



(A Component Unit of Harris County, Texas)

Basic Financial Statements as of and for the Year Ended

February 29, 2020

And Independent Auditor's Report

HARRIS COUNTY SPORTS & CONVENTION CORPORATION

(A Component Unit of Harris County, Texas)

Table of Contents

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3-9
BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED FEBRUARY 29, 2020	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet - Governmental Fund	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	15
Notes to the Basic Financial Statements	16-34



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Harris County Sports & Convention Corporation (the "Corporation"), a component unit of Harris County, Texas, as of and for the year ended February 29, 2020, 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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of NRG Park Operating Account ("NRG Park"), maintained by SMG Holdings, Inc. (a Pennsylvania general partnership), which represent 42% and 78% of the revenues in the government-wide statement of activities and the general fund statement of revenues, expenditures, and changes in fund balance, respectively. The financial statements of NRG Park were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included in other receivables and revenues of the basic financial statements, 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 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 opinion.

Opinion

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 29, 2020, 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 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 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.

 Meltz, L.L.P.

Houston, Texas
July 16, 2020

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 29, 2020. 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.

The Harris County Sports & Convention Corporation, in an effort to provide transparent and equitable access to contracting opportunities at NRG Park, adopted a Historically Underutilized Business policy. This policy is intended to open contracting opportunities to qualified contractors and vendors to everyone on an equal level.

Through the leadership of the HCSCC Board of Directors, HCSCC and NRG Park are leading the effort to combat human trafficking in all forms with the designation of NRG Park as a No Trafficking Zone. This designation is the first of its kind anywhere in the Country.

NRG Stadium (formerly Reliant 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 2017 NFL Super Bowl LI. The Houston Texans were the AFC South Division champions for the 2019 season. NRG Stadium hosted The Rolling Stones, Confederation of North and Central America and Caribbean Association Football (CONCACF) Gold Cup soccer quarterfinals, and International Cup Soccer in 2019.

In September 2019, NRG Stadium hosted the Prime Minister of India, Narendra Modi, in an event called “Howdy Modi.” The Prime Minister shared the stage with President Donald Trump. The event, attended by over 50,000, also included many Indian cultural performers and singers.

On the horizon is the NCAA Men’s Basketball Final 4 in 2023, NCAA College Football playoff game in 2024, and possibly an International Federation of Association Football (“FIFA”) Soccer World Cup host in 2026.

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 and Rodeo.

New to NRG Center in 2019 was the Gastech Exhibition and Conference. This event is at the forefront of the international gas, liquefied natural gas (LNG) and energy market. Over 20,000 industry professionals and 700 global exhibitors from across 30 industry sectors were in attendance.

As part of HCSCC’s Commitment to Community, our Board of Directors, along with Commissioner Rodney Ellis, organized a tour of the Gastech Conference for almost 200 high school students that exposed them to the broad opportunities available in this industry. It was a rewarding experience to host so many young minds giving them a first-hand look at real-life business.

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 Sesame Street, Cheer America competitions, and numerous concerts and programs.

NRG Astrodome – This 131,000 square foot facility is currently not available for public use. The future of the Astrodome is currently being evaluated by the Harris County Commissioners Court. Plans regarding the Astrodome must be approved by the Texas Historic Commission prior to implementation.

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 2020 was approximately 4.1 million patrons.

Financial Analysis

The following sections will discuss the significant changes in the Corporation's financial position for the Fiscal Year Ended February 29, 2020. 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 \$2,121,008 during the fiscal year ended February 29, 2020.

Revenues and expenditures overall decreased for Fiscal Year 2020. Contributions from Aramark for their food and beverage agreement are on a sliding scale over the term of their contract and therefore decrease from year to year. Amounts reported as revenue in previous years were expended in the current year. Also, the prior year included expenditures for the construction of a high capacity elevator in NRG Stadium. This did not occur in the current year as the elevator was completed in 2018.

