Annual Financial Report

Harris County - Houston Sports Authority

December 31, 2018

Contents

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Harris County - Houston Sports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of the Harris County - Houston Sports Authority (the "Authority"), as of and for the year ended December 31, 2018, 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.

Auditors' 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 auditors' 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.

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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 funds of the Authority as of December 31, 2018, 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, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
June 6, 2019

Harris County - Houston Sports Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2018

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, 2018. 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, NRG Stadium and Toyota Center and the related parking garage. The Authority owns Minute Maid Park, BBVA Compass Stadium and Toyota Center and leases the venues to the Houston Astros, the Houston Dynamo and Rocket Ball, Ltd. ("Rocket Ball"), respectively. The Authority does not own NRG Stadium but financed the construction of NRG Stadium and retains the debt on their financial statements; but not the asset. Harris County ("the" County") owns NRG Stadium and leases it to the Houston Texans and the Houston Livestock Show and Rodeo. Lease payments related to the use of NRG Stadium are assigned to the Authority to be used for the payment of debt related to the construction of NRG Stadium. General tax revenues are pledged to the payment of debt issued for the financing of Minute Maid Park, Toyota Center and NRG Stadium.

The financial reporting entity includes all funds of the primary government, as well as all of its component units. A component unit is considered to be part of the Authority's reporting entity when it is determined that the Authority is financially accountable for the entity or the nature and significance of the relationship between the Authority and the entity is such that exclusion would cause the Authority's financial statements to be misleading or incomplete. Accordingly, the Sports Authority Foundation is reported in the Authority's financial statements as a blended component unit. The Sports Authority Foundation was formed in June 2017 as a non-profit corporation and is overseen by a 7-member board, of which 4 members are also members of the Authority's board and the remaining 3 members are appointed by the Authority's board chairman and chief executive officer.

FINANCIAL HIGHLIGHTS

Government-Wide

- The total government-wide liabilities and deferred inflows of resources of the Authority exceeded the assets and deferred outflows of resources at December 31, 2018 by $517,965,638. Of this amount, ($573,611,430) is unrestricted deficit net position, $94,347,405 is restricted and ($38,701,613) is the net investment in capital assets. A portion of the Authority's net position reflects the financing of NRG 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, 2018, the Authority's governmental funds reported fund balance of $124,995,024.

- 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 is 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 deferred outflows of resources and liabilities and deferred inflows of resources, with the difference 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 two governmental funds.

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 balances 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 after the basic financial statements.

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 and deferred inflows of resources exceeded assets and deferred outflows of resources by a deficit balance of $(517,965,638). The deficit is largely the result of the debt held for NRG Stadium being carried on the Authority's financial statements while the asset is reported by the County.

Harris County - Houston Sports Authority

Condensed Statements of Net Position – Governmental Activities
December 31, 2018 and 2017

	2018	2017
CURRENT AND OTHER ASSETS	$ 140,458,113	$ 118,154,854
CAPITAL ASSETS (excludes NRG Stadium)	391,724,020	414,469,182
Total assets	532,182,133	532,624,036
DEFERRED OUTFLOWS OF RESOURCES	7,127,358	8,086,692
CURRENT AND OTHER LIABILITIES	17,195,300	13,281,550
LONG-TERM LIABILITIES (includes NRG Stadium)	1,040,079,830	1,047,926,160
Total liabilities	1,057,275,130	1,061,207,710
NET POSITION:		
Net investment in capital assets	(38,701,613)	(22,059,573)
Restricted	94,347,405	75,890,444
Unrestricted	(573,611,430)	(574,327,853)
TOTAL NET POSITION	$ (517,965,638)	$ (520,496,982)

The Authority has a deficit net position balance of ($38,701,613) 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.

Another portion of the Authority's net position, $94,347,405 in the fiscal year 2018, represents resources that are subject to external restrictions on how they may be used.

A portion of the Authority's unrestricted net position reflects the financing of NRG Stadium, of which the asset was transferred to the County 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. The remaining balance of the Authority's net position, ($573,611,430) in the fiscal year 2018, represents the Authority's ongoing obligations to citizens and creditors and the obligation for NRG Stadium debt that is not offset by the asset. A portion of the unrestricted balance reflects the Authority's investment in NRG Stadium.

Net position increased by $2,531,344 primarily due to an increase in motor vehicle and hotel tax collections and investment earnings.

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

Harris County – Houston Sports Authority

Condensed Statements of Activities – Governmental Activities
Years ended December 31, 2018 and 2017

	2018	2017
REVENUES:		
Program revenues:		
Operational grants and contributions	$ -	$ 13,471,838
Charges for services	29,222,422	27,253,117
General revenues:		
Hotel occupancy and vehicle rental taxes	58,146,694	57,744,798
Earnings on investments	2,305,097	930,992
Total revenues	89,674,213	99,400,745
EXPENSES:		
General government and events	38,512,657	39,856,195
Interest on long-term debt	48,630,212	49,499,558
Total expenses	87,142,869	89,355,753
CHANGE IN NET POSITION	2,531,344	10,044,992
NET POSITION - Beginning	(520,496,982)	(530,541,974)
NET POSITION - Ending	$ (517,965,638)	$ (520,496,982)

Program net revenues decreased $11,502,533 from the prior fiscal year revenues due to a one-time capital contribution in 2017 not repeated in 2018. Year over year hotel occupancy and motor vehicle rental tax revenues increased by $401,897 due in part to Astros playoff games. Investment earnings increased by $1,374,105 due to increased focus on cash forecasting, improvements in liquidity management and higher interest rates.

Expenses for general government and events decreased by $1,374,105 due in part to less event expenses compared to the prior year. Interest expense on long-term debt decreased by $869,346 in accordance with the debt repayment schedule for the bonds issued in 2014 and the 2014 B taxable bonds final principal payment was made on November 15, 2018.

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, 2018, the Authority's general fund reported a fund balance of $124,379,962. The general fund is the chief operating fund of the Authority. At December 31, 2018, the general fund reported revenues of $92,612,818.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets — The Authority's capital assets as of December 31, 2018 equaled $391,724,022 as compared to $414,469,182 as of December 31, 2017. For further information regarding capital assets, see Note E.

