	7,572,231	12,676,692	8,173,259
Interest on long-term liabilities	<u>742,825</u>	<u>                    </u>	<u>                    </u>	<u>(742,825)</u>
Total	<u>\$16,114,955</u>	<u>\$ 8,618,661</u>	<u>\$12,676,692</u>	<u>\$ 5,180,398</u>
GENERAL REVENUES:				
Investment earnings				\$ 804,080
Miscellaneous				<u>38,276</u>
Total general revenues and contributions				<u>842,356</u>
CHANGE IN NET POSITION				6,022,754
NET POSITION—Beginning of year				<u>9,488,455</u>
NET POSITION—End of year				<u>\$ 15,511,209</u>

See notes to financial statements.

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

**BALANCE SHEET—GOVERNMENTAL FUND**  
**AS OF FEBRUARY 28, 2018**

---

**ASSETS**

CASH AND CASH EQUIVALENTS	\$16,829,425
RESTRICTED CASH & CASH EQUIVALENTS	3,506,625
ACCOUNTS RECEIVABLE—Other	11,607,793
PREPAID EXPENSES	85,676
NOTES RECEIVABLE	5,000,000
INTEREST RECEIVABLE ON LONG-TERM NOTE	<u>559,298</u>
 TOTAL ASSETS	 <u>37,588,817</u>

**LIABILITIES AND FUND BALANCE**

ACCOUNTS PAYABLE	\$ 1,578,433
DUE TO HARRIS COUNTY	138,769
SALARIES PAYABLE	19,193
UNEARNED REVENUE—Naming rights	<u>1,482,563</u>
 Total Liabilities	 <u>3,218,958</u>
 DEFERRED INFLOW OF RESOURCES:	
Unavailable Revenue—NFL escrow	3,391,260
Unavailable Revenue—Accrued interest	<u>559,298</u>
 Total deferred inflow of resources	 <u>3,950,558</u>
 FUND BALANCE:	
Nonspendable	5,644,974
Restricted	3,506,625
Unassigned	<u>21,267,702</u>
 Total fund balance	 <u>30,419,301</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$37,588,817</u>

See notes to 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, 2018**

---

TOTAL FUND BALANCE FOR GOVERNMENTAL FUND	<u>\$30,419,301</u>
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 \$9,698,100 accumulated depreciation and, CWIP of 253,761 for the NRG Stadium Southeast Passenger Elevator.	<u>606,414</u>
Pension plan asset	<u>42,335</u>
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 the governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term and deferred outflows and inflows are reported in the statement of net position.	
DEFERRED OUTFLOWS (INFLOWS):	
Contributions after measurement date	14,721
Difference in expected and actual pension experience	27,557
Changes in assumptions	205
Deferred inflow pension—difference between projected and actual earnings	<u>(197)</u>
Total deferred outflows (inflows)	<u>42,286</u>
NOTES PAYABLE:	
Video Board Loan	(12,152,152)
Musco Financing	(377,881)
Radio System	(568,142)
Accrued interest on Video Board Loan	(395,528)
Accrued Interest on Musco Financing	(10,990)
Accrued interest on Radio System	(2,765)
Unavailable revenue	<u>(2,091,669)</u>
TOTAL NOTES PAYABLE AND DEFERRED OUTFLOWS/INFLOWS	<u>(15,599,127)</u>
TOTAL NET POSITION FOR GOVERNMENTAL FUND	<u>\$15,511,209</u>

See notes to 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, 2018**

---

	<b>General Fund</b>
REVENUES:	
Revenues from Operations—NRG Park	\$ 7,610,506
Revenues from Operations—Naming rights	1,046,430
Interest And Other	<u>11,544,773</u>
Total revenues	<u>20,201,709</u>
EXPENDITURES:	
Operations	1,776,563
General and administrative	1,576,113
Facilities and grounds	<u>12,915,425</u>
Total expenditures	<u>16,268,101</u>
OTHER FINANCING SOURCES (USES):	
Capital contribution	12,676,692
Loan payments	<u>(1,876,187)</u>
Total other net financing sources	<u>10,800,505</u>
EXCESS OF REVENUES AND OTHER FINANCING OVER EXPENDITURES	14,734,113
FUND BALANCE—Beginning of year	<u>15,685,188</u>
FUND BALANCE—End of year	<u>\$30,419,301</u>

See notes to financial statements.

