

Financial Statements and Report of  
Independent Certified Public Accountants

**Harris County - Houston Sports Authority**

December 31, 2012

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

Harris County – Houston Sports Authority, Houston, Texas

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### Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, and the major fund of Harris County – Houston Sports Authority (the “Authority”) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority’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 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority’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 Authority’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, 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 Authority as of December 31, 2012, and the respective changes in financial position thereof 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 required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

*Grant Thornton LLP*

Houston, Texas  
June 6, 2013

## Harris County - Houston Sports Authority

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2012

(Unaudited)

This section of the Harris County – Houston Sports Authority (the “Authority”) financial statements presents management’s discussion and analysis (“MD&A”) of the financial activity of the Authority during the fiscal year ended December 31, 2012. Please read it in conjunction with the Authority’s basic financial statements following this section.

#### THE AUTHORITY’S BUSINESS

The Authority is a sports and community venue district engaged in the business of planning, acquiring, establishing, developing, marketing, constructing or renovating one or more venue projects. The Authority has issued bonds and other subordinate debt, and contributed other available revenues, to finance the construction of sports venues, including Minute Maid Park, Reliant Stadium, and Toyota Center and the related parking garage. The Authority owns Minute Maid Park and Toyota Center, and leases the venues to the Houston Astros and Rocket Ball, Ltd. (“Rocket Ball”), respectively. The Authority does not own Reliant Stadium but partially financed the construction of the stadium and retains the debt on their financial statements; but not the asset. Harris County owns Reliant Stadium and leases it to the Houston Texans and the Houston Livestock Show and Rodeo. Lease payments and certain revenues related to the use of Reliant Stadium are assigned to the Authority to be used for the payment of debt related to the construction of Reliant Stadium. General tax revenues are pledged to the payment of debt issued for the financing of Minute Maid Park, Toyota Center and Reliant Stadium.

#### FINANCIAL HIGHLIGHTS

##### *Government-Wide*

- The total government-wide liabilities of the Authority exceeded the assets at December 31, 2012 by \$464,493,885. Of this amount, (\$576,532,219) is unrestricted net position; \$13,423,641 is restricted for specific purposes (restricted net position); \$53,867,295 is the amount restricted for debt service and \$44,747,398 is net investment in capital assets. A portion of the Authority’s net liabilities reflects the financing of Reliant Stadium, of which the asset was transferred to another governmental entity but the associated debt was retained by the Authority.

##### *Fund Level*

- As of December 31, 2012, the Authority’s governmental fund reported a fund balance of \$73,941,043.
- The Authority previously issued debt to finance capital improvements. Note F of the basic financial statements provides details relating to the long-term debt.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements comprise three components (1) Government-wide financial statements; (2) Fund financial statements; and (3) Notes to the basic financial statements.

***Government-Wide Financial Statements*** — are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The statement of net position presents information on all Authority assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, other nonfinancial factors should also be considered to assess the overall health of the Authority.

The statement of activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Typically, both of these government-wide financial statements would distinguish functions of the reporting entity principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or in part a portion of their costs through user fees and charges (business-type activities). The Authority, however, has and reports only governmental activities.

***Fund Financial Statements*** — are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. Funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The Authority has one governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Notes to the Basic Financial Statements*** — provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 16 of this report.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$464,493,885 at the close of the most recent fiscal year.

**Harris County – Houston Sports Authority**

Condensed Statements of Net Position – Governmental Activities  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CURRENT AND OTHER ASSETS	\$ 93,630,249	\$ 87,627,451
CAPITAL ASSETS (excludes Reliant Stadium)	<u>497,779,623</u>	<u>434,944,737</u>
Total assets	<u>591,409,872</u>	<u>522,572,188</u>
CURRENT AND OTHER LIABILITIES	11,996,923	11,028,592
LONG-TERM LIABILITIES (includes Reliant Stadium)	<u>1,043,906,834</u>	<u>1,059,167,354</u>
Total liabilities	<u>1,055,903,757</u>	<u>1,070,195,946</u>
NET POSITION:		
Net investment in capital assets	44,747,398	(27,835,010)
Restricted	67,290,936	65,221,235
Unrestricted	<u>(576,532,219)</u>	<u>(585,009,983)</u>
TOTAL NET POSITION	<u>\$ (464,493,885)</u>	<u>\$ (547,623,758)</u>

The Authority has net position of \$44,747,398 invested in capital assets (e.g., land, improvements, buildings, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The main use of these capital assets is to provide services to citizens; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Authority's net position reflects the financing of Reliant Stadium, of which the asset was transferred to another governmental entity but the associated debt was retained by the Authority. The resources to repay this debt must be provided from the revenues of the Authority and include certain charges for services and a portion of its general revenues.

Another portion of the Authority's net position, \$67,290,936 in the fiscal year 2012, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of the Authority's net position, \$(576,532,219) in the fiscal year 2012, represents the Authority's ongoing obligations to citizens and creditors and the obligation for Reliant Park debt that is not offset by the asset. A portion of the unrestricted balance reflects the Authority's investment in Reliant Park.

Net position increased by \$83,129,873 primarily due to the donation of BBVA Compass Stadium to the Sports Authority, which has been valued at \$82,683,364.

The following table indicates changes in net assets for governmental activities:

**Harris County – Houston Sports Authority**

Condensed Statements of Activities – Governmental Activities  
Years ended December 31, 2012 and 2011

	2012	2011
<b>REVENUES:</b>		
Program revenues:		
Charges for services	\$ 43,336,185	\$ 40,540,569
General revenues:		
Hotel occupancy and vehicle rental taxes	47,700,357	42,542,736
Gain on termination of interest rate swap	-	8,060,791
Donation of capital asset - BBVA Compass Stadium	82,683,364	-
Earnings on investments	1,135,721	1,530,867
Total revenues	<u>174,855,627</u>	<u>92,674,963</u>
<b>EXPENSES:</b>		
Sports and entertainment venues	31,548,441	27,784,181
Interest on long-term debt	60,177,313	62,898,629
Total expenses	<u>91,725,754</u>	<u>90,682,810</u>
CHANGE IN NET POSITION	83,129,873	1,992,153
NET POSITION - Beginning	<u>(547,623,758)</u>	<u>(549,615,911)</u>
NET POSITION - Ending	<u>\$ (464,493,885)</u>	<u>\$ (547,623,758)</u>

Program revenues increased \$2,795,616 in 2012 compared to the prior year due primarily to events held by the Authority in 2012. The increase was partially offset by the decrease in the Harris County Sports & Convention Corporation parking revenue used for debt service. The Hotel Occupancy and Vehicle Rental Tax revenue increased by \$5,157,621 and the investment earnings decreased by \$395,146 in FY 2012. The increase in hotel tax and motor vehicle tax revenue resulted in part from the 2012 AAU Junior Olympics that the Sports Authority hosted in August 2012, along with increased attendance at the Houston Livestock Show & Rodeo, fans attending the Houston Texans' NFL playoff game in January 2012, and the 2012 Chevron Houston Marathon. Expenses for interest and bond related expenses decreased by \$2,721,316 in FY 2012 primarily due to the savings in interest cost on the 2001 Series C, D and E bonds that resulted from the termination of the interest rate swap agreements.

**FINANCIAL ANALYSIS OF MAJOR FUND**

**Governmental Fund** — The Authority's major general government functions are contained in the General Fund. The focus of the Authority's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2012, the Authority's governmental fund reported a fund balance of \$73,941,043.



The General Fund is the chief operating fund of the Authority. At December 31, 2012, the General Fund reported revenues of \$83,224,530.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** — The Authority's capital assets as of December 31, 2012, amounted to \$497,779,623 as compared to \$434,944,737 as of December 31, 2011. The value of the assets increased \$62,834,886 due to the contribution of BBVA Compass Stadium, which has been valued at \$82,683,364, less depreciation expense for the Authority's assets. The construction of BBVA Compass Stadium, which was built on land leased to the Sports Authority, was funded by the owner of the Houston Dynamo, a Major League Soccer (MLS) franchise. The Sports Authority accepted the donation of the Stadium when it was opened to the public in May, 2012.

**Debt** — At December 31, 2012, the Authority has total long-term liabilities outstanding of \$1,043,906,834. For further information regarding debt, see Note F.