Debt — At December 31, 2018, the Authority has total long-term debt outstanding of $1,040,079,830. For further information regarding debt, see Note F.

The following table shows the NRG Stadium revenues for FY2018 and FY2017. These revenues are pledged to the repayment of the Series 2014 NRG Stadium bonds.

	2018	2017
Rodeo rent	$ 1,500,000	$ 1,500,000
Rodeo admissions/parking tax	2,861,056	2,934,176
Rodeo sales tax rebate	390,989	294,579
County admissions tax	1,161,277	1,019,295
County sales tax rebate	1,150,290	834,215
Texans rent	4,010,000	4,010,000
Texans admissions/parking tax	1,961,823	1,964,326
Texans sales tax rebate	2,534,700	4,339,693
Total	$ 15,570,135	$ 16,896,284

On February 11, 2019, Standard & Poor's (S&P) Global Rating Services raised its rating on the Authority's second-lien series 2014C bonds **to 'BBB+' from 'BBB'**. At the same time, S&P Global Rating Services affirmed its A- rating on the Authority's senior-lien series 2001A, 2001G and 2014A bonds; its 'BB+' rating on the junior-lien series 2001H bonds and its 'BB' rating on the third-lien series 2004A-3 bonds. The outlook for all ratings is stable.

On October 25, 2018, Fitch Ratings affirmed the 'BBB' rating for the Series 2014 NRG Stadium Project taxable revenue refunding bonds with a rating outlook of Stable.

On February 2, 2017 Moody's Investor Service reiterated its investment-grade ratings on NRG stadium bonds and commented on the credit positive impact of the 2017 Super Bowl held in Houston.

On January 22, 2015, Moody's Investor Service issued a rating update announcing that it had upgraded the rating on the Authority's outstanding junior lien 2001H bonds, the third lien 2004A bonds and the outstanding senior lien bonds. The bond buyer reported that the Authority enjoys investment-grade ratings on all of its debt after upgrades from Moody's Investors Service.

ECONOMIC FACTORS

Hurricane Harvey

Hurricane Harvey began impacting the Houston/Harris County area on August 26, 2017. Harris County averaged 40 inches of total rainfall from Harvey and, at one point, nearly every stream, bayou and channel in Harris County was at or above its bank. 51.88 inches of rain were reported near Cedar Bayou, the highest total ever recorded for a single U.S. weather event. It has been estimated that 97,212 single-family homes in metro Houston were damaged or destroyed. Total losses from Hurricane Harvey are estimated to total about $125 billion for the Houston/Harris County area. More than 23,368 flood victims in the Houston area were still living in hotels and motels more than 3 months after the Hurricane and some needed to extend their stay until July of 2018. Motor vehicle rental and hotel occupancy taxes paid during the end of 2017 that were collected during the first quarter of 2018 increased as a result of Hurricane Harvey related demand.

Houston Astros

The Houston Astros – the City of Houston's major league baseball team – won the 2017 World Series. The World Series win was a boost for the City's morale after Hurricane Harvey and a boost to the economy of the City as well. The Astros' playoffs series in 2017 brought about $95 million of economic benefit to Houston – an average of $6 to 8 million per playoff game. The World Series games brought in a total of $30 million more in economic benefit to Houston. The World Series was played between October 24 and November 1. The Astros hosted games 3, 4 and 5. The Astros won the deciding game 7 in Los Angeles and the City of Houston held a parade for the Astros on November 3, 2017. An estimated 750,000 people attended the parade. Motor vehicle rental and hotel occupancy taxes levied during the fourth quarter of 2017 were collected in January and February of 2018, respectively.

In addition during 2018, the Astros also made the Major League Baseball playoffs and extended their season into October as they won the American League Division Series and then played in the American League Championship Series games.

Job Growth

Houston had the third most job growth in the nation behind New York and Dallas during 2018. Job increases were positively impacted by Harvey disaster recovery, construction related jobs and the continuing recovery in the energy sector. The price of West Texas intermediate crude oil increased from the 2017 average of $51 per barrel to $65 average per barrel during the first 6 months of 2018.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of 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, 701 Avenida de las Americas, Suite 450, Houston, Texas 77010.

Harris County – Houston Sports Authority

STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
December 31, 2018

Assets:	
Cash and cash equivalents	$ 43,260,527
Investments	67,762,165
Accrued interest receivable	532,970
Due from other governmental entities	17,207,381
Prepaid expense	11,695,070
Capital assets (excludes NRG Stadium):	
Land (nondepreciable)	16,703,234
Other capital assets, net	375,020,786
Total assets	532,182,133
Deferred outflows of resources:	
Deferred loss on refunding of debt	7,127,358
Total deferred outflows of resources	7,127,358
Liabilities:	
Accounts payable	10,046,016
Accrued interest	3,718,594
Unearned revenue	3,277,916
Compensated absences payable - due within one year	71,295
Compensated absences payable - due in more than one year	81,479
Long-term liabilities (includes NRG Stadium debt):	
Bonds payable - due within one year	29,910,000
Bonds payable - due in more than one year	962,940,368
Bond premium	47,229,462
Total liabilities	1,057,275,130
Net Position:	
Net investment in capital assets (deficit)	(38,701,613)
Restricted for:	
Debt service	85,380,466
Capital repair	8,966,939
Unrestricted (deficit)	(573,611,430)
TOTAL NET POSITION (deficit)	$ (517,965,638)

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

Harris County – Houston Sports Authority

STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Functions/programs	Expenses	Program revenue: Charges for services	Program revenue: Grants and Contributions	Net (expense) revenue and changes in net position governmental activities
Governmental activities:				
General government and events	$ 38,512,657	$ 29,222,422	$ -	$ (9,290,235)
Interest on long-term debt	48,630,212	-	-	(48,630,212)
Total governmental activities	$ 87,142,869	$ 29,222,422	$ -	(57,920,447)
General revenues:				
Taxes:				
Vehicle rental taxes				$ 25,971,010
Hotel occupancy taxes				32,175,684
Earnings on investments				2,305,097
Total general revenues				60,451,791
CHANGES IN NET POSITION				2,531,344
NET POSITION - Beginning				(520,496,982)
NET POSITION - Ending				$ (517,965,638)