(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, 2018**

---

NET CHANGE IN FUND BALANCE—Governmental Fund \$14,734,113

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 capital outlay exceeded disposals and depreciation in the current period.

NET CHANGE IN CAPITAL ASSETS 44,467

Small 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

56,211

Under modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available 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, is recognized as it accrues rather than when due under the modified accrual basis of accounting.

PAYMENTS OF LONG-TERM LIABILITIES 1,876,187

Video Board Loan Accrued Interest—Prior year	444,968
Video Board Loan Accrued Interest—Current year	(395,528)
Musco Financing Interest—Prior year	16,177
Musco Financing Interest—Current year	(10,990)
Radio System—Prior year	607
Radio System—Current year	(2,765)
Amortization Deferred Revenue	<u>(11,409,120)</u>

Total payments on long-term liabilities (11,356,651)

ACCRUED INTEREST ON LONG-TERM NOTES RECEIVABLE SERIES 2001 C-1 NOTE 668,427

CHANGE IN NET POSITION \$ 6,022,754

See notes to financial statements.

# HARRIS COUNTY SPORTS & CONVENTION CORPORATION

(A Component Unit of Harris County, Texas)

## NOTES TO THE BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED FEBRUARY 28, 2018

---

### 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 Astrodome 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 Commissioners Court of Harris County, Texas. 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 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 has a property management agreement with Service Manage Group, a Pennsylvania general partnership for services at NRG Park. The current contract, approved by the Board on May 20, 2015, expires in 2020. There are 2 five year renewal options.

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 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 applicable to governmental units as promulgated by the GASB. A summary of the Corporation's more significant accounting policies 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 charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by the program and 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, net position, 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 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 are considered assets of Harris County and are reported on their 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. Non-spendable funds include prepaid expenses of \$85,676, notes receivable of \$5,000,000, and interest receivable on long term note of \$559,298. 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. Restricted fund balance is comprised of \$3,506,625 of cash and cash equivalents.

### 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, 2018, all the Corporation's funds were invested and the carrying amount of the Corporation's demand and time deposits was \$336,009. The Corporation's deposits are not exposed to custodial risk since all deposits are either covered by FDIC insurance or 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 provided the agency has the same debt rating as the State of Texas.
- c. Other obligations, the principal and interest of which are unconditionally guaranteed, insured by or backed by the full faith and credit of the State of Texas or the United States or any obligation fully guaranteed or fully insured by the FDIC.
- d. 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 A or its equivalent.
- e. 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.

- f. 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.
- g. Securities lending programs (if the loan is fully collateralized), including accrued income, by securities described in Texas Gov't. Code, Section 2256.009, by irrevocable bank letters of credit issued by a bank under the laws of the United States or any other state, continuously rated not less than A by at least one nationally recognized investment rating firm, or by cash invested in accordance with the 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. Rated A-1 or P-1 or an equivalent rating by at least two nationally recognized rating agencies and not under review for possible downgrade at the time of purchase.
- 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 net asset value of \$1 per share as authorized by the Public Funds Investment Act.
- j. 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, 2018, held by the Corporation is as follows:

	<b>Governmental Activities</b>
Government-wide statement of net position:	
Cash and cash equivalents	\$ 16,829,425
Restricted cash and cash equivalents	<u>3,506,625</u>
	<u>\$ 20,336,050</u>

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

The table below indicates the fair value and maturity value of the Corporation's investments as of February 28, 2018, summarized by security type. Also demonstrated are the percentage of total portfolio and the modified duration in years for each summarized security type.