Exhibit 1
Government Wide Condensed Schedules of Net Position

	February 29, 2020	February 28, 2019
Current Assets	\$ 30,280,494	\$ 30,076,843
Capital Assets - Net	1,191,618	487,354
Other Long-term Assets	5,712,152	5,317,354
Total Assets	37,184,264	35,881,551
Deferred Outflow of Resources	66,326	62,069
Current Liabilities	\$ 9,594,615	\$ 8,689,235
Long-term Liabilities	7,595,094	9,308,970
Total Liabilities	17,189,709	17,998,205
Deferred Inflows of Resources	50,765	56,307
Net Position	\$ 20,010,116	\$ 17,889,108

Exhibit II
Government-Wide Condensed Schedules of Activities

	Year Ended February 29, 2020	Year Ended February 28, 2019
Revenues:		
Program Revenues	\$ 11,638,956	\$ 12,991,267
Investment Earnings	417,916	324,563
Miscellaneous Revenue	20,114	623,462
	<u>12,076,986</u>	<u>13,939,292</u>
Total Revenues	12,076,986	13,939,292
Expenses:		
Park Operations	1,033,449	975,677
General Administration	1,630,433	1,430,313
Interest on Long-term Liabilities	548,917	643,884
Donation to Harris County - Elevator Project	-	1,378,748
Facilities & Grounds	6,743,179	7,132,771
	<u>9,955,978</u>	<u>11,561,393</u>
Total Expenses	9,955,978	11,561,393
Increase (decrease) in Net Position	\$ 2,121,008	\$ 2,377,899

Exhibit III
Governmental Fund Condensed Balance Sheet

	February 29, 2020	February 28, 2019
Assets - Unrestricted	\$ 33,418,328	\$ 33,880,104
Assets - Restricted	2,408,673	1,421,739
	<u>35,827,001</u>	<u>35,301,843</u>
Total	\$ 35,827,001	\$ 35,301,843
Liabilities and Unearned Revenue	4,930,805	3,783,831
Fund Balance	30,896,196	31,518,012
	<u>35,827,001</u>	<u>35,301,843</u>
Total	\$ 35,827,001	\$ 35,301,843

Exhibit IV**Governmental Fund Condensed Schedules of Revenues, Expenditures, and Changes in Fund Balance**

	Year Ended February 29, 2020	Year Ended February 28, 2019
Revenues	\$ 6,527,584	\$ 9,089,819
Expenditures	<u>10,767,054</u>	<u>11,511,555</u>
Deficiency of revenue under expenditures	(4,239,470)	(2,421,736)
Other Financing Sources	5,518,535	5,408,771
Other Financing Uses	<u>(1,900,881)</u>	<u>(1,888,324)</u>
Net Other Financing Sources	3,617,654	3,520,447
Excess (Deficiency) of revenue and other financing sources over (under) expenditures	(621,816)	1,098,711
Fund Balance - beginning of year	<u>31,518,012</u>	<u>30,419,301</u>
Fund Balance - end of year	<u>\$ 30,896,196</u>	<u>\$ 31,518,012</u>

Economic Factors

According to the United States Census Bureau, Harris County is the third most populous county in the Country. Houston, Texas ("Houston"), located in Harris County, 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. There are two major tenants at NRG Park, the NFL Houston Texans and the Houston Livestock Show & Rodeo. The Houston Texans rank ninth overall in team value of 32 teams in the NFL according to "Forbes Magazine". The current team value is \$3.1 billion. The Houston Livestock Show & Rodeo ("HLSR"), a Houston favorite, supports youth, education and agriculture practices. The total economic impact of the 2019 Rodeo was \$227 million and over five thousand jobs supported in Greater Houston. The Rodeo awarded \$8.4 million in scholarships following the 2019 Rodeo. In total, HLSR committed more than \$27 million through scholarships, junior show exhibitors, educational grant programs, and graduate assistantships.

Houston has a versatile infrastructure that supports a growing economy. The Port of Houston, is a key component in the development of Houston's center of international trade. It is proud to be the home of the nation's largest petrochemical complex. Three airports, George Bush Intercontinental Airport, Hobby Airport, and Ellington Airport serving over 50 million passengers on an annual basis, are vital to the success

and growth in the greater Houston/Harris County area. Ellington Airport is home to Houston's Spaceport and supports activities of the U.S. Military and NASA. The Texas Medical Center, the largest medical complex in the world, is located in Houston. It is the home of the world's largest children's hospital, Texas Children's Hospital, and the world's largest cancer hospital, MD Anderson. It sees over 8 million patients per year and supports over 100,000 employees. Houston is a world-class city, with a cost of living below the national average. NRG Park is a proud contributor to the Houston cultural offerings with varied offerings all year long. There is something for everyone.