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

Harris County – Houston Sports Authority

BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2018

ASSETS:	General	Special Revenue	Total Governmental Funds
Cash and cash equivalents	$ 42,773,550	$ 486,977	$ 43,260,527
Investments	67,762,165	-	67,762,165
Accrued interest receivable	532,970	-	532,970
Prepaid expense	11,695,070	-	11,695,070
Due from other governmental entities	17,047,181	160,200	17,207,381
Total assets	$ 139,810,937	$ 647,177	$ 140,458,113
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 9,932,344	$ 32,114	$ 9,964,458
Unearned revenue	3,277,916	-	3,277,916
Total liabilities	13,210,260	32,114	13,242,374
DEFERRED INFLOWS OF RESOURCES:			
Unavilable revenue	2,220,715	-	2,220,715
Total deferred inflows of resources	2,220,715	-	2,220,715
FUND BALANCES:			
Nonspendable	11,695,070	-	11,695,070
Restricted for debt service	85,380,466	-	85,380,466
Restricted for capital projects	8,966,939	-	8,966,939
Unassigned	18,337,486	615,062	18,952,548
Total fund balances	124,379,962	615,062	124,995,024
Total liabilities, deferred inflows of resources and fund balances	$ 139,810,937	$ 647,177	$ 140,458,113

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

Harris County – Houston Sports Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2018

TOTAL FUND BALANCES FOR GOVERNMENTAL FUND	$	124,995,024
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 fund:		
Those assets consist of:		
Land		16,703,234
Other capital assets, net		375,020,785
Total capital assets and leasehold improvements		391,724,019
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		
Compensated abscences		(81,479)
Due to Arena contractor		(150,000)
Accrued interest on bonds		(3,718,594)
Deferred loss on bond refundings		7,127,358
Bond premium		(47,229,462)
Bonds payable		(992,850,368)
Total long-term liabilities		(1,036,902,545)
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 the funds.		2,217,864
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	$	(517,965,638)

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

Harris County – Houston Sports Authority

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
Year Ended December 31, 2018

	General	Special Revenue	Total Governmental Funds
REVENUES:			
Tax revenues:			
Vehicle rental tax	$ 25,971,010	-	$ 25,971,010
Hotel occupancy tax	32,175,684	-	32,175,684
Facilities use tax	5,984,156	-	5,984,156
Sales tax rebate	4,061,965	-	4,061,965
Total tax revenues	68,192,816	-	68,192,816
Rent	14,297,500	-	14,297,500
Royalties	1,200,000	-	1,200,000
Contractual payments	200,000	-	200,000
Investment income	2,305,097	-	2,305,097
Miscellaneous/program services	6,417,405	964,443	7,381,848
Total revenues	92,612,818	964,443	93,577,261
EXPENDITURES:			
General and administrative	15,145,328	57,814	15,203,142
Charitable contributions	-	338,529	338,529
Debt service - interest	25,635,110	-	25,635,110
Debt service - principal	29,977,210	-	29,977,210
Total expenditures	70,757,648	396,342	71,153,990
OTHER FINANCING SOURCES (USES)			
Transfer (out)	(46,961)	-	(46,961)
Transfer in	-	46,961	46,961
Total other financing sources (uses)	(46,961)	46,961	-
EXCESS REVENUES OVER EXPENDITURES	21,808,209	615,062	22,423,271
FUND BALANCES - Beginning of year	102,571,753	-	102,571,753
FUND BALANCES - End of year	$ 124,379,962	$ 615,062	$ 124,995,024

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 BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$ 22,423,270
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 depreciation exceeded capital outlay in the current period.	(22,665,927)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	29,977,210
Interest on capital appreciation bonds increases liabilities in the statement of net position.	(27,108,795)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (See Note B)	4,004,358
Certain items are not collected within the time frame for recording as revenue in the fund level statements.	(4,098,772)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 2,531,344

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

NOTE A – THE FINANCIAL REPORTING ENTITY

The Harris County — Houston Sports Authority (the "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 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 Authority was created for the public purpose of planning, acquiring, establishing, developing, marketing, constructing or renovating one or more venue projects.

The Authority is governed by a Board of Directors (the "Board") 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 Authority (the "Chairperson") is jointly appointed by both the City and the County. The 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 financial statements of the reporting entity include those of the Authority (the primary government) and its component units. Component units are legally separate entities for which the Board of the Authority are financially accountable, or the relationship to the Authority is such that exclusion would cause the Authority's financial statements to be misleading. Blended component units, although legally separate entities, are, in substance, part of the Authority's operations, so data from these units are combined with data of the Authority.

The Authority Foundation, (the "Foundation"), a nonprofit corporation formed in July 2017, is included in the operations and activities of the Authority as a blended component unit. The Foundation was organized for charitable, scientific, literary and educational purposes within the meaning of Section 501C(3) of the Internal Revenue Code of 1986. Four directors of the Authority's Board are directors on the Foundation's board and the Authority's Chairperson and Chief Executive Officer select three directors that will be approved by the Foundation's board. The criteria used to include the Foundation as a blended component unit of the Authority is based on the Authority's right to appoint a voting majority of the Foundation's board. The Authority is able to impose its will on the Foundation and the existence of a financial benefit/burden relationship between the entities. The operations of the Foundation are presented as a special revenue fund in the governmental fund type. Separate financial statements are not issued for the Foundation.

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 Authority has imposed to be utilized in the financing of Minute Maid Park (see Note H), NRG 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 "Vehicle Rental Tax"). The 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.

- 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 Authority has entered into an agreement with the Tax Assessor - Collector of the County (the "Tax Assessor") to collect these taxes.