Security	Value	of Portfolio	Amount	(Years)	S&P/Moody's
Money Market Mutual Funds:					
Dreyfus Cash Management (Level 1)	\$16,493,416	82.47 %	\$16,493,416	N/A	AAAm/Aaa
Fidelity Institutional Class 1 Treasury (Level 1)	<u>3,506,625</u>	<u>17.53 %</u>	<u>3,506,625</u>	N/A	AAAm/Aaa
Total investments	<u>20,000,041</u>	<u>100.00 %</u>	<u>20,000,041</u>		
Demand and time deposits	<u>336,009</u>				
Total cash and investments	<u>\$20,336,050</u>				

## 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 3 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, 2018, 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, 2018, receivables included \$213,990 due from the NFL Club, \$3,204 due from the HLSR both primarily related to the construction of an elevator in the Southeast quadrant of NRG Stadium, \$225,000 due from the Stadium Park Redevelopment Authority, \$752,000 from Aramark Sports & Entertainment related to renovations in NRG Center, and \$10,393,406 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 \$20,193 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 3–20 years. Construction Work in Process was added for the passenger elevator project in the southeast quadrant of NRG Stadium.

Capital asset transactions are summarized as follows:

	Balance March 1, 2017	Additions	Disposals and Transfers	Balance February 28, 2018
Equipment	\$ 10,050,753	\$ -	\$ -	\$ 10,050,753
Accumulated depreciation	(9,488,806)	(209,294)		(9,698,100)
CWIP Southeast Elevator	<u>                    </u>	<u>253,761</u>	<u>                    </u>	<u>253,761</u>
Total	<u>\$ 561,947</u>	<u>\$ 44,467</u>	<u>\$ -</u>	<u>\$ 606,414</u>

Depreciation expense totaled \$209,294 which is recorded in facilities and equipment expenses in the statement of activities. Construction work in progress is related to the Southeast Elevator project in NRG Stadium. The project is funded equally by the Corporation, NFL Club, and the HLSR.

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, 2017	Issued	Payment	Principal Balance February 28, 2018	Current Portion
Video Board Loan	\$ 13,671,170	\$ -	\$ 1,519,020	\$ 12,152,152	\$ 1,519,019
Lease Purchase-Sports Lighting	556,310		178,429	377,881	185,347
Equipment Finance Agreement	746,880		178,738	568,142	183,957
Advance from Harris County	<u>6,911,580</u>		<u>6,911,580</u>		
Total	<u>\$ 21,885,940</u>	<u>\$ -</u>	<u>\$ 8,787,767</u>	<u>\$ 13,098,175</u>	<u>\$ 1,888,323</u>

Outstanding debt as of February 28, 2018, is as follows:

	Original Issue Amount	Interest Rates (%)	Issue Date	Outstanding as of February 28, 2018
Video Board Loan	\$ 16,709,208	5.50 %	2013	\$ 12,152,152
Lease Purchase—Sports Lighting	900,000		July 2014	377,881
Radio System Financing	<u>746,880</u>		December 2016	<u>568,142</u>
Total	<u>\$ 18,356,088</u>			<u>\$ 13,098,175</u>

**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 & 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.

On July 6, 2016, the Harris County-Houston Sports Authority paid \$5,088,420 to Harris County. This was a partial payment of the Series 2001 C-1 Note owed to the Corporation to be passed through to the County. In November 2017, the Sports Authority paid the principal balance of the Series 2001 C-1 Note and \$11,409,120 of accrued interest. The Series 2001 C-2 Note of \$5,000,000 remains outstanding.

These notes are not in compliance with the Public Funds Investment Act since they did not receive a rating from at least one nationally recognized rating firm. The outstanding balance on these investments is still held by the Corporation and are reflected as Notes Receivable in the Corporation's financial statements.