The bonds that funded the construction of Reliant Stadium — the 2001 Series C, Series D and Series E bonds — continued in term-out mode during FY2012. The bonds have been subject to term-out provisions since the liquidity provider assumed ownership of the bonds in 2009. As of December 31, 2012, seven of the ten term-out payments have been made. Reliant Park revenues continue to fund most of the debt service on the bonds in term-out mode — the 2001 Series C, Series D and Series E bonds. The following table shows the Reliant Park revenues for FY2011 and FY2012 that are pledged to the repayment of bonds in term-out mode:

	2012	2011
Rodeo rent	\$ 1,500,000	\$ 1,500,000
Rodeo admissions/parking tax	2,589,384	2,510,646
Rodeo sales tax rebate	137,638	184,848
County admissions tax	962,157	1,226,610
County sales tax rebate	382,441	565,377
County parking revenue	-	1,560,658
Texans rent	4,010,000	4,010,000
Texans admissions/parking tax	2,236,086	1,930,354
Texans sales tax rebate	687,628	1,621,086
Texans supplemental rent	5,605,075	5,734,663
Total	<u>\$ 18,110,409</u>	<u>\$ 20,844,242</u>

On November 23, 2011, Moody's Investor Service affirmed the underlying ratings on the outstanding bonds of the Authority, including a Ba3 underlying rating on the senior lien bonds, a B2 underlying rating on the junior lien bonds, and a B3 underlying rating on the third lien bonds. Based on the enhancement provided through bond insurance from National Public Finance, all three liens of the Authority's bonds were rated Baa1 by Moody's (as of May 21, 2013).

On June 22, 2012, Standard & Poor's Rating Services raised the underlying ratings for the Authority's junior lien bonds and third lien bonds to B, and affirmed the underlying rating on the Authority's senior lien bonds at BBB. Based on the enhancement provided through bond insurance from National Public Finance, all three liens of the Authority's bonds were rated A by Standard & Poor's, pursuant to a rating action taken on May 10, 2013.

## **ECONOMIC FACTORS**

The Authority's primary sources of revenue are from hotel occupancy taxes and motor vehicle rental taxes, which are largely dependent upon the travel industry. The Houston area has seen an increase in hotel occupancy and motor vehicle taxes over the past couple of years. In 2012, collections for the year were \$5,157,619, or 12%, more than collections for the year ending December 31, 2012.

Economic stability has given Houston an upbeat attitude that is attracting new businesses and new residents. The Authority expects hotel occupancy and motor vehicle tax collections in 2013 to exceed the collections for 2012, due in part to several major events occurring in Houston in 2013. The Houston Texans were once again in the playoffs and played a first round game at Reliant Stadium on January 5, 2013. Following this event – which the Houston Texans won – Houston was host to the 2013 NBA All-Star game in February 2013. The All-Star game was followed in March 2013 by the 2013 Houston Livestock Show and Rodeo, which set an all-time attendance record with 2,506,238 attending over a 21-day period. After the Houston Livestock Show and Rodeo, Houston hosted the 2013 Offshore Technology Conference from May 6-9, 2013. Attendance at this event reached a 30-year high of 104,800, which was the second highest attendance in show history.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Harris County - Houston Sports Authority, 4 Houston Center, 1331 Lamar Street, Suite 700, Houston, Texas 77010.

Harris County – Houston Sports Authority

STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES

December 31, 2012

<b>Assets:</b>	
Cash and cash equivalents	\$ 31,973,516
Investments	39,372,712
Accrued interest receivable	94,925
Due from other governmental entities	16,771,436
Prepaid and other assets	5,417,660
Capital assets (excludes Reliant Stadium):	
Land	24,496,607
Other capital assets, net	473,283,016
Total assets	<u>\$ 591,409,872</u>
<b>Liabilities:</b>	
Accounts payable	\$ 2,584,581
Deferred revenue	5,265,347
Accrued interest	4,146,995
Long-term liabilities (included Reliant Stadium debt):	
Bonds payable - due within one year	43,949,873
Bonds payable - due in more than one year	999,956,961
Total liabilities	<u>1,055,903,757</u>
<b>NET POSITION:</b>	
Net investment in capital assets	44,747,398
Restricted for:	
Debt service	53,867,295
Capital repair	13,423,641
Unrestricted (deficit)	<u>(576,532,219)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ (464,493,885)</u></u>

The accompanying notes are an integral part of these financial statements.

Harris County – Houston Sports Authority

STATEMENT OF ACTIVITIES

Year ended December 31, 2012

Functions/programs	Expenses	Program revenue Charges for services	Net (expense) revenue and changes in net position governmental activities
Governmental activities:			
Sports and entertainment venues	\$ 31,548,441	\$ 43,336,185	\$ 11,787,744
Interest on long-term debt	60,177,313	-	(60,177,313)
Total governmental activities	<u>\$ 91,725,754</u>	<u>\$ 43,336,185</u>	<u>\$ (48,389,569)</u>
General revenues:			
Taxes:			
Vehicle rental taxes			\$ 22,676,980
Hotel occupancy taxes			25,023,377
Donation of capital asset			82,683,364
Earnings on investments			1,135,721
Total general revenues			<u>131,519,442</u>
CHANGES IN NET POSITION			83,129,873
NET POSITION - Beginning			<u>(547,623,758)</u>
NET POSITION - Ending			<u>\$ (464,493,885)</u>

The accompanying notes are an integral part of these financial statements.

**Harris County – Houston Sports Authority**  
**BALANCE SHEET – GOVERNMENTAL FUND**  
**GENERAL FUND**  
**December 31, 2012**

ASSETS	
CASH AND CASH EQUIVALENTS	\$ 31,973,516
INVESTMENTS	39,372,712
ACCRUED INTEREST RECEIVABLE	94,925
OTHER ASSETS	64,653
DUE FROM OTHER GOVERNMENTAL ENTITIES	16,771,436
<b>TOTAL</b>	<b><u>\$ 88,277,242</u></b>
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	\$ 2,410,728
Deferred revenue	11,925,471
Total liabilities	<u>14,336,199</u>
FUND BALANCE:	
Non-spendable	64,653
Restricted for debt service	53,867,295
Restricted for capital projects	13,423,641
Unassigned	6,585,454
Total fund balance	<u>73,941,043</u>
<b>TOTAL</b>	<b><u>\$ 88,277,242</u></b>

The accompanying notes are an integral part of these financial statements.

Harris County – Houston Sports Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2012

TOTAL FUND BALANCE FOR GOVERNMENT FUNDS	\$ 73,941,043
TOTAL NET POSITION REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION IS DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Those assets consist of:	
Land	24,496,607
Sports and entertainment venues projects - net of \$175,898,780 accumulated depreciation	163,925,546
Equipment and vehicles - net of \$4,843,800 accumulated depreciation	<u>9,357,470</u>
Total capital assets	497,779,623
Long-term liabilities applicable to the Authority's activities 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 are reported in the statement of net position	
Balances as of December 31, 2012 was:	
Accrued vacation payable	(23,854)
Due to Arena contractor	(150,000)
Accrued interest on bonds	(4,146,995)
Bonds payable	<u>(1,043,906,834)</u>
Total long-term liabilities	(1,048,227,683)
Some of the Authority's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in funds.	6,660,153
Some of the Authority's expenses relate to future periods and should be deferred costs of issuance - net of \$1,739,304 accumulated amortization.	<u>5,352,979</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (464,493,885)</u>

The accompanying notes are an integral part of these financial statements.

Harris County – Houston Sports Authority

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND  
Year ended December 31, 2012

REVENUES:	
Tax revenues:	
Vehicle rental tax	\$ 22,676,980
Hotel occupancy tax	25,023,377
Facilities use tax	5,787,628
Sales tax rebate	1,207,708
Total tax revenues	<u>54,695,693</u>
Rent	15,910,000
Royalties	1,200,000
Contractual payments	9,605,076
Investment income	1,135,721
Miscellaneous	678,040
Total revenues	<u>83,224,530</u>
EXPENDITURES:	
General and administrative	8,893,368
Debt service - interest	33,379,698
Debt service - principal	42,194,685
Total expenditures	<u>84,467,751</u>
OTHER FINANCING SOURCES (USES):	
Proceeds from bond insurance	(2,599,499)
Repayments of bond insurance proceeds	2,599,499
Total other financing sources (uses)	<u>-</u>
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES UNDER EXPENDITURES AND OTHER FINANCING USES	(1,243,221)
FUND BALANCE - Beginning of year	<u>75,184,264</u>
FUND BALANCE - End of year	<u>\$ 73,941,043</u>

The accompanying notes are an integral part of these financial statements.