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

- An admission tax not exceeding ten percent on events held within NRG stadium, which has been capped at $2 per ticket.
- A parking tax not to exceed $3 per vehicle on vehicles using NRG Stadium's parking facilities for a period beginning three hours before and ending three hours after an event, which has been capped at $1 per vehicle.
- A contribution or dedication to the 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 NRG 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 Authority conform to generally accepted accounting principles applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB). A summary of the 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 nonfiduciary activities of the Authority. The 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 Authority's programs are offset by those programs' revenues. Program revenues include (1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by the program and (2) grants and contributions that are restricted to meeting the operational and/or capital requirements of a particular program. Program revenues are generated from 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 funds use 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 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. 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 decreases (expenditures) in fund balance. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

The Authority reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include motor vehicle and hotel occupancy taxes, rental income admissions and parking taxes on certain events and revenues related to events. Expenditures include general government, principal and interest payments on long-term debt and event related expenses. The general fund is always considered a major fund for reporting purposes.

The *special revenue fund* is used to account for and report financial resources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The special revenue funds is considered a non major funds for reporting purposes, but the Authority has elected to present it as major due to its significance.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. Cash and Cash Equivalents

The 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 Authority are defined as assets with individual costs of $5,000 or more and estimated useful lives in excess of one year. Building improvements in excess of $250,000 are capitalized and depreciated over the life of the improvements with useful lives of greater than 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 acquisition 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:

Asset	Years
Buildings	30-40
Building improvements	10-20
Equipment	3-20

4. Net Position and Fund Balances

Net Position Classifications — Net position in the government-wide financial statements is 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 (GASB 54) legislation. The Authority's restricted net position is restricted for debt service and certain capital items.

Classifications of Fund Balances — In the fund financial statements, the governmental funds reports fund balances in the following four categories: (1) nonspendable, (2) restricted for debt service, (3) restricted for capital projects and (4) unassigned. The Authority follows the provisions of GASB Statement 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) non-spendable, (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 non-spendable 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 Authority classifies all of its prepaid expenses as nonspendable. Under GASB 54, fund balances 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 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 Authority's lease agreements for the facilities owned or built by the Authority specify specific funding requirements for capital repair and replacement expenditures in those facilities. The funds to pay for those expenditures are restricted. Fund balances that are not classified as non-spendable and has not been restricted, committed or assigned to specific purposes are classified as unassigned.

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

5. Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application,* establishes an authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. The Authority categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, the Authority will measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

As of December 31, 2018, the Authority held the following at fair value measurements:

	Fair Value Measurements Using		
	Investments	Quoted prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level			
Debt securities			
U.S. Treasury securities	$ 67,762,165	$ 67,762,165	$ -
Commercial paper	25,192,386	-	25,192,386
Total debt securities	92,954,551	$ 67,762,165	$ 25,192,386
Investments measured at the net asset value (NAV)			
Money market treasury funds	16,712,526		
Total investments measured at the NAV	16,712,526		
Total investments measured at fair value	**$ 109,667,076**		

6. Explanation of Certain Differences Between the Governmental Fund Statement_of Revenues, Expenditures and Changes in Fund Balance

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment is a combination of the following:

	2018
Compensated absences	$ 81,479
Amortization of deferred loss	(959,334)
Change in accrued interest	(95,113)
Amortization of premium	4,977,915
Net adjustment	$ 4,004,947

7. Deferred Inflows and Outflows of Resources

The Authority reports certain transactions as deferred inflows of resources and deferred outflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future period and, therefore, will not be recognized as revenue until that time. Deferred outflows of resources represents a consumption of net position that applies to a future period and, therefore, will not be recognized as an expense/expenditure until then. The Authority's deferred inflows of resources represents revenue that does not meet the available criterion. The Authority's deferred outflows of resources represent the difference between the refunding debt and the refunded debt.

8. 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, 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 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 are described in Note F. As of December 31, 2018, debt service accounts available totaled $85,380,466 and are restricted only for the payment of principal and interest on the bonds.

The Authority's investment activities are governed by the State of Texas Public Funds Investment Act, bond covenants and trust agreements and the 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 from where the investment was made.

1. Deposits

Chapter 2257 of the Texas Government Code is known as the Public Funds Collateral Act (the "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 and noninterest bearing demand deposits, time and savings deposits and deposits pursuant to indenture. The 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 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, 2018, the carrying amount of the Authority's noninterest bearing demand and time deposits was $868,639 and the balance per various financial institutions was $868,639. The Authority's deposits are not exposed to custodial credit risk since all deposits are covered by FDIC insurance or collateralized with securities deposited by the Authority's depository institution in safekeeping at the Federal Reserve Bank in the Authority's name. The mutual funds are invested primarily in direct obligations of the U.S. government or its agencies.

2. Investments

Chapter 2256 of the Texas Government Code is known as the Public Funds Investment Act. (the "Act") This Act authorizes the Authority to invest funds pursuant to a written investment policy, which primarily emphasizes the safety of principal and liquidity and addresses investment diversification, yield and maturity. The Authority's investment policy is reviewed and approved annually by the Board. The investment policy includes a list of authorized investment instruments, a maximum allowable stated maturity by fund type and the maximum weighted average maturity of the overall portfolio. Guidelines for diversification and risk tolerance are also detailed within the policy.

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.

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 for which the Authority has obtained a signed master repurchase agreement with the company into which the agreement is entered, as authorized by the Act.

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

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

i. Guaranteed investment contracts as authorized by the Act.

3. Summary of Cash and Investments

The Authority's cash and investments are stated at fair value based upon quoted market prices. The following is a summary of cash, cash equivalents and investments held by the Authority at December 31, 2018:

Cash and cash equivalents	$	43,260,527
Investments		67,762,165
Total cash, cash equivalents and investments	$	111,022,692

The table below indicates the fair value and maturity value of the Authority's investments as of December 31, 2018, summarized by security type. Also presented 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
U.S. Treasury Notes	$	67,762,165	61%	0.78	AAA/Aaa
Total investments		67,762,165	61%		
Commercial paper <90 days to maturity		25,192,386	23%	0.10	A-1+; P-1
Money market mutual funds		16,712,526	15%		
Demand and time deposits		1,355,616	1%		
Total cash and cash equivalents		43,260,528	39%		
Total cash, cash equivalents, and investments	$	111,022,692	100%		

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 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 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, 2018, the 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 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.