**Houston NFL Holdings/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 Houston NFL Holdings 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 Holdings Club. In September 2017, the HLSR requested that their repayment schedule be amended and payments be remitted in September rather than July. These revised schedules did not change the amount of the original promissory notes, only the payment 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 onetime contribution from NRG Energy of one million dollars. The balance remaining, plus interest, will be financed over the following five-year period. The final payment is due in June 2019.

**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. The final payment is due in December 2020.

Annual debt service requirements to maturity as of February 28, 2018, are as follows:

Period	Equipment Financing		
	Principal	Interest	Total
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	1,519,019	417,730	1,936,749
2023–2026	<u>6,076,077</u>	<u>835,918</u>	<u>6,911,994</u>
	<u>\$ 13,098,175</u>	<u>\$ 3,065,105</u>	<u>\$ 16,163,279</u>

**Unearned/Unavailable Revenue**—The Corporation has unearned or unavailable revenue in the governmental funds of \$5,433,121 as of February 28, 2018, consisting of \$559,298 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 \$3,391,260 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 Barton Oaks Plaza IV, Suite 500, 901 S.MoPac Expressway, Austin, TX 78746 or the TCDRS website at [www.TCDRS.org](http://www.TCDRS.org).

**Benefits Provided**—The approval of plan provisions is the responsibility of the Corporation's 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 or 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 Corporation's Board within the actuarial constraints imposed by the TCDRS Act. As a result, benefits can be expected to be adequately financed by the Corporation'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, 2017, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	1	-
Active employees	<u>6</u>	<u>5</u>
Total	<u>7</u>	<u>5</u>

**Contributions**—The Corporation has elected the annually determined contribution rate plan under provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the Corporation 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. The Corporation contributed using an actuarially determined rate of 15.18% of covered payroll for the months of the calendar year 2017. The required employee contribution rate is 7% as approved by the Corporation’s 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 Corporation’s Board with options available in the TCDRS Act.

**Actuarial Assumptions**—For the Corporation’s fiscal year ending February 28, 2018, the net pension liability was measured as of December 31, 2017, 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, 2017, actuarial valuation was determined using the following actuarial assumptions:

<b>Valuation Timing</b>	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.
<b>Actuarial Cost Method</b>	Entry Age Normal
<b>Amortization Method:</b>	
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
<b>Asset Valuation Method:</b>	
Smoothing Method	5 years
Recognition method	Nonasymptotic
Corridor	None
<b>Inflation</b>	2.75%
<b>Salary Increases</b>	3.25%
	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 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee
<b>Investment Rate of Return</b>	8.10%
<b>Cost-of-Living Adjustments</b>	Cost-of-Living adjustments for HCSCC are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for cost-of-living adjustments is included in the funding valuation.

<b>Retirement Age</b>	Members are assumed to retire at the later of age 60 or earliest retirement eligibility
<b>Turnover</b>	Turnover for eligible ages 75 and later, retirement is assumed to occur immediately
<b>Mortality</b>	Depositing Members—90% of the RP-2014 Active Mortality Table for males with a two-year set-forward and the RP-2014 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale and then projected with 110% of the MP-2014 Ultimate scale after that

**Changes in Assumptions since Prior Measurement Date**—Assumptions used in the December 31, 2016 measurement included an increased inflation rate of 3%, increased salary rate of 3.5% (which comprised of general wage inflation component of 3.5% and a promotion and longevity component that approximates 1.4%). No other changes in actuarial assumptions were present.

**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 2018 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. More details may be obtained by reviewing Milliman’s TCDRS Investigation of Experience Report for the period January 1, 2013–December 31, 2016.