**Harris County – Houston Sports Authority**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
December 31, 2012

NET CHANGE IN FUND BALANCES - Governmental fund	\$ (1,243,221)
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:	
Governmental funds report capital outlay 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 the value of donated assets exceeded depreciation in the current period.	62,834,886
Repayment of principal is an expenditure in the governmental funds, but reduces the liability in statement of net position and does not affect the statement of activities. These amounts are the net effect of these differences in the treatment of long-term debt and related items.	
Change in accrued interest	136,550
Accreted interest	(26,934,168)
Amortization of debt issuance cost	(202,636)
Repayments - to paying agent for bond principal	42,194,685
Debt transactions	15,194,431
Certain costs paid are not recorded as expenditures in the fund - level statements	
Change in vacation payable	(4,459)
Certain items are not collected within the time frame for recording as revenue in the fund-level statements	6,348,236
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ 83,129,873</b>

The accompanying notes are an integral part of these financial statements.



## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS Year ended December 31, 2012

#### NOTE A – THE FINANCIAL REPORTING ENTITY

The Harris County — Houston Sports Authority (the “Sports Authority” or “Authority”) was created by concurrent orders adopted in July 1997 by the Commissioners Court of Harris County, Texas (the “County”), and the City Council of the City of Houston, Texas, (the “City”), which, as amended, became effective September 1, 1997. The Sports Authority is a political subdivision of the State of Texas, organized as a sport and community venue district under Chapters 334 and 335 of the Texas Local Government Code (the “Act”). The Sports Authority was created for the public purpose of planning, acquiring, establishing, developing, marketing, constructing or renovating one or more venue projects.

The Sports Authority is governed by a Board of Directors that consists of 13 voting members. Six members are appointed by the City and six members are appointed by the County. The Chairperson of the Sports Authority (the “Chairperson”) is jointly appointed by both the City and the County. The Sports Authority is considered a primary government entity since it satisfies all of the following criteria: (a) no entity appoints a voting majority of its governing body, (b) it is legally separate from other entities and (c) it is fiscally independent of other state and local governments.

The Act provides statewide enabling legislation for the creation of Sports and Community Venue Districts and local option use of certain taxes for the development of sports, convention, culture and tourism facilities. The Act provides, among other sources, the following revenue options, which the Sports Authority has imposed to be utilized in the financing of Minute Maid Park (see Note H), Reliant Stadium (see Note I) and the Toyota Center (see Note J):

- A short-term motor vehicle tax not to exceed five percent of gross receipts on vehicle rentals of 30 days or less initiated within the City and County limits (the “Short Term Vehicle Rental Tax”). The Sports Authority has entered into an agreement with the Office of the Texas Comptroller of Public Accounts (the “Texas Comptroller”) to collect these vehicle rental taxes. Such agreement provides for a collection fee payable to the Texas Comptroller of an amount not to exceed \$50,000 annually. The Texas Comptroller has waived the collection fee.
- A hotel occupancy tax not to exceed two percent of the price for a hotel room rental costing more than \$2 each day for those rentals less than 31 consecutive days within the City and County limits (the “Hotel Occupancy Tax”). The Sports Authority has entered into an agreement with the Tax Assessor - Collector of the County (the “Tax Assessor”) to collect these taxes. Such agreement provides for a collection fee payable to the Tax Assessor of an amount not to exceed \$50,000 annually.

Additional revenue options available under the Act and utilized by the Sports Authority for Reliant Stadium are as follows:

- An admission tax not exceeding ten percent on events held within the stadium, which the Sports Authority has agreed to cap at \$2 per ticket.
- A parking tax not to exceed \$3 per vehicle on vehicles using the stadium’s parking facilities for a period beginning three hours before and ending three hours after an event, which the Sports Authority has agreed to cap at \$1 per vehicle.

## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

#### NOTE A – THE FINANCIAL REPORTING ENTITY – Continued

- A contribution or dedication to the Sports Authority of all or part of the sales and use tax revenue received by the City, and the Metropolitan Transit Authority of Harris County, Texas (“METRO”), and, that is guaranteed, paid or collected by any or all businesses operating at the stadium in an approved venue project.

Subject to voter approval, admissions taxes, parking taxes, lease revenues and sales tax rebates could be used for other venue projects.

#### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Sports Authority conform to generally accepted accounting principles applicable to governmental units as promulgated by the Governmental Accounting Standards Board (“GASB”). A summary of the Sports Authority’s more significant accounting policies follows.

##### 1. Financial Statement Presentation, Measurement Focus and Basis of Presentation

*Government-Wide Statements* — Government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the Sports Authority. The Sports Authority reports only governmental activities, which normally are supported by tax revenues.

The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of the Sports Authority’s program are offset by those programs’ revenues. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by the program and (2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues are generated from sports and entertainment venue activities. Taxes and other items not included among program revenues are reported instead as general revenues.

*Fund-Level Statements* — The governmental fund uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers taxes and other revenues as available if they are collected prior to March 1<sup>st</sup> of the next year. Expenditures are recorded when the related fund liability is incurred. Principal and interest on governmental long-term debt are recorded as fund liabilities when due or when amounts have been accumulated for payments to be made early in the following year. Grant and

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

entitlement revenues are also susceptible to accrual. These funds are accounted for on a spending “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Funds are generally classified into three categories: Governmental, Proprietary, and Fiduciary. The Sports Authority has only one governmental fund, the General Fund and reports it as a major fund.

**2. Cash and Cash Equivalents**

The Sports Authority considers all financial instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

**3. Capital Assets**

Capital assets include land, buildings, improvements other than buildings, and equipment that are used in the Authority’s operations and benefit more than a single fiscal year.

Capital assets of the Sports Authority are defined as assets with individual costs of \$1,000 or more and estimated useful lives in excess of one year.

All capital assets are stated at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are stated at their estimated fair value on the date donated.

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

<u>Asset</u>	<u>Years</u>
Buildings	30-40
Equipment	3-20

**4. Net Position and Fund Balances**

*Net Position Classifications* --- Net position in the government-wide financial statements are classified in three categories: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. Net position is shown as restricted if constraints placed on 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 Sports Authority’s restricted net position is restricted for debt service and certain capital items.

## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

#### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

*Classifications of Fund Balance* — In the fund financial statements, the governmental fund reports fund balance in the following three categories: (1) restricted for debt service, (2) restricted for capital projects and (3) unassigned. The Sports Authority follows the provisions of GASB 54 *“Fund Balance Reporting and Governmental Fund Type Definitions.”* Under GASB 54, fund balance should be reported in one of the following five categories: (1) nonspendable, (2) restricted, (3) committed, (4) assigned or (5) unassigned. The Authority has determined that it does not have any committed or assigned fund balance. Under GASB 54, the nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. This “not in spendable form” criterion includes items that are not expected to be turned into cash, like prepaids and inventories as well as the long term amount of loans and notes receivable. The Sports Authority classifies all of its prepaid expenses as nonspendable. Under GASB 54, 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 Sports Authority’s resources held for debt service on long term obligations are restricted based on the terms of the issuing documents for the long term obligations. The Sports Authority’s lease agreements for the facilities owned or built by the Sports Authority specify specific funding requirements for capital repair and replacement expenditures in those facilities. The funds to pay for those expenditures are restricted. Fund balance that is not classified as non-spendable and has not been restricted, committed or assigned to specific purposes is classified as unassigned.

The Sports Authority has funds set aside for capital repair and debt service related costs. The Authority considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The Sports Authority considers unassigned amounts to be spent when an expenditure is incurred for the purpose for which amounts in any unrestricted fund balance classification could be used.

#### 5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 expenditures during the reporting period. Actual results could differ from these estimates.