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

Investment	Fair value December 31, 2018	Percentage of portfolio
Exxon Mobil Commercial Paper 1/31/19 Maturity	$ 10,499,398	9.50%
U.S. Treasury Note 5/15/19 Maturity	6,362,240	5.76%
Total	$ 16,861,638	15.26%

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 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 Authority's name and are held by the counterparty. In the event of the failure of the counterparty, the Authority may not be able to recover the value of its investments that are held by the counterparty. As of December 31, 2018, all of the Authority's investments are held in the 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 Authority's investment policy does not list securities denominated in a foreign currency among the authorized investment instruments. Consequently, the Authority's investments are not exposed to foreign currency risk

NOTE D – ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTAL ENTITIES

At December 31, 2018, amounts due from other governmental entities consisted of the following:

Texas Comptroller - short-term vehicle rental tax	$ 3,868,333
Harris County Tax Assessor - hotel occupancy tax	7,418,592
Metropolitan Transit Authority - sales tax rebate	1,556,674
City of Houston - sales tax rebate	1,589,082
Texas Comptroller - event trust fund	1,833,633
Other - miscellaneous	941,067
Total due from other governmental entities	$ 17,207,381

An allowance for uncollectible accounts has not been recorded as management believes all receivables will be collected.

NOTE E – CAPITAL ASSETS

Capital assets transactions are summarized as follows:

	Balance, December 31, 2017	Additions	Disposals	Balance, December 31, 2018
Governmental activities:				
Land and other improvements	$ 16,703,234	$ -	$ -	$ 16,703,234
Total - not depreciated	16,703,234	-	-	16,703,234
Buildings	614,650,551	-	-	614,650,551
Building improvements	48,243,246	-	-	48,243,246
Equipment	16,700,716	192,310	-	16,893,026
Leasehold improvements	871,579	-	-	871,579
Total capital assets being depreciated	680,466,092	192,310	-	680,658,402
Less accumulated depreciation:				
Buildings	258,251,253	18,102,330	-	276,353,583
Building improvements	9,313,735	3,778,148	-	13,091,883
Equipment	15,042,716	977,759	-	15,121,950
Leasehold improvements	92,440	79,234	-	1,070,199
	282,700,144	22,858,237	-	305,637,615
Total capital assets being depreciated - net	397,765,948	(22,745,161)	-	375,020,788
Governmental activities capital assets - net	$ 414,469,182	$ (22,745,161)	$ -	$ 391,724,022

NOTE F – DEBT

The following is a summary of the long-term debt as of December 31, 2018:

	Interest rate (%)	Maturity dates	2018 Amount
Senior Lien Revenue Refunding Bonds - Series 2001A	5.16-6.25	2002-2040	$ 47,248,675
Senior Lien Revenue Bonds - Series 2001G	4.67-6.30	2015-2041	2,212,356
Junior Lien Revenue Bonds - Series 2001H	5.95-6.30	2020-2041	56,457,098
Third Lien Refunding Bonds - Series 2004A-3	2.75-5.99	2031-2039	26,966,177
Subordinate Lien Note - Series 2001C2	0.0	2032	5,000,000
Senior Lien Revenue Refunding Bonds - Series 2014A	4.73-5.00	2018-2053	434,513,444
Second Lien Revenue Refunding Bonds - Series 2014C	2.00-5.00	2015-2034	66,315,000
Taxable Revenue Refunding Bonds			
(NRG Stadium Project) - Series 2014	4.454	2015-2031	56,400,000
Taxable Revenue Refunding Bonds			
(Toyota Center Project) - Series 2014	4.476	2015-2032	47,220,000
Subtotal			742,332,750
Accretion and accrued interest:			
Series 2001A Capital Appreciation Bonds			7,414,195
Series 2001A Capital Appreciation Term Bonds (CATB's)			83,899,105
Series 2001G Capital Appreciation Bonds			4,135,535
Series 2001H Capital Appreciation Bonds			100,183,058
Series 2004A-3			35,761,252
Series 2014A			19,124,472
Subtotal			250,517,618
Premiums on bonds issued:			
Series 2014A - $58,084,371 at issue			40,753,178
Series 2014C - $9,125,622 at issue			6,476,284
Subtotal			47,229,462
Total All Debt			$ 1,040,079,830

In December 2014, the Authority issued $558,513,444 in Senior and Second Lien Revenue Refunding bonds to refinance and restructure a significant portion of its outstanding Senior Lien bonds and Junior Lien bonds, and to eliminate or clarify certain covenants in the existing Indentures and allow for the settlement of certain lawsuits filed by MBIA Insurance Corporation and its successor, National Public Finance Guarantee Corporation ("National") and the trustee for the bonds at the time, Wilmington Trust, N.A., and cause certain revenues held by Wilmington to be released and used to replenish certain funds and/or reimburse certain stakeholders or tenants of the approved venue projects. Additionally, the Authority issued $69,170,000 in Stadium bonds secured by NFL Club special revenues, Rodeo special revenues and government special revenues and $57,540,000 in Toyota Center bonds, secured by annual rent payments received from the Houston Rockets NBA Basketball team. The proceeds of the Stadium bonds and the Toyota Center bonds were used to refund certain obligations owed to Harris County, the Houston Texans and the Houston Rockets, funding a debt service reserve for both issues and paying issuance costs for both issues.

The Series 2014 Senior and Second Lien Revenue Refunding bonds were used to refund all of the Senior Lien 1998A and 2001A bonds and all of the outstanding Series 1998B, Series 1998C and Series 2001B Junior Lien bonds. They were also used to refund a portion of the Series 2001I and Series 2001G Senior Lien bonds. The Series 2014 Stadium bonds and the Series 2014 Toyota Center bonds were used to refund the RCM reimbursement obligation with Harris County, the unfunded team credit obligation with the Houston Texans and the Series 2001D-1 and Series 2001D-2 notes with the Houston Rockets.