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 2020, the Corporation had Capital Assets of \$1,191,618 (net of accumulated depreciation of \$9,731,429). These capital assets primarily consist of grounds 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 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 & 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 29, 2020

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 16,926,090
Restricted Cash & Cash Equivalents	2,408,673
Due from Harris County	819,583
Accrued Interest receivable	30,867
Other Receivables	10,021,621
Prepaid Expenses	104,527
Pension Plan Asset	134,778
Notes Receivable	5,546,507
Equipment - Net of Accumulated Depreciation	<u>1,191,618</u>
TOTAL ASSETS	<u>\$ 37,184,264</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Plan Contributions After Measurement Date	\$ 14,588
Changes in Experience	51,591
Changes in Assumptions	<u>147</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 66,326</u>
LIABILITIES & NET POSITION	
Accounts Payable	\$ 1,544,777
Salaries Payable	46,290
Unearned Revenue - Other	5,990,705
Accrued Interest payable	298,967
Long-Term Liabilities:	
Due in one year	
Video Board Loan	1,519,019
Radio System	194,857
Due in more than one year	
Video Board Loan	<u>7,595,094</u>
Total Liabilities	<u>\$ 17,189,709</u>
DEFERRED INFLOWS OF RESOURCES	
Difference between projected and actual earnings on pension plan assets	\$ 2,502
Changes in Experience	<u>48,263</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 50,765</u>
NET POSITION	
Investment in Capital Assets	\$ 1,191,618
Restricted	2,408,673
Unrestricted	<u>16,409,825</u>
Net Position	20,010,116
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,250,590</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 29, 2020

	Expenses	Charges for Services	Capital Grants And Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES				
Park Operations	\$ 1,033,449	\$ 5,145,308	\$ -	\$ 4,111,859
General and Administration	1,630,433	-	-	(1,630,433)
Facilities & Grounds	6,743,179	975,113	5,518,535	(249,531)
Interest on Long Term Liabilities	548,917	-	-	(548,917)
	<u>\$ 9,955,978</u>	<u>\$ 6,120,421</u>	<u>\$ 5,518,535</u>	<u>\$ 1,682,978</u>
GENERAL REVENUES				
Investment Earnings				387,049
Miscellaneous				20,114
Interest on Note Receivable				30,867
				<u>438,030</u>
TOTAL GENERAL REVENUES AND CONTRIBUTIONS				
				2,121,008
CHANGE IN NET POSITION				
Net Position - Beginning of Year				<u>17,889,108</u>
Net Position - End of Year				<u>\$ 20,010,116</u>

See notes to the financial statements.

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

BALANCE SHEET - GOVERNMENTAL FUND
AS OF FEBRUARY 29, 2020

ASSETS

Cash and Cash Equivalents	\$ 16,926,090
Restricted Cash & Cash Equivalents	2,408,673
Due From Harris County	819,583
Other Receivables	10,021,621
Prepaid Expenses	104,527
Notes Receivable	<u>5,546,507</u>

TOTAL ASSETS \$ 35,827,001

LIABILITES AND FUND BALANCE

Accounts Payable	\$ 1,544,777
Salaries Payable	46,290
Unearned Revenue - Naming Rights	<u>1,046,430</u>

Total Liabilities 2,637,497

DEFERRED INFLOW OF RESOURCES

Unavailable Revenue - NFL Escrow	<u>2,293,308</u>
----------------------------------	------------------

FUND BALANCE

Nonspendable	5,651,034
Restricted	2,408,673
Unassigned	<u>22,836,489</u>

Total Fund Balance 30,896,196

TOTAL LIABILITIES AND FUND BALANCE \$ 35,827,001

See notes to the financial statements.