Asset Class	Benchmark	Targety Allocation <sup>(1)</sup>	Geometric Real Rate of Return <sup>(2)</sup>
US Equities	Dow Jones US Total Stock Market Index	11.50 %	4.55 %
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00 %	7.55 %
Global Equities	MSCI World (net) Index	1.50 %	4.85 %
Int'l Equities—Developed Markets	MSCI World EX USA (net)	11.00 %	4.55 %
Int'l Equities—Emerging Markets	MSCI EM Standard (net) index	8.00 %	5.55 %
Investment Grade Bonds	Bloomberg Barclays US Aggregate Bond Index	3.00 %	0.75 %
Strategic Credit	FTSE High yield cash-pay capped index	8.00 %	4.12 %
Direct Lending	S&P/LSTA leveraged Loan Index	10.00 %	8.06 %
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	2.00 %	6.30 %
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00 %	4.05 %
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00 %	6.00 %
Private Real Estate P'Ships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00 %	6.25 %
Hedge Funds	Hedge Fund Research Inc. (HFRI) Fund of Funds Composi Index	18.00 %	4.10 %

(1) Target Asset allocation adopted at the April 2018 TCDRS Board Meeting.

- (2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater’s 2018 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 8.10%. This rates reflects the long-term rate of return on assets for funding valuation assumption of 8%, net of all expenses, 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 shall be amortized as a level 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 Adjustment is required to be funded over a period of 15 years, if applicable.

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
BALANCES—December 31, 2016	\$ 102,973	\$ 113,768	\$ (10,795)
Changes for the year:			
Service Cost	97,369		97,369
Interest on total pension liability	16,228		16,228
Effect of plan changes			
Effect of economic/demographic gains or losses	31,424		31,424
Effect of assumption changes or inputs	234		234
Refund of Contributions			
Benefit Payments			
Administrative expenses		(193)	193
Member contributions		49,167	(49,167)
Net investment income		19,112	(19,112)
Employer contributions		106,623	(106,623)
Other		2,086	(2,086)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
BALANCES—December 31, 2017	\$ <u>248,228</u>	\$ <u>290,563</u>	\$ <u>(42,335)</u>

**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 Harris County

Sports & Conventions 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:

	One Percent Decrease	Current Discount Rate	One Percent Increase
	<u>7.10 %</u>	<u>8.10 %</u>	<u>9.10 %</u>
Total pension liability	\$ 284,491	\$ 248,228	\$ 217,640
Fiduciary net position	<u>290,563</u>	<u>290,563</u>	<u>290,563</u>
Net pension liability (asset)	<u>\$ (6,072)</u>	<u>\$ (42,335)</u>	<u>\$ (72,923)</u>

Pension Expense and Deferred Inflows/Outflows of Resources related to Pensions. For the measurement period ending December 31, 2017, the Corporation recognized pension expense of \$51,205. As of February 28, 2018, 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	\$ -	\$ 27,557
Changes of Assumptions		205
Net difference between projected and actual earnings	197	
Contributions made subsequent to measurement date	<u>          </u>	<u>14,721</u>
Total	<u>\$ 197</u>	<u>\$ 42,483</u>

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**

2018	\$ 4,146
2019	4,146
2020	4,146
2021	3,242
2022	3,969
After	7,914

**Payable to the Pension Plan**—At February 28, 2018, the Corporation reported a payable of \$11,315 for outstanding contributions to the pension plan.

## 8. NRG PARK COMPLEX

**NRG Park Concessions Agreement**—In March 2016, the Corporation’s 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 Houston Livestock Show and Rodeo 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. The Corporation 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 \$564,901 for the facilities management services and \$300,000 for the annual performance bonus for the period ended February 28, 2018.

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.

**National Football League 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 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 \$10,890 for the year ending February 28, 2018.

The current lease ends in June 2018. A new lease option will be negotiated at that time.

## **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.

## 11. RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements ("GASB 88"), clarifies and improves the information to be disclosed in the financial statement footnotes pertaining to debt, including direct borrowings and direct placements. It provides a definition of debt for the purpose of note disclosure and also clarifies which liabilities governments should include when disclosing debt related information. GASB 88 be implemented by the Corporation in fiscal year 2019 and the impact has not yet been determined.

\* \* \* \* \*