The Series 2001A bonds and the Series 2001C Subordinate Lien notes were issued to finance a substantial portion of the costs of NRG Stadium. The Series 2001G-H 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.

The bonds are special limited obligations of the Authority that are payable solely from and secured by a lien on certain revenues, special revenues and other assets of the 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 2001 Series G-I bonds were issued to finance certain costs of acquiring, constructing and equipping a multi-purpose arena located in downtown Houston and a related parking garage and infrastructure that is the home of the Houston Rockets NBA team and other events. The arena – named Toyota Center – is located on land owned by the City of Houston and leased to the Authority while the Toyota Center arena is owned by the Authority during the lease period and is leased by the Authority to Rocket Ball Ltd., d/b/a/ the Houston Rockets. The parking garage adjacent to Toyota Center was originally owned by the Authority but was sold in June 2015 and is no longer a part of the Authority's assets. The bonds are secured by a pledge of the motor vehicle and hotel occupancy tax revenues. The Series 2001G Bonds were partially refunded in 2014 with the proceeds of the Series 2014A bonds. The Series 2001I bonds were refunded in 2014 with the proceeds of the Series 2014A bonds.

The 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. As of December 31, 2014, 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 2001A bonds, the arena bonds, and the Series 2004 Third Lien Refunding bonds. The proceeds from the Series 2001C Subordinate Note were used to finance a portion of the construction costs for NRG Stadium. On November 22, 2017 the Authority paid $13,320,700 to reduce the amount outstanding on the 2001C-1 note. On October 17, 2018, the Authority paid the remaining amount outstanding including all accrued interest to that date and the note was paid in full.

The 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 2001A bonds and the Series 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 Authority.

The Series 2014A Tax-Exempt Senior Lien bonds were issued in the par amount of $435,203,444 to refund $440,031,728 in Junior and Senior Lien bonds and having a present value of $476,545,198 on December 23, 2014. The Series 2014A Tax-Exempt Senior Lien bonds were issued at a premium of $58,084,371, which resulted in $493,287,815 in funds available from bond proceeds. These funds, along with $13,442,035 of funds on hand that were released as a result of the transaction, were used to fund a refunding escrow of $481,264,828, fund a reserve fund for the unrefunded portion of the Series 2001 G bonds and $23,263,669 to pay underwriters discount, cost of issuance and the cost of insurance premiums and sureties securing debt service reserve funds. Debt service on the bonds being refunded would total $810,999,882 to maturity. The debt service on the refunding bonds totals $1,003,825,828 to maturity and resulted in a present value savings of $38,850,922.

The Series 2014B Taxable Senior Lien bonds were issued in the par amount of $47,435,000 to refund $36,525,000 in previously issued Junior and Senior Lien bonds having a present value of $38,354,628 on December 23, 2014. The Series 2014B bonds together with $4,743,500 in funds released as a result of the transaction provided $52,178,500 in funds available to provide $37,946,860 to fund an escrow account for the refunded debt, provide $4,743,500 for a debt service reserve fund for the bonds, and the remaining amount to fund costs of issuance and underwriter's discount. Debt service on the bonds being refunded would total $49,681,175 to maturity. The debt service on the refunding bonds totals $48,765,636 to maturity resulting in a savings of $915,539 and a net present value cost of $6,605,594.

The Series 2014C Tax-Exempt Second Lien bonds were issued in the par amount of $75,875,000 to refund $82,250,000 in junior lien bonds and having a present value of $92,311,901 on December 23, 2014. The Series 2014C bonds were issued at a premium of $9,125,622, which provided a total of $85,000,622 to fund underwriter's discount, cost of issuance and a deposit to escrow for the refunded bonds of $83,123,980. Debt service on the bonds being refunded would total $189,472,062 to maturity. The debt service on the refunding bonds totals $121,192,761 to maturity for a savings of $68,279,301 and a net present value savings of $13,151,278.

The Series 2014 NRG Stadium bonds were issued in the par amount of $69,170,000 and, along with $9,059,351 of funds released by the transaction, provided $78,229,351 to fund a debt service reserve fund of $5,982,502, provide for the payment of $1,654,111 in underwriter's discount and issuance cost, provide $24,512,723 to retire the RCM Obligation and provided $46,080,015 to fund other stadium-related obligations. The RCM obligation was due on February 15, 2015 at a par amount of $24,512,723 and called on December 23, 2014 at par. The fair value for the RCM obligation on December 23, 2014 was $24,356,885 and the transaction resulted in a present value savings of $1,759,117.

The Series 2014 Toyota Center Project bonds were issued in the par amount of $57,540,000 and the proceeds were used to retire the Series 2001D-1 and Series 2001 D-2 notes in the amount of $52,496,119, to fund a debt service reserve fund of $3,527,435 and to fund cost of issuance. The refunded notes debt service to maturity was $222,130,576 with a present value of $110,108,599 on December 23, 2015. The value of the refunded notes on December 23, 2014 was $52,496,119 and there was a net present value savings of $56,044,689 on the transaction.

Defeased Debt

On April 28, 2017, the Authority purchased and redeemed specific 2001H and 2004A 3rd Lien bonds in the open market to retire debt. $166,583 of principal and $253,191 of accreted interest of 2001H and $105,532 of principal and $116,657 of accreted interest of 2004A Third Lien bonds were retired early. The prices paid exceeded the net carrying amount of the old debt by $175,136. This loss on redemption was expensed in 2017.

On May 16, 2017, the Authority accepted a bid for securities totaling $12,823,013 to fund an escrow account to defease certain Series 2004A-3 maturities at the call date of November 15, 2024.

On May 24, 2017, the Authority purchased $15,153,000 par value of United States Treasury STRIPS (CUSIP - 912833LT5) with a maturity date of November 15, 2024 at a cost of $12,822,014 and deposited the STRIPS along with $999.00 in cash into an escrow account administered by UMB Trustee. Certain 2004A-3 bonds totaling a par value of $4,591,444 had an outstanding value of $9,758,136 on May 24, 2017. The value at redemption to the call date of November 15, 2024 is $15,153,994. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $3,065,140. This amount is being amortized over the life of the remaining bonds.