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

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AS OF FEBRUARY 29, 2020**

TOTAL FUND BALANCE FOR GOVERNMENTAL FUND \$ 30,896,196

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 \$10,923,047 Equipment - net of \$9,731,429 accumulated depreciation 1,191,618

Pension Plan Asset 134,778

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. Balances as of February 29, 2020 were:

DEFERRED OUTFLOWS (INFLOWS):

Deferred Outflow - Pension contributions after measurement date	14,588
Deferred Outflow - Difference in expected and actual pension experience	51,591
Deferred Outflow - Changes in Pension Assumptions	147
Deferred Inflow - Net difference between projected and actual earnings	(2,502)
Deferred Inflow - Difference in expected and actual pension experience	<u>(48,263)</u>
	15,561

NOTES PAYABLE

Video Board Loan	(9,114,113)
Radio System	(194,857)
Accrued Interest on Video Board Loan	(298,019)
Accrued Interest on Radio System	<u>(948)</u>

Total notes payable and deferred outflows/inflows (9,592,376)

Corporation assets not available to pay current expenditures:

Unavailable revenue	(2,650,967)
Accrued Interest on notes receivable	30,867

TOTAL NET POSITION FOR GOVERNMENTAL FUND \$ 20,010,116

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 29, 2020

	<u>General Fund</u>
Revenues:	
Revenues from Operations - NRG Park	\$ 4,637,858
Revenues from Operations - Naming Rights	1,482,563
Interest And Other	<u>407,163</u>
Total Revenues	<u>6,527,584</u>
Expenditures:	
Operations	1,033,449
General and administrative	1,682,657
Facilities & Grounds	<u>8,050,948</u>
Total Expenditures	<u>10,767,054</u>
Other Financing Sources (Uses)	
Capital Contribution	5,518,535
Loan Payments	<u>(1,900,881)</u>
Total other net financing sources	<u>3,617,654</u>
Deficiency of Revenues and Other Financing under Expenditures	(621,816)
Fund Balance - Beginning of year	<u>31,518,012</u>
Fund Balance - End of year	<u>\$ 30,896,196</u>

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 29, 2020**

NET CHANGE IN FUND BALANCE - Governmental Fund	<u>\$ (621,816)</u>
Governmental fund reports 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 \$924,450 capital outlay exceeded and \$220,186 depreciation in the current period.	<u>704,264</u>
Payments of principal on long-term liabilities	<u>1,900,881</u>
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 fund.	<u>52,223</u>
Under modified accrual basis of accounting used in the governmental fund, 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 liabilities is recognized as it accrues rather than when due under the modified accrual basis of accounting.	
Video Board Loan Accrued Interest - Prior Year	346,086
Video Board Loan Accrued Interest - Current Year	(298,019)
Musco Financing Accrued Interest - Prior Year	5,600
Radio System - Accrued Interest - Prior Year	1,870
Radio System - Accrued Interest - Current Year	<u>(948)</u>
	<u>54,589</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>30,867</u>
CHANGE IN NET POSITION	<u><u>\$ 2,121,008</u></u>

See notes to the 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 29, 2020

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 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 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 has a property management agreement with SMG, a Pennsylvania general partnership for services at NRG Park. The current contract, approved by the Board on May 20, 2015, expires in 2020. The Corporation has exercised its option for the first of two, five year renewal options. In October 2019, SMG merged with AEG Facilities forming a new company: ASM Global.

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 ("U.S. GAAP") applicable to governmental units as promulgated by the Governmental Accounting Standards Board ("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 non-fiduciary 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.

Investments – Investments are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

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, consisting of equipment, are depreciated in the government-wide financial statements using the straight line method over 3 – 25 years.

Land and Buildings and improvements are considered assets of Harris County and are reported on their financial statements.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows consist of pension contributions after measurement date, differences in expected and actual pension experience, and changes in pension assumptions. The pension contributions after measurement date are deferred and recognized in the following fiscal year. The differences in expected and actual pension experiences are amortized over a closed six year period. Pension assumption changes are recognized over the average remaining service life for all members.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows consist of differences in projected and actual earnings on pension assets and differences in expected and actual pension experience. The differences in projected and actual earnings on pension assets are

amortized over a closed five year period. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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) non-spendable, (2) restricted, and (3) unassigned. Non-spendable amounts cannot be spent because they are not in spendable form. This includes prepaid amounts and long-term receivables. 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 of 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 an expenditure is incurred and amount is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could 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. 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 of Directors. 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. Direct obligations of the United States, its agencies, and instrumentalities.
- b. 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, the United States, or any obligation fully guaranteed or fully insured by the FDIC.
- c. Direct obligations of the State of Texas or its agencies provided the agency has the same debt rating as the State of Texas.
- d. Obligations of states, agencies, counties, cities, and other political subdivisions located in the United States and rated not less than A, or its equivalent, by a nationally recognized investment rating firm.
- 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 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, and 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 ("SEC"), with a dollar weighted-average stated maturity of 60 days or less 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.
- k. Interest bearing bank deposits as authorized by the Public Funds Investment Act.