#### NOTE C – DEPOSITS AND INVESTMENTS

The Sports Authority is obligated to deposit primarily all of its revenues into certain accounts held in trust (the “Pledged Accounts”) in accordance with provisions included in the bond indenture, as amended and supplemented, which is described in Note F. As of December 31, 2012, debt service accounts available totaled \$53,867,295 and are restricted only for the payment of principal and interest on the bonds.

## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED Year ended December 31, 2012

#### NOTE C – DEPOSITS AND INVESTMENTS – Continued

The Sports Authority's investment activities are governed by the State of Texas Public Funds Investment Act, bond covenants and trust agreements, and the Sports Authority's investment policy. Securities that are acceptable as collateral are obligations of the United States and its agencies, various states and their municipalities, school districts and special districts. Interest earnings from specific investments are credited directly to the account where the investment was made from.

##### **1. 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 (FDIC) is available for funds deposited at any one financial institution up to a maximum of \$250,000 each for interest bearing demand deposits, time and savings deposits, and deposits pursuant to indenture and unlimited FDIC coverage for non-interest bearing demand deposit accounts. 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 Sports Authority will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At December 31, 2012, the carrying amount of the Sports Authority's non-interest bearing demand and time deposits was \$6,322,590 and the balance per various financial institutions was \$6,322,590. The Sports Authority's deposits are not exposed to custodial credit risk since all deposits are covered by FDIC insurance.

##### **2. Investments**

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. This act authorizes the Sports Authority to invest funds pursuant to a written investment policy, which primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity. The Sports Authority'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.

Sports Authority funds may be invested in the following investments provided that such investments meet the guidelines of the investment policy:

- a. Obligations of the U.S. Government or its agencies and instrumentalities
- b. Direct obligation of the State of Texas or its agencies and instrumentalities.
- c. Other obligations the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the U.S.
- d. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as investment quality by a nationally recognized investment rating firm not less than AA or its equivalent.

**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended December 31, 2012

**NOTE C – DEPOSITS AND INVESTMENTS – Continued**

- 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 Sports Authority 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. Commercial paper with a stated maturity of 270 days or fewer from the date of issuance as authorized by the Public Funds Investment Act.
- h. No-load money market mutual funds regulated by the SEC, with a dollar-weighted average stated maturity of 90 days or fewer and which include in their investment objectives the maintenance of a stable net asset value of \$1 per share as authorized by the Public Funds Investment Act.
- i. Guaranteed Investment Contracts as authorized by the Public Funds Investment Act.
- j. Public Funds Investment Pools as authorized by the Investment Act.

**3. Summary of Cash and Investments**

The Sports Authority's cash and investments are stated at fair value based upon quoted market prices. The following is a summary of cash and investments held by the Sports Authority at December 31, 2012:

Government-Wide Statement of Net Assets

Cash and cash equivalents	\$ 31,973,516
Investments	<u>39,372,712</u>
Total cash and investments	<u>\$ 71,346,228</u>

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE C – DEPOSITS AND INVESTMENTS – Continued**

The table below indicates the fair value and maturity value of the Sports Authority's investments as of December 31, 2012, summarized by security type. Also demonstrated are the percentages of total portfolio and the weighted average maturity in years for each summarized security type.

Security	Fair value	Percent of portfolio	Weighted average maturity (years)	Credit rating S&P/ Moody's
Commercial paper	\$ 9,217,258	14.17%	0.70	A-1; P-1
U.S. agencies	13,017,290	20.02%	3.76	AAA/Aaa
Local government bond	17,138,164	26.36%	3.68	AAA/Aaa
Money market mutual funds	25,650,926	39.45%	1.00	AAAm/Aaa
Total investments	65,023,638	100.00%		
Demand and time deposits	6,322,590			
Total cash and investments	\$ 71,346,228			

**4. Risk disclosures**

*Interest Rate* — 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 Sports Authority 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 Sports Authority investment policy, no more than 25% of the portfolio, excluding those investments held for future capital expenditures, debt service payments, bond fund reserve accounts and capitalized interest funds, may be invested beyond 24 months. Additionally at least 15% of the portfolio, with the previous exceptions, is invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice. Overall, the average maturity of the portfolio, with the previous exceptions, shall not exceed two years. As of December 31, 2012, the Sports Authority was in compliance with all of these guidelines to manage interest rate risk.

*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 Sports Authority 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 50% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer.

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE C – DEPOSITS AND INVESTMENTS – Continued**

The following individual investments have fair values greater than 5% of the portfolio:

Investment	Fair value December 31, 2012	Percent of portfolio
Federal Home Loan Corporation Note	\$ 13,017,290	18.2%
New York City General Obligation Bond	17,138,164	24.0%
Ford Motor Commercial Paper	5,971,440	8.37%
JPMorgan Money Market Fund	6,328,606	8.87%
Fidelity Money Market Fund	19,322,319	27.0%

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 Sports Authority'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 as 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 Sports Authority's name and are held by the counterparty. In the event of the failure of the counterparty, the Sports Authority may not be able to recover the value of its investments that are held by the counterparty. As of December 31, 2012, all of the Sports Authority's investments are held in the Sports Authority'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 Sports Authority's Investment Policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the Sports Authority is not exposed to foreign currency risk.

**NOTE D – ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTAL ENTITIES**

At December 31, 2012, receivables included \$94,925 for accrued interest related to investments. An allowance for uncollectible accounts has not been recorded as management believes all receivables will be collected.



Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE D – ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTAL ENTITIES – Continued**

At December 31, 2012, amounts due from other governmental entities consisted of the following:

Texas Comptroller - short term vehicle rental tax	\$ 3,564,845
Harris County Tax Assessor - hotel occupancy tax	5,465,780
Metropolitan Transit Authority - sales tax rebate	1,053,738
City of Houston - sales tax rebate	1,053,738
Texas Comptroller - Event Trust Fund	4,562,946
Other - miscellaneous	<u>1,070,389</u>
Total due from other governmental entities	<u>\$ 16,771,436</u>

**NOTE E – CAPITAL ASSETS**

Capital assets transactions are summarized as follows:

	Balance, December 31, 2011	Additions	Disposals	Balance, December 31, 2012
Governmental activities:				
Land and other improvements	\$ 24,496,607	\$ -	\$ -	\$ 24,496,607
Total capital assets not depreciated	24,496,607	-	-	24,496,607
Buildings	557,140,962	82,683,364	-	639,824,326
Equipment	14,201,270	-	-	14,201,270
Total capital assets being depreciated	571,342,232	82,683,364	-	654,025,596
Less accumulated depreciation:				
Buildings	157,926,078	17,972,702	-	175,898,780
Equipment	2,968,024	1,875,776	-	4,843,800
Total capital assets being depreciated - net	410,448,130	62,834,886	-	473,283,016
Governmental activities capital assets - net	<u>\$ 434,944,737</u>	<u>\$ 62,834,886</u>	<u>\$ -</u>	<u>\$ 497,779,623</u>

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE F – DEBT**

The following is a summary of the long-term debt as of December 31, 2012:

	Interest rate (%)	Maturity dates	2012 Amount
Senior Lien Special Revenue Bonds - Series 1998A	3.90-5.22	2001-2028	\$ 110,430,000
Junior Lien Special Revenue Bonds - Series 1998B	4.72-5.50	2008-2022	30,038,699
Taxable Junior Lien Special Revenue Bonds - Series 1998C	5.82-6.75	2002-2017	18,280,000
Senior Lien Revenue Refunding Bonds - Series 2001A	5.00-5.50	2002-2040	85,455,877
Junior Lien Revenue Refunding Bonds - Series 2001B	5.16-6.25	2031-2040	220,180,000
Junior Lien Special Revenue Bonds - Series 2001C	4.25	2003-2014	11,665,000
Taxable Junior Lien Special Revenue Bonds - Series 2001D	4.25	2003-2014	14,940,000
Taxable Junior Lien Special Revenue Bonds - Series 2001E	6.25	2003-2014	7,790,000
Senior Lien Revenue Bonds - Series 2001G	5.25-5.75	2015-2041	163,601,688
Junior Lien Revenue Bonds - Series 2001H	5.95-6.30	2020-2041	56,623,682
Taxable Senior Lien Revenue Bonds - Series 2001I	6.5	2016	22,395,000
Third Lien Refunding Bonds - Series 2004A-3	2.75-5.99	2005-2039	31,663,154
Subordinate Lien Note - Series 2001C1, C2	7.0	2032	12,000,000
Subordinate Lien Note - Series 2001D1, D2	9.5	**	20,000,000
Subtotal			805,063,100
Accretion and accrued interest:			
Series 1998B Capital Appreciation Bonds (CAB's)			34,904,069
RCM Reimbursement Agreement			30,218,190
Series 2001A Capital Appreciation Bonds			13,452,827
Series 2001A Capital Appreciation Term Bonds (CATB's)			44,805,610
Series 2001C1, C2			6,968,567
Series 2001D1, D2			25,898,639
Series 2001G Capital Appreciation Bonds			9,452,615
Series 2001H Capital Appreciation Bonds			52,966,050
Series 2004A-3			20,177,167
Total			\$ 1,043,906,834