The following is a summary of the changes in long-term debt for the year ended December 31, 2018:

	Balance, December 31, 2017	Additions	Retirements	Balance, December 31, 2018	Amount due within one year
Revenue bonds:					
Series 2001G	$ 6,369,016	$ -	$ (4,156,659)	$ 2,212,356	$ -
Series 2001H	56,457,098	-	-	56,457,098	-
Series 2014 NRG	59,720,000	-	(3,320,000)	56,400,000	3,470,000
Series 2014 Toyota	49,720,000	-	(2,500,000)	47,220,000	2,615,000
Refunding bonds:					
Series 2001A	48,789,417	-	(1,540,742)	47,248,674	1,466,563
Series 2004A-3	26,966,177	-	-	26,966,177	-
Series 2014A	435,203,444	-	(690,000)	434,513,444	16,780,000
Series 2014B	5,295,000	-	(5,295,000)	-	-
Series 2014C	68,730,000	-	(2,415,000)	66,315,000	2,800,000
Subordinate liens:					
Series 2001C1, C2	5,552,000	-	(552,000)	5,000,000	-
	762,802,152	-	(20,469,401)	742,332,750	27,131,563
Accretion and accrued interest:					
Series 2001A CAB's	9,196,149	852,304	(2,634,258)	7,414,195	2,778,437
Series 2001A CATB's	76,360,781	7,538,324	-	83,899,105	-
Series 2001C1, C2	859	34,351	(35,210)	-	-
Series 2001G CAB's	10,053,681	920,195	(6,838,340)	4,135,535	-
Series 2001H CAB's	91,075,562	9,107,496	-	100,183,058	-
Series 2004A-3	32,199,192	3,562,060	-	35,761,252	-
Series 2014A	14,030,407	5,094,065	-	19,124,472	-
	232,916,631	27,108,795	(9,507,808)	250,517,618	2,778,437
Unamortized premiums					
Series 2014A	45,050,646	-	(4,297,469)	40,753,178	-
Series 2014C	7,156,731	-	(680,446)	6,476,284	-
	52,207,377	-	(4,977,915)	47,229,462	-
Total	$ 1,047,926,160	$ 27,108,795	(34,955,124)	$ 1,040,079,830	$ 29,910,000

Annual principal and interest/accretion payments on the bonds payable at December 31, 2018 are summarized as follows:

Years ending December 31	Principal	Interest and accretion	Total
2019	$ 27,131,563	$ 27,894,993	$ 55,026,555
2020	28,266,733	26,822,991	55,089,723
2021	29,633,732	26,061,134	55,694,866
2022	34,219,179	22,095,359	56,314,538
2023	39,917,756	31,205,313	71,123,069
2024-2028	228,142,773	147,195,977	375,338,750
2029-2033	170,287,269	214,920,821	385,208,090
2034-2038	50,421,415	311,510,242	361,931,658
2039-2043	41,706,149	257,195,506	298,901,656
2044-2048	40,581,852	150,568,148	191,150,000
2049-2053	52,024,331	139,120,919	191,145,250
Totals	$ 742,332,750	$ 1,354,591,404	$ 2,096,924,155

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 2018. As of December 31, 2018, there were no estimated liabilities for arbitrage rebate on governmental debt.

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, 2018, the Authority's cash and investment available for debt service totaled $85,380,466. There were surety policies in place to provide debt service reserves for the Series 2001A and 2014A bonds in the face amount of $51,293,051 as of December 31, 2018.

Included in the cash and investments available for debt service are certain accounts restricted for debt repayment. Those accounts include the national insured bonds debt service reserve with a balance of $10,296,416, the County repayment account with a balance of $3,000,786 and the debt repayment account with a balance of $19,897,906.

NOTE G – OPERATING LEASES

The Authority leases office facilities and equipment under noncancelable operating leases. Total costs for such leases were $336,122 for the year ended December 31, 2018, and the future minimum lease payments for these leases are:

December 31	Amount
2019	$ 337,848
2020	347,519
2021	357,416
2022	367,550
2023	377,943
2024-2026	1,198,771
Total	$ 2,987,048

The 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 Authority are as follows:

Years ending December 31,	Dynamo	Astros	Rockets	Rodeo	Texans
2019	$ 170,777	$ 8,100,000	$ 8,500,000	$ 1,500,000	$ 4,010,000
2020	174,316	8,100,000	8,500,000	1,500,000	4,010,000
2021	178,032	8,100,000	8,500,000	1,500,000	4,010,000
2022	181,933	8,100,000	8,500,000	1,500,000	4,010,000
2023	186,030	8,100,000	8,500,000	1,500,000	4,010,000
2024-2028	1,499,137	40,500,000	42,500,000	7,500,000	20,050,000
2029-2033	1,862,039	44,500,000	42,500,000	6,000,000	12,030,000
2034-2050	5,447,449	154,700,000	-	-	-
Total	$ 9,699,713	$ 280,200,000	$ 127,500,000	$ 21,000,000	$ 52,130,000

See Note E for the related cost and accumulated depreciation for the properties leased by the five parties.

NOTE H – AGREEMENTS WITH THE HOUSTON ASTROS

Effective June 17, 1998, the Authority entered into various agreements with the Houston Astros (the "Astros") which embodied the obligation of the 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 Authority and the Astros 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.

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.

In July 2018, the Authority Board approved the first Omnibus Amendment ("the Amendment") of the Minute Maid Park principal project documents. The primary term under the Ballpark Lease was modified to terminate on March 31, 2050. In addition, under the modified terms, the basic rental fee of $3,400,000 per year to be paid by the Astros under the Ballpark Lease increases to $4,400,000 commencing April 1, 2018 to March 31, 2030. Of the $1,000,000 annual increase, $750,000 will be paid directly to the ARR Fund. In addition the basic rental fee increases again commencing April 1, 2030 to the expiration of the lease on March 31, 2050 to $5,400,000.