Summary of Cash and Investments - The Corporation's cash and investments are stated at fair value. A summary of cash and investments at February 29, 2020, held by the Corporation is as follows:

	Governmental Funds
Cash and cash equivalents	\$ 16,926,090
Restricted cash and cash equivalents	<u>2,408,673</u>
	<u>\$ 19,334,763</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 and statement of net position. 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 29, 2020, 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	Duration (Years)	Credit Rating S&P/Moody's
Commercial Paper					
BNP Paribas	\$ 3,983,700	20.28%	\$ 4,000,000	0.25	A-1, P-1
Total Commercial Paper	3,983,700		4,000,000		
Money Market Mutual Funds					
Dreyfus Cash Management	\$ 13,248,746	67.46%	\$ 13,248,746	N/A	AAAm/Aaa
Fidelity Institutional Class I Treasury	2,408,673	12.26%	2,408,672	N/A	AAAm/Aaa
Total Money Market & Mutual Funds	15,657,419		15,657,418		
 Total Investments	 \$ 19,641,119	 <u>100.00%</u>	 <u>\$ 19,657,418</u>		
Outstanding Items and time deposits	(306,356)				
Total Cash and Investments	\$ 19,334,763				

Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of February 29, 2020, the Corporation has recurring fair value measurements for Commercial Paper and Money Market Mutual Funds totaling \$19,641,119, all of which are valued using quoted prices for similar assets in active markets (Level 2).

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 or equivalent by at least one nationally recognized rating firm.

Custodial Credit Risk — Investments are exposed to custodial credit risk if the investments are uninsured, are not registered in the Corporation's name and are held by the counterparty. In the event of the failure of the counterparty, the Corporation may not be able to recover the value of its investments that are held by the counterparty. As of February 29, 2020, 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 U.S. 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. All current investments for the Harris County Sports & Convention Corporation utilized the Matching Approach.

4. CURRENT AND LONG-TERM NOTES, RECEIVABLES, AND AMOUNTS DUE FROM HARRIS COUNTY

Receivables and Amounts due from Harris County

At February 29, 2020, receivables in the amount of \$819,583 was due from Harris County related to reimbursement for expenditures incurred for Hurricane Harvey shelter operations. Other receivables included \$61,699 due from the NFL Club, \$447,682 due from Aramark Sports & Entertainment, \$34,735 due from the Houston Livestock Show & Rodeo, and \$9,459,548 from ASM Global (formerly SMG) for operations of the Complex. The other receivables totaling \$17,957 relate to sponsorship and park operations. No allowance for uncollectible accounts has been recorded as management believes all receivables will be collected.

Long-Term Notes

A long-term note in the amount of \$225,000 is due from the Houston South Gateway Improvement District (formerly the Stadium Park Redevelopment Authority). The note, originating in 2015, has an unspecified due date, interest at 3.5%, and requires one principal and interest payment at the end of the note term. A financing agreement with Aramark Sports & Entertainment in the amount of \$532,260 was entered into in June 2019. The original term was for four (4) years at 0.00% interest. As of February 29, 2020, the long-term amount due from Aramark is \$321,507.

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. In October 2018, the Sports Authority made the final payment on the Series 2001 C-1 Note and related accrued interest. Only the Series 2001C-2 Note remains outstanding as of February 29, 2020.

The Series 2001 C-2 Note is not in compliance with the Public Funds Investment Act since it does not receive a rating from at least one nationally recognized rating firm. The outstanding balance on the

investment is still held by the Corporation and is reflected as Notes Receivable in the Corporation's financial statements.

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 asset transactions are summarized as follows:

	Balance March 1, 2019	Additions	Disposals & Transfers	Balance February 29, 2020
Equipment	\$ 10,361,777	\$ 924,450	\$ (363,180)	\$ 10,923,047
Accumulated depreciation	(9,874,423)	(220,186)	363,180	(9,731,429)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 487,354	\$ 704,264	\$ -	\$ 1,191,618

Depreciation expense totaled \$220,186 which is recorded in facilities and grounds expenses in the statement of activities.