\*\* No stated maturity date but cannot exceed 2031

The Series 1998 Bonds were issued to finance Minute Maid Park. The Series 2001 A-E Bonds ("Stadium Bonds"), the RCM Loan and the Series 2001C Subordinate Lien Notes were issued to finance a substantial portion of the costs of Reliant Stadium. The Series 2001G - I Bonds ("Arena Bonds"), the Series 2001A Senior Subordinate Note and Series 2001D Subordinate Lien Notes were issued to finance a substantial portion of the costs of the Toyota Center. The Series 2004A Bonds were issued to refund a portion of the interest payments for certain bonds previously issued.

## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED Year ended December 31, 2012

#### NOTE F – DEBT – Continued

The bonds are special limited obligations of the Sports Authority that are payable solely from and secured by a lien on certain revenues, special revenues and other assets of the Sports Authority as provided in the bonds' indentures, including Hotel Occupancy Tax revenues and Short Term Vehicle Rental Tax revenues. Certain revenues and certain assets are not available to cover debt service requirements on all issues. The trust indenture for each bond issue outlines the revenues pledged to the related bond issue.

The Series 1998 Bonds are further secured by amounts received by the Sports Authority pursuant to the Stadium Lease Agreement and License Agreement between the Sports Authority and the HBP Team Holdings, LLC, d/b/a Houston Astros Baseball Club (the "Astros").

The Stadium Bonds are further secured by guaranteed payments from Houston NFL Holdings ("NFL Club") pursuant to the NFL Club Lease Agreement, amounts received from the Houston Livestock Show and Rodeo ("HLSR") pursuant to the Rodeo Lease Agreement, and certain parking tax revenues, admission tax revenues and sales tax rebate revenues as described below.

The Series 2001C Stadium Bonds are further secured by (i) first, the Rodeo Special Revenues, consisting of the annual lease payment from the HLSR pursuant to the Rodeo Lease Agreement, the Series 2001 Project Admissions and Parking Revenue Tax collected in connection with certain Rodeo events at the project and a sales tax rebate on certain Rodeo events held at the project and (ii) second, the Governmental Special Revenues consisting of a sales tax rebate on certain governmental events and the Series 2001 Project Admission tax on certain County events.

The Series 2001D and E Stadium Bonds are further secured by the following Series 2001 Special Revenues (i) first, the NFL Club Special Revenues and NFL Club Supplemental Revenues consisting of the annual lease payment from the NFL Club and the supplemental payment outlined in the NFL Club Lease, the Series 2001 Project Admissions and Parking Revenue Tax collected in connection with certain NFL Club games and events at the Project and (ii) second, the Harris County Sports & Convention Corporation (the "Corporation") Parking Revenues and (iii) third, the Governmental Special Revenues consisting of a sales tax rebate on certain governmental events and the Series 2001 Project Admission tax on certain County events.

The 2001 Series G-I bonds were issued to finance certain of the costs of acquiring, constructing and equipping a multi-purpose arena to be located in downtown Houston and a related parking garage and infrastructure that will be the home of the Houston Rockets NBA team, professional hockey and other events. The Arena – named Toyota Center – is located on land owned by the City of Houston and leased to the Authority. The parking garage is located on land owned by the Authority. The project is owned by the Authority and leased to Rocket Ball Ltd., d/b/a the Houston Rockets. The bonds are secured by a pledge of the Motor Vehicle and Hotel Occupancy Tax revenues.

The Corporation previously entered into a Loan Agreement, dated as of July 25, 2001, with RCM Financial Corporation ("RCM") under which the Corporation may draw up to \$19,105,000 (the "RCM Loan"). The Sports Authority entered into a Reimbursement Agreement, dated as of July 25, 2001, with the Corporation wherein the Sports Authority is obligated to reimburse the Corporation to the extent the Corporation uses any of its revenues to repay the RCM Loan. During 2006, the Reimbursement Agreement, aggregate principal amount of \$26,373,243, was transferred from the Corporation to Harris County. Under the terms of the agreement the Authority began making payments to Harris County in August 2010.

**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended December 31, 2012

**NOTE F – DEBT – Continued**

The Sports Authority issued its Subordinate Lien Note, Series 2001C in the aggregate principal amount of \$12,000,000 (the “Series 2001C Subordinate Note”). The Series 2001C Subordinate Note was privately placed with the Corporation. The Series 2001C Subordinate Note is secured by a pledge of the Hotel Occupancy Tax and the Vehicle Rental Tax subordinate to the pledge thereof to the Series 1998 Bonds, the Series 2001 Stadium Bonds, the Series 2001 Arena Bonds, the Series 2004 Third Lien Refunding Bonds, and the RCM Loan. The proceeds from the Series 2001C Subordinate Note were used to finance a portion of the construction costs for Reliant Stadium.

The Sports Authority issued its Subordinate Lien Note, Series 2001D in the aggregate principal amount of \$20,000,000 (the “Series 2001D Subordinate Notes”). The Series 2001D Subordinate Notes were privately placed with an affiliate of Rocket Ball. The Series 2001D Subordinate Notes are secured by a pledge of the Hotel Occupancy Tax and the Vehicle Rental Tax subordinate to the pledge thereof to the Series 1998 Bonds, the Series 2001 Stadium Bonds, the Series 2001 Arena Bonds, the RCM Loan, the Series 2001 C-1 Note and the Series 2004 Refunding Bonds. The proceeds from the Series 2001D Subordinate Notes were used to finance a portion of the construction costs for Toyota Center.

The Sports Authority issued its Third Lien Refunding Bonds, Series 2004A in the aggregate principal amount of \$37,742,896 (“Series 2004 Bonds”). The Series 2004 Bonds are secured by a pledge of the Hotel Occupancy Tax and the Vehicle Rental Tax subordinate to the pledge thereof to the Series 1998 Bonds, the Series 2001 Stadium Bonds, and the Series 2001 Arena Bonds. The Series 2004 Bonds were issued to refund all or a portion of the interest payments due on November 15, 2004 and May 15, 2005, for certain bonds previously issued by the Sports Authority.

**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
 Year ended December 31, 2012

**NOTE F – DEBT – Continued**

The following is a summary of the changes in long-term debt for the year ended December 31, 2012:

	Balance, January 1, 2012	Additions	Retirements	Balance, December 31, 2012	Amount due within one year
<b>Revenue bonds:</b>					
Series 1998A	\$ 110,430,000	\$ -	\$ -	\$ 110,430,000	\$ -
Series 1998B	32,016,221	-	(1,977,522)	30,038,699	2,051,954
Series 1998C	21,430,000	-	(3,150,000)	18,280,000	3,365,000
Series 2001C	19,445,000	-	(7,780,000)	11,665,000	7,780,000
Series 2001D	24,910,000	-	(9,970,000)	14,940,000	9,970,000
Series 2001E	12,970,000	-	(5,180,000)	7,790,000	3,180,000
Series 2001G	163,601,688	-	-	163,601,688	-
Series 2001H	56,623,682	-	-	56,623,682	-
Series 2001I	27,015,000	-	(4,620,000)	22,395,000	5,580,000
<b>Refunding bonds:</b>					
Series 2001A	87,529,636	-	(2,073,759)	85,455,877	1,978,099
Series 2001B	220,180,000	-	-	220,180,000	-
Series 2004A-3	31,663,154	-	-	31,663,154	-
<b>Subordinate liens:</b>					
Series 2001C2, C2	12,000,000	-	-	12,000,000	-
Series 2001D1, D2	20,000,000	-	-	20,000,000	-
	<u>839,811,381</u>	<u>-</u>	<u>(34,751,281)</u>	<u>805,063,100</u>	<u>35,905,053</u>
<b>Accretion and accrued interest:</b>					
Series 1998B CAB's	33,471,177	3,590,370	(2,157,478)	34,904,069	2,508,046
RCM Reimbursement Agreement	32,772,448	1,030,427	(3,584,685)	30,218,190	3,674,873
Series 2001A CAB's	13,455,259	1,698,809	(1,701,241)	13,452,827	1,861,981
Series 2001A CATB's	39,575,133	5,230,477	-	44,805,610	-
Series 2001C1, C2	6,039,807	928,760	-	6,968,567	-
Series 2001D1, D2	21,916,566	3,982,073	-	25,898,639	-
Series 2001G CAB's	8,320,595	1,132,020	-	9,452,615	-
Series 2001H CAB's	46,578,298	6,387,752	-	52,966,050	-
Series 2004A-3	17,223,690	2,953,477	-	20,177,167	-
Totals	<u>\$ 1,059,167,354</u>	<u>\$ 26,954,165</u>	<u>\$ (42,194,685)</u>	<u>\$ 1,043,906,834</u>	<u>\$ 43,949,873</u>

**Harris County – Houston Sports Authority**

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE F – DEBT – Continued**

Annual principal and interest/accretion payments on the bonds payable at December 31, 2012 are summarized as follows:

Years ending December 31	Principal	Interest and accretion	Total
2013	\$ 35,905,054	\$ 35,026,749	\$ 70,931,803
2014	25,672,697	33,945,514	59,618,211
2015	15,388,031	33,634,337	49,022,368
2016	16,951,133	33,481,448	50,432,581
2017	11,768,986	39,948,621	51,717,607
2018-2022	88,315,540	191,151,604	279,467,144
2023-2027	142,859,475	175,486,794	318,346,269
2028-2032	195,864,427	487,281,009	683,145,436
2033-2037	155,090,873	345,968,150	501,059,023
2038-2041	117,246,884	281,723,385	398,970,269
Totals	<u>\$ 805,063,100</u>	<u>\$ 1,657,647,611</u>	<u>\$ 2,462,710,711</u>

During the year ended December 31, 2008, the national rating agencies reduced the rating of the insurer of the Authority's bonds such that the rating was below AAA status. As such, the Sports Authority became subject to the term-out provisions to pay the Series 2001C, 2001D and 2001F. Bonds balance semi-annually over five years beginning November 2009. The Sports Authority debt service payments will be made with available revenue sources and if necessary, will be made with a draw on the bond insurer policy.

The Authority is exposed to credit loss in the event of non-performance by the bond insurer. The Authority's bond insurance is provided by one bond insurer, whose rating was decreased below AAA status as previously discussed.

**Arbitrage Rebate Liability**

The Tax Reform Act of 1986 established regulations for the rebate to the federal government of arbitrage earnings on certain local government bonds issued after December 31, 1985, and all local governmental bonds issued after August 31, 1986. Issuing governments must calculate any rebate due and remit the amount due at least every five years. There was no arbitrage rebate payment made during fiscal year 2012. As of December 31, 2012, there were no estimated liabilities for arbitrage rebate on governmental debt.

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

NOTE F – DEBT – Continued

Debt Service Account Balances

The Authority has established debt service and debt service reserve accounts with the Trustee for all series of bonds. As of December 31, 2012, the Authority's cash and investments available for debt service totaled \$53,867,295 including \$28,569,477 in debt service and debt service reserve funds and \$25,297,818 in the additional required reserve fund. There were surety policies in place to provide debt service reserves for the Series 1998B, 1998C, 2001B, 2001C, 2001D and 2001E Bonds in the face amount of \$46,783,158 as of December 31, 2012.

NOTE G – OPERATING LEASES

The Sports Authority leases office facilities and equipment under non-cancelable operating leases. Total costs for such leases were \$47,226 for the year ended December 31, 2012, and the future minimum lease payments for these leases are:

<u>Years ending December 31</u>	<u>Amount</u>
2013	\$ 44,557
2014	46,155
2015	41,159
2016	36,051
2017	38,030
2018-2022	169,932

**Harris County – Houston Sports Authority**

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
Year ended December 31, 2012

**NOTE G – OPERATING LEASES – Continued**

The Sports Authority has lease agreements or assignments of lease payments with five parties for the four sport venues. Minimum lease payments to be received by the Sports Authority are as follows:

Years ending December 31,	Dynamo	Astros	Rockets	Rodeo	Texans
2013	\$ 65,975	\$ 7,100,000	\$ 8,500,000	\$ 1,500,000	\$ 9,537,111
2014	67,295	7,100,000	8,500,000	1,500,000	6,676,644
2015	68,640	7,100,000	8,500,000	1,500,000	4,010,000
2016	70,013	7,100,000	8,500,000	1,500,000	4,010,000
2017	71,413	7,100,000	8,500,000	1,500,000	4,010,000
2018-2022	379,071	35,500,000	42,500,000	7,500,000	20,050,000
2023-2027	418,525	35,500,000	42,500,000	7,500,000	20,050,000
2028-2032	462,086	21,300,000	42,500,000	7,500,000	16,040,000

**NOTE H – AGREEMENTS WITH THE HOUSTON ASTROS**

Effective June 17, 1998, the Sports Authority entered into various agreements with the Astros which embodied the obligation of the Sports Authority to construct Minute Maid Park and the obligation of the Astros to lease Minute Maid Park for a term of 30 years after the completion of Minute Maid Park. There are four principal agreements, plus a letter from Major League Baseball. The following is a summary of the major points of each principal agreement:

**1. Ballpark Project Agreement**

The project agreement entered into between the Sports Authority and the Astros (the “Ballpark Project Agreement”) set forth the respective rights and obligations of the parties during the construction and development phase of Minute Maid Park.

**2. Ballpark Lease Agreement**

The stadium lease for Minute Maid Park (the “Ballpark Lease”) is for a primary term of 30 years and commenced on March 30, 2000.

The Astros have the option (provided no uncured default exists) to extend the term of the Ballpark Lease for up to two consecutive periods of five years each. Rental payments during each renewal period will be negotiated between the parties at the time the Astros exercise each renewal option.

The basic rental fee to be paid by the Astros under the Ballpark Lease is \$3,400,000 per year. In addition, the Astros are obligated to deposit annually the sum of \$2,500,000 into an Asset Renewal and Replacement Fund (the “ARR Fund”) to ensure that sufficient dollars are available for the Astros to perform all capital repairs at Minute Maid Park. The Astros’ obligation to perform capital repairs is not, however, limited to the amounts on deposit in the ARR Fund.



**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year ended December 31, 2012

**NOTE H – AGREEMENTS WITH THE HOUSTON ASTROS – Continued**

The Astros are obligated to pay all expenses in connection with the maintenance, use, repair and occupancy of Minute Maid Park necessary to keep and maintain Minute Maid Park in a first-class condition, reasonably consistent with other comparable facilities, subject to certain limited exclusions.

**3. Ballpark License Agreement**

The Ballpark License Agreement has the same term as the Ballpark Lease. Pursuant to the Ballpark License Agreement, the Astros are granted the exclusive right to any naming rights, advertising rights, broadcast rights and telecommunications rights pertaining to Minute Maid Park. The annual royalty (“Royalties”) to be paid by the Astros under the Ballpark License Agreement is \$1,200,000.

**4. Ballpark Non-Relocation Agreement**

Pursuant to a non-relocation agreement (the “Ballpark Non-Relocation Agreement”) entered into between the Sports Authority and the Astros, during the term of the Ballpark Lease, the Astros must play all of their baseball home games in Minute Maid Park, subject to certain limited exceptions. Additionally, the Astros are prohibited from relocating outside the boundaries of the City and the County. The Astros may sell the Astros baseball franchise in accordance with the applicable rules and regulations of Major League Baseball and the terms of the Ballpark Lease.