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

6. LONG-TERM DEBT AND UNEARNED/UNAVAILABLE REVENUE

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

	Principal Balance March 1, 2019	Issued	Payment	Principal Balance February 29, 2020	Current Portion
Video Board Loan	10,633,132		1,519,019	9,114,113	1,519,019
Lease Purchase - Sports Lighting	192,534		192,534	-	-
Radio System Financing	384,185		189,328	194,857	194,857
Total	<u>\$ 11,209,851</u>	<u>\$ -</u>	<u>\$ 1,900,881</u>	<u>\$ 9,308,970</u>	<u>\$ 1,713,876</u>

Outstanding debt as of February 29, 2020 is as follows:

	Original Issue Amount	Interest Rates (%)	Issue Date	Outstanding as of February 29, 2020
Video Board Loan	16,709,208	5.50%	September 2014	9,114,113
Lease Purchase - Sports Lighting	900,000	3.88%	July 2014	-
Radio System Financing	746,880	2.92%	December 2016	194,857
	<u>\$ 18,356,088</u>			<u>\$ 9,308,970</u>

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 was completed in fiscal year 2014. The Corporation financed the project with a loans from the Houston Livestock Show & Rodeo (HLSR) and the Houston NFL Holdings Club. Terms for the promissory notes totaling \$16,709,208 were approved by the Corporation's Board of Directors 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. The final payments are due during the Corporation's fiscal year 2026.

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, was financed over the following 5-year period. The final payment was made in July 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 29, 2020, are as follows:

Period	Equipment Financing		
	Principal	Interest	Total
2021	\$ 1,713,876	\$ 508,340	\$ 2,222,216
2022	1,519,019	417,730	1,936,749
2023	1,519,019	334,184	1,853,203
2024	1,519,019	250,638	1,769,657
2025	1,519,019	167,092	1,686,111
2026	1,519,018	84,004	1,603,022
	<u>\$ 9,308,970</u>	<u>\$ 1,761,988</u>	<u>\$ 11,070,958</u>

Unearned/Unavailable Revenue — The Corporation has unearned and unavailable revenue in the governmental funds of \$3,339,738 as of February 29, 2020 consisting of \$1,046,430 from the NFL Club relating to Naming Rights funding received but not earned, and \$2,293,308 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 non-traditional defined benefit pension plan in the statewide Texas County & District Retirement System (“TCDRS”). The Board of Trustees governs TCDRS and is 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 TCDRS website at www.TCDRS.org.

Benefits Provided. The approval of plan provisions is the responsibility of the Corporation’s Board of Directors (“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. The Corporation’s current match is 225%.

Employees Covered by Benefit Terms. At December 31, 2019, the following employees were covered by the benefit terms:

	<u>12/31/2018</u>	<u>12/31/2019</u>
Inactive employees or beneficiaries currently receiving benefits	1	1
Active employees	5	7
Total	<u>6</u>	<u>8</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 12.05% of covered payroll for the months of the calendar year 2019. 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 Corporation 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 29, 2020, the net pension liability was measured as of December 31, 2019; and 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, 2019 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	Entry Age Normal
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 Period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.75%
Salary Increases	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
Investment Rate of Return	8.00%
Cost-of-Living Adjustments	Cost-of-Living adjustments for the Corporation 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.
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 – 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014. Service retirees, beneficiaries, and non-depositing members – 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. Disabled 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

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 April 2020 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 long-term 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	Target Allocation ⁽¹⁾	Geometric Real Rate of Return ⁽²⁾
U.S. Equities	Dow Jones US Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
Int'l Equities – Developed Markets	MSCI World Ex USA (net) Index	7.00%	5.20%
Int'l Equities – Emerging Markets	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment Grade Bonds	Bloomberg Barclays US Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High yield cash-pay capped index	12.00%	3.14%
Direct Lending	S&P/LSTA leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate P'Ships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

(1) Target Asset allocation adopted at the June 2020 TCDRS Board Meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 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 rate 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 Governmental Accounting Standards Board 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.

Funding Policy

- TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) 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 COLA 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, 2018	\$ 289,214	\$ 381,568	\$ (92,354)
Changes for the year:			
Service Cost	92,036	-	92,036
Interest on total pension liability	30,784	-	30,784
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	35,903	-	35,903
Effect of assumptions changes or inputs	-	-	-
Refund of Contributions	-	-	-
Benefit Payments	(2,444)	(2,444)	-
Administrative expenses	-	(442)	442
Member Contributions	-	49,408	(49,408)
Net investment income	-	62,527	(62,527)
Employer contributions	-	85,053	(85,053)
Other	-	4,601	(4,601)
Balances as of December 31, 2019	\$ 445,493	\$ 580,271	\$ (134,778)

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:

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 516,163	\$ 445,493	\$ 386,388
Fiduciary net position	580,271	580,271	580,271
Net pension liability (asset)	\$ (64,108)	\$ (134,778)	\$ (193,883)

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued TCDRS financial report.

Pension Expense and Deferred Inflows/Outflows of Resources related to Pensions. For the measurement period ending December 31, 2019, the Corporation recognized pension expense of \$34,127. As of February 29, 2020, the Corporation reported deferred inflows and 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	\$ 48,263	\$ 51,591
Changes of Assumptions	-	147
Net difference between projected and actual earnings	2,502	-
Contributions made subsequent to measurement date	-	14,588
	\$ 50,765	\$ 66,326

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:

2020	\$ 1,188
2021	285
2022	1,012
2023	(5,342)
2024	(96)
After	3,926

Payable to the Pension Plan. At February 29, 2020, the Corporation reported a payable of \$11,636 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. As of February 29, 2020, \$30 million of this commitment has been invested in NRG Park.

NRG Park Complex Management (Facilities Management) — The Corporation has a facilities management agreement with ASM Global (formerly SMG) to provide management services for the facilities at the Complex.

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 the 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. Effective March 1, 2020, the Corporation exercised the first of its two options to renew and extend the management agreement through February 28, 2025. The annual Management Fee is \$550,000, paid on a monthly basis, for the base fiscal year. This fee may be adjusted, at the end of each fiscal year, according to the terms set forth in the agreement. In addition, Performance Compensation shall be paid, in arrears, on an annual basis. This amount shall not exceed \$300,000 and will be based on the Corporation's evaluation of ASM Global's performance under certain measures. These weighted measures are Operating Revenue (40%), Client Satisfaction (30%), and Facility Maintenance (30%). The Corporation has expensed \$584,261 for the facilities management services and \$300,000 for the annual performance bonus for the fiscal year ended February 29, 2020.

Included in the new agreement, is a provision for ASM Global 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, the Corporation may utilize such funds at its discretion notwithstanding the purposes indicated above. In addition, at the beginning of each renewal period, ASM Global shall contribute \$500,000 for capital improvements and equipment purchases. As of February 29, 2020, \$1,116,385 of the initial \$3,500,000 capital contribution remains unexpended.

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 Harris County-Houston 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.

On May 17, 2001, the Corporation, the Sports Authority, HLSR, and the NFL Club entered into several principal project development agreements. Under the terms of the agreements, the Corporation is responsible for constructing, operating, and maintaining the project.

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 HLSR 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 HLSR Lease payments to the Harris County-Houston 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 non-cancelable operating lease. The Corporation entered into a new lease that began September 1, 2018. Total costs for such lease was \$11,294 for the year ending February 29, 2020.

Lease payments under the current lease agreement for future years are as follows:

FY 2021	10,920
FY 2022	<u>8,190</u>
	<u>\$19,110</u>

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. SUBSEQUENT EVENTS

Following the close of the fiscal year, a global pandemic known as the COVID-19 Corona Virus rapidly spread through-out the world. As a result, federal, state and local leaders began to limit public interaction and implement work-at-home, stay-at-home policies to slow the progression of this disease. For NRG Park, this included closing the Houston Livestock Show & Rodeo after only eight performances and many other events were either canceled or postponed.

The Harris County Sports & Convention Corporation is working closely with ASM Global, the NRG Park Facility Manager, to determine the effect of COVID-19 on NRG Park for the current and upcoming fiscal years. There will be a financial effect on NRG Park and HCSCC, although we cannot determine the extent or total impact at this time. We do not foresee being able to operate at full capacity until local, state, and national leaders determine mass gatherings are again safe for the public.