**NOTE I – AGREEMENTS WITH THE HOUSTON TEXANS AND RODEO**

Effective May 17, 2001, the Sports Authority, the City, the County, the Corporation, or the successor in interest to the club, METRO, the HILSR and the NFL Club entered into various agreements that govern the construction, financing and use of Reliant Stadium, a multipurpose, retractable roof sports and entertainment facility designed to support the occupancy of a National Football League (“NFL”) franchise by the NFL Club, the annual rodeo of HILSR and other sporting and entertainment events. The Principal Project Documents embody (i) the obligation of the Corporation to construct, operate and maintain Reliant Stadium, (ii) the obligation of the Sports Authority to finance the construction of Reliant Stadium, and (iii) the obligation of the NFL Club and the HILSR to lease Reliant Stadium, for their respective games and events for a term of thirty (30) years after the completion of Reliant Stadium. Upon completion, ownership of Reliant Stadium was transferred to the County; therefore, the value of Reliant Stadium is not included in the capital assets of the Sports Authority. The Principal Project Documents are summarized as follows.

1. Funding Agreement obligates the Sports Authority to provide financing for the design and construction of Reliant Stadium in accordance with the terms of the various bond documents, sets forth the terms and conditions agreed to by the Corporation, the NFL Club, HILSR, and the Sports Authority related thereto, and provides for the NFL Club’s payment of certain amounts not generated by Personal Seat Licenses (“PSL”) sales;
2. Project Agreement among the Corporation, the NFL Club, and HILSR, generally governs the parties’ rights and responsibilities during the design and construction of Reliant Stadium;

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

**NOTE I – AGREEMENTS WITH THE HOUSTON TEXANS AND RODEO – Continued**

3. NFL Club Lease Agreement sets out the Corporation's and the NFL Club's responsibilities after the completion of Reliant Stadium with regard to occupancy, use, repairs and payment of the NFL Club Guaranteed Payment, and the NFL Club Supplemental Revenue Payment;
4. Stadium Tri-Party Agreement among the Corporation, the NFL Club and HILSR generally governs issues with regard to the parties' participation in advertising, signage, concessions and naming rights and future development at Reliant Park (formerly known as the Astrodome complex);
5. Non-Relocation Agreement obligates the NFL Club to play its home football games in Reliant Stadium and not to relocate the NFL Club's football franchise outside its current home territory;
6. HILSR Lease Agreement sets out the Corporation and HILSR responsibilities after the completion of Reliant Stadium with regard to occupancy, use, repairs and payment of rental;
7. NFL Club License Agreement grants to the NFL Club certain intangible property rights associated with its use of Reliant Stadium such as naming rights, broadcast rights and advertising rights; and
8. HILSR License Agreement grants to HILSR certain intangible property rights associated with its use of Reliant Stadium, such as naming rights, broadcasting rights and advertising rights.

The terms of the Principal Project Documents require that the guaranteed payments or lease payments to be made by the NFL Club and the HILSR be assigned to the Sports Authority during the term of the leases. Under the terms of the Principal Project Documents, the following payments are to be made to the Sports Authority:

1. NFL Club. The NFL Club will make a guaranteed payment annually of \$4,010,000. The Guaranteed payment may be offset (subject to the terms of the Indenture governing the debt service requirements) by the following Miscellaneous Club Revenues: (a) ticket taxes for the NFL Club events; (b) parking taxes for NFL Club events; and (c) City and Metro sales tax rebates for all taxable sales related to an NFL Club event. Additionally, the NFL Club will make the NFL Club Supplemental Revenue payment in an amount equal to the total gross debt service for the Series 2001 E Bonds.

The offset (Team Credit) to the guaranteed payment, however, shall not be made in any particular year until such time as the Capital Repair Reserve Requirement for such particular year is satisfied in full. During the term out period for the 2001E bonds, the offset will not be made due to the acceleration of principal. If the annual Capital Repair Reserve Fund Requirement for any particular year is not satisfied, then the cash amount of the Team Credit in such particular year shall be applied to satisfy the Capital Repair Reserve Fund Requirement and any cash amounts remaining after such application shall be deposited in the Stadium Excess Operating Fund. In 2012, the Sports Authority was not able to fund the Capital Repair Reserve Fund Requirement, which was \$2,500,000. As a result, the NFL Club was not able to receive the Team Credit. The NFL Club has reported that there has been \$15,671,365 in Miscellaneous Club Revenues collected through December 31, 2012 that have not been applied towards the Team Credit. This amount will be funded at a future date from funds available in the Project Surplus Fund provided that the annual Capital Repair Reserve Fund Requirement has been funded;

## Harris County – Houston Sports Authority

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

#### NOTE I – AGREEMENTS WITH THE HOUSTON TEXANS AND RODEO – Continued

2. HLSR. The HLSR will make a lease payment of \$1,500,000 annually. In addition, the following revenues related to HLSR events will be received by the Sports Authority: (a) ticket taxes or surcharges on all HLSR events; (b) parking taxes for HLSR events; and (c) City and Metro sales tax rebates for all taxable sales related to an HLSR event.
3. Governmental Revenues. The Sports Authority is entitled to the following revenues for all other events held in Reliant Stadium: (a) ticket taxes or surcharges to all other events held in Reliant Stadium; and (b) City and Metro sales tax rebates for all taxable sales related to all other events held in Reliant Stadium.
4. The Sports Authority, the Corporation and the NFL Club also entered into an agreement that authorized the Sports Authority to market and sell, or cause to be marketed or sold, PSLs for certain seating at the NFL Club's games. The Sports Authority delegated the authority for the marketing and sale of the PSLs to the NFL Club. The NFL Club satisfied its obligation to contribute \$50 million toward the construction costs for Reliant Stadium through the sale of PSLs. Any amounts received in excess of \$50 million may be used at the direction of the NFL Club to pay constructions costs for improvements requested by the NFL Club, the costs associated with the marketing and sale of PSLs, or for any other purpose determined by the NFL Club.

#### NOTE J – ROCKET BALL, LTD.

Effective December 31, 2001, the Sports Authority entered into various agreements with Rocket Ball, Ltd. ("Rocket Ball") that set forth the terms and conditions for the development, construction, financing, use and occupancy of a multi-purpose sports and entertainment facility and parking garage for the Houston Rockets and for a National Hockey League ("NHL") franchise, if one is brought to Houston.

##### 1. Description of Project

The multi-purpose sports and entertainment facility known as the Toyota Center and related parking garage (the "Garage") and infrastructure ("Related Infrastructure," and collectively with the Toyota Center and the Garage, the "Project") was constructed in downtown Houston, Texas as the home facility for the Houston Rockets, professional hockey and other events. The Project is located in the eastern portion of downtown Houston. The Toyota Center is located on land owned by the City and leased to the Authority. The Garage is located on land owned by the Sports Authority. The Project is owned by the Sports Authority and leased to Rocket Ball. The Toyota Center was designed by Rocket Ball and developed and constructed by the Sports Authority. The Garage was designed, developed, and constructed by the Sports Authority. The Garage is managed and operated by the Sports Authority, and their designee.

##### 2. Acquisition of Project Site

Acting on behalf of the City, and pursuant to an Interlocal Agreement, the Sports Authority acquired the Toyota Center site. The City contributed \$20 million toward the costs for the Toyota Center land and related infrastructure. The Sports Authority also acquired the Garage site.

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

NOTE J – ROCKET BALL, LTD. – Continued

**3. Project Budget**

The Toyota Center portion of the Project, exclusive of the Garage, certain infrastructure work and studies, and certain other excluded costs described in the principal project documents, had a budget of \$202 million. Proceeds from the Series 2001 Arena Bonds funded \$182 million of the Toyota Center portion of the Project budget. Up to \$20 million of the Toyota Center's portion of the Project Budget was funded from proceeds of the Sports Authority's subordinate obligation issued in 2004 to Rocket Ball or an affiliate or affiliates of Rocket Ball.

**4. Principal Project Documents**

There are six (6) principal project documents ("Arena Principal Project Documents") that embody (i) the obligation of the Sports Authority to construct, and finance the construction of the Toyota Center and the Garage, (ii) the obligation of Rocket Ball to lease and operate the Toyota Center for a term of thirty (30) years after the completion of the Arena and (iii) the right of Rocket Ball to use, and the obligation of the Sports Authority to operate, the Garage in connection with the Toyota Center.

These documents are:

- a. Interlocal Agreements — these agreements between the City and the Sports Authority generally set out the City's obligation to provide funding to acquire the site and to perform certain infrastructure work and studies related to the Toyota Center and the Garage. Rocket Ball is a third party beneficiary of these Agreements;
- b. Project Agreement — this agreement generally governs the Sports Authority's and Rocket Ball's rights and obligations during the design and construction of the Toyota Center, the Garage and certain related Project improvements, including, without limitation, an enclosed access-way connecting the Garage to the Toyota Center and a loading dock and associated underground tunnel and access ramp;
- c. Arena Lease Agreement — generally sets out the Sports Authority's and Rocket Ball's rights and responsibilities with regard to occupancy, use, repairs, rent payments, naming rights, broadcast rights, advertising rights, telecommunication rights and other intellectual property rights;
- d. Non-Relocation Agreement — generally sets out the obligations of Rocket Ball with respect to playing its basketball home games in the Toyota Center and not relocating Rocket Ball's basketball franchise outside its current home territory during the term of the Toyota Center Lease;
- e. Parking Garage Lease Agreement — generally sets out the Sports Authority's and Rocket Ball's rights and responsibilities with regard to the use, occupancy and operation of and repairs and maintenance to the Garage, the Enclosed Access and portions of the access ramp to the Loading Dock; and

**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
Year ended December 31, 2012

**NOTE J – ROCKET BALL, LTD. – Continued**

- f. City Ground Lease Agreement — this agreement between the City, as landlord, and the Sports Authority, as tenant, provides that the City will lease the land on which the Toyota Center is constructed to the Sports Authority for a term of thirty (30) years for and in consideration of the Sports Authority's obligation to construct and provide the Toyota Center for the City's use on certain specified dates. Rocket Ball is a third party beneficiary of this Agreement.

Under the terms of the Arena Lease Agreement, Rocket Ball is obligated to make a payment of \$8.5 million annually, which is to be allocated as follows:

- a. \$1.5 million is to be deposited to an account to be used for operations and maintenance expense for the Toyota Center;
- b. \$1.6 million is to be deposited to the Capital Repair and Replacement Fund ("CRR") to ensure that sufficient dollars are available for Rocket Ball to perform capital repairs at Toyota Center;
- c. \$200,000 is to be paid to the City of Houston for naming rights; and
- d. \$5.2 million is to be pledged to the payment of Arena supported debt.

Rocket Ball is obligated to pay all expenses in connection with the maintenance, use, repair and occupancy of the Toyota Center that exceeds the operations and maintenance expense allocation above. Additionally, Rocket Ball's obligation to perform capital repairs is not limited to the amounts on deposit in the CRR fund.

**NOTE K – DYNAMO STADIUM, L.L.C.**

Effective February 18, 2011, the Sports Authority entered into various agreements with Dynamo Stadium, L.L.C. ("Dynamo Stadium") that set forth the terms and conditions for the development, construction, financing, use and occupancy of a multi-purpose soccer and entertainment facility for the Houston Dynamo of the Major League Soccer and for the football program at Texas Southern University.

**1. Description of Project**

The multi-purpose outdoor soccer stadium known as the BBVA Compass Stadium and related infrastructure was constructed in downtown Houston, Texas. The Stadium will serve as the home facility for the Houston Dynamo, Texas Southern University football and other events. The Project is located in the eastern portion of downtown Houston. The BBVA Compass Stadium is located on land owned by the City of Houston and Harris County and leased to the Authority. The Stadium is owned by the Sports Authority and leased to Dynamo Stadium, L.L.C. The BBVA Compass Stadium was designed by Dynamo Stadium, L.L.C. and financed, developed and constructed by the Dynamo.

Harris County – Houston Sports Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended December 31, 2012

NOTE K – DYNAMO STADIUM, L.L.C. – Continued

2. Principal Project Documents

There are three (3) principal project documents which embody (i) the obligation of the City of Houston (the “City”) and Harris County (“Harris County”) as tenants in common and landlord, to ground lease the land on which the Stadium was constructed (“Stadium Site”) located in the East End of Downtown Houston in a subdivision known as the East End Economic Development site to the Harris County-Houston Sports Authority (the “Sports Authority”), (ii) the obligation of the Sports Authority to lease the Stadium Site to Dynamo Stadium, L.L.C., (iii) the obligation of Dynamo Stadium to develop, construct (and finance the construction of), operate and maintain a multi-purpose, outdoor soccer stadium (the “Stadium”) on the Stadium Site, (iv) is the obligation of the Dynamo Soccer, L.L.C. (“Dynamo Soccer”) to cause the Houston Dynamo (the “Team”) to play all of its home games in the Stadium, (v) a framework for the Texas Southern University to play its home games at the Stadium and (vi) the obligation of the City and Harris County to contribute certain tax increments in City of Houston Tax Reinvestment Zone No. 15 (“TIRZ 15”) to Dynamo Stadium for Dynamo Stadium to use as security for a \$20,000,000 loan to pay for a portion of the construction costs of the Stadium.

These documents are:

- a. Interlocal Agreements — This agreement between the City, Harris County and the Sports Authority generally sets out the City’s and County’s obligation, through TIRZ No. 15, to provide certain tax increments as security for a loan to Dynamo Stadium to finance \$20 million of the cost to construct the Stadium. The City and Harris County will jointly own the Stadium Site.
- b. Ground Lease Agreement — This agreement between the City and Harris County, as landlord, and the Sports Authority, as tenant, provides that the City and Harris County, as landlord, will lease the Stadium Site to the Sports Authority for a term of thirty (30) years after completion of the Stadium for and in consideration of the Sports Authority’s obligation to cause Dynamo Stadium to construct the Stadium. The Sports Authority will own the Stadium during the term of the ground lease, with the City and Harris County receiving ownership upon the expiration of the ground lease. There will be no monetary rent paid by the Sports Authority as tenant under the Ground Lease.
- c. Lease and Development Agreement — This agreement generally sets out the terms of the lease of the Stadium Site by the Sports Authority to Dynamo Stadium and Dynamo Stadium’s responsibility to construct, maintain, operate, use and repair the Stadium.

Commencing the first year after completion of the Stadium, Dynamo will pay to the Sports Authority annual rent equal to \$65,000, such amount to increase by consumer price index (CPI) each year during the term of the Stadium lease. The Authority assumes the CPI will increase 2% per year for lease revenue projections related to this lease agreement.

**Harris County – Houston Sports Authority**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

Year ended December 31, 2012

**NOTE K – DYNAMO STADIUM, L.L.C. – Continued**

Dynamo Stadium is obligated to repair (including performing capital repairs) maintain, manage and operate the Stadium, at its sole cost and expense, as a multi-purpose sports and entertainment facility in compliance with all governmental rules and in a manner consistent with the manner and standards by which comparable facilities are repaired, maintained, managed and operated. Dynamo Stadium is obligated to make deposits into a Capital Fund as follows:

- a. \$100,000 at the end of the first year of operations and \$100,000 per year for the second through tenth year of operation
- b. \$200,000 per year for years eleven through twenty
- c. \$425,000 per year for years twenty-one through year thirty

The obligation of Dynamo Stadium to perform capital repairs at the Stadium is not limited to amounts on deposit in the Capital Fund.

The Stadium was opened to the public on May 1, 2012. The cost to complete the Stadium was \$82,683,364, and the building is being depreciated over a 30-year period.

**NOTE L – EMPLOYEES' RETIREMENT PLAN**

The Sports Authority has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 that is available for all regular employees. Employees may contribute up to the annual maximum allowed by the Internal Revenue Service, which was \$17,000 for 2012. The Sports Authority will match the employees' contribution up to 6% of the employees' salary.

During fiscal year 2012, the Sports Authority contributed 6% of the employees' gross compensation to the plan. The employer and employee contributions were \$16,450 and \$16,450 based on a covered payroll of \$292,536. The total payroll for the authority was \$308,986. The employees of the Sports Authority vest immediately and are eligible to receive benefits upon retirement.

**NOTE M – CONTINGENCIES**

The Sports Authority is the defendant in various legal actions that arise in the normal course of business. No prediction as to the result of such litigation or claims can be made, but the Sports Authority, based on consultation with outside counsel, believes the outcome of such matters will not materially affect its financial position.