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 Nonrelocation Agreement**

Pursuant to a nonrelocation agreement (the "Ballpark Nonrelocation Agreement") entered into between the 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 Authority, the City, the County, the Corporation, or the successor in interest to the club, METRO, the HLSR and the NFL Club entered into various agreements that govern the construction, financing and use of NRG 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 HLSR and other sporting and entertainment events. The principal project documents embody (i) the obligation of the Corporation to construct, operate and maintain NRG Stadium, (ii) the obligation of the Authority to finance the construction of NRG Stadium, and (iii) the obligation of the NFL Club and the HLSR to lease NRG Stadium, for their respective games and events for a term of 30 years after the completion of NRG Stadium. Upon completion, ownership of NRG Stadium was transferred to the County; therefore, the value of NRG Stadium is not included in the capital assets of the Authority. The principal project documents are summarized as follows:

1. The funding agreement obligates the Authority to provide financing for the design and construction of NRG 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, HLSR, and the Authority related thereto, and provides for the NFL Club's payment of certain amounts not generated by Personal Seat Licenses ("PSL") sales;

2. The project agreement among the Corporation, the NFL Club, and HLSR, generally governs the parties' rights and responsibilities during the design and construction of NRG Stadium;

3. The NFL Club lease agreement sets out the Corporation's and the NFL Club's responsibilities after the completion of NRG Stadium with regard to occupancy, use, repairs and payment of the NFL Club Guaranteed Payment, and the NFL Club Supplemental Revenue Payment;

4. The Stadium tri-party agreement among the Corporation, the NFL Club and HLSR 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. The nonrelocation agreement obligates the NFL Club to play its home football games in NRG Stadium and not to relocate the NFL Club's football franchise outside its current home territory;

6. The HLSR lease agreement sets out the Corporation and HLSR responsibilities after the completion of NRG Stadium with regard to occupancy, use, repairs and payment of rental;

7. The NFL club license agreement grants to the NFL Club certain intangible property rights associated with its use of NRG Stadium such as naming rights, broadcast rights and advertising rights; and

8. The HLSR license agreement grants to HLSR certain intangible property rights associated with its use of NRG 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 HLSR be assigned to the Authority during the term of the leases. Under the terms of the principal project documents, the following payments are to be made to the Authority:

1. 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.

   The offset 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.

2. 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 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. The Authority is entitled to the following revenues for all other events held in NRG Stadium (a) ticket taxes or surcharges to all other events held in NRG Stadium; and (b) City and METRO sales tax rebates for all taxable sales related to all other events held in NRG Stadium.

4. The Authority, the Corporation and the NFL Club also entered into an agreement that authorized the Authority to market and sell, or cause to be marketed or sold, PSLs for certain seating at the NFL Club's games. The 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 NRG 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 construction 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 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 Authority. The Project is owned by the Authority and leased to Rocket Ball. The Toyota Center was designed by Rocket Ball and developed and constructed by the Authority. The Garage was designed, developed, and constructed by the Authority. The Garage was sold on June 30, 2015.

2. Acquisition of Project Site

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

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 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 principal project documents (the "Arena Principal Project Documents") that embody (i) the obligation of the 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 30 years after the completion of the Arena and (iii) the right of Rocket Ball to use, and the obligation of the Authority to operate, the Garage in connection with the Toyota Center.

These Arena Principal Projects Documents are:

a. Interlocal Agreements — these agreements between the City and the 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 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 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. Nonrelocation 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 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

f. City Ground Lease Agreement — this agreement between the City, as landlord, and the Authority, as tenant, provides that the City will lease the land on which the Toyota Center is constructed to the Authority for a term of thirty (30) years for and in consideration of the 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 (the "CRR Fund") 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 was originally 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.

The lease payments are due semi-annually, on August 1 and February 1. In prior years, the August 1 payment has been recognized as revenue in the year the payment is made, although one month of the rental period is in the next fiscal year.

NOTE K – DYNAMO STADIUM, L.L.C.

Effective February 18, 2011, the 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 (the "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 is located in the eastern portion of downtown Houston. The Stadium is located on land owned by the City and County and leased to the Authority. The Stadium is owned by the Authority and leased to Dynamo Stadium. The Stadium was designed by Dynamo Stadium and financed, developed and constructed by the Dynamo.

2. Principal Project Documents

There are three principal project documents which embody (i) the obligation of the City and County as tenants in common and landlord, to ground lease the land on which the Stadium was constructed (the "Stadium Site") located in the east end of downtown Houston in a subdivision known as the East End Economic Development site to the Authority (, (ii) the obligation of the Authority to lease the Stadium Site to Dynamo Stadium, (iii) the obligation of Dynamo Stadium to develop, construct (and finance the construction of), operate and maintain a multi-purpose, outdoor soccer stadium on the Stadium Site, (iv) 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 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 million loan to pay for a portion of the construction costs of the Stadium.

These documents are:

a. Interlocal Agreements — This agreement between the City, the County and the 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.

b. Ground Lease Agreement — This agreement between the City and the County, as landlord, and the Authority, as tenant, provides that the City and the County, as landlord, will lease the Stadium Site to the Authority for a term of 30 years after completion of the Stadium for and in consideration of the Authority's obligation to cause Dynamo Stadium to construct the Stadium. The Authority will own the Stadium during the term of the ground lease, with the City and County receiving ownership upon the expiration of the ground lease. There will be no monetary rent paid by the 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 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 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.

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 11 through 20

c. $425,000 per year for years 21 through 30

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 Authority has a deferred compensation plan (the "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 $18,500 for 2018. The Authority will match the employees' contribution up to 6% of the employees' salary.

During fiscal year 2018, the Authority contributed 6% of the employees' gross compensation to the Plan. The employer and employee contributions were $79,835 and $96,603, respectively, based on a covered payroll of $1,422,296. The total Payroll for the authority was $1,623,157. The employees of the Authority are fully vested after five years of service. In the first year of employment, the employee has a 20% vested interest in the employer contribution. This amount increases to 40% in year two of service, 60% in year three of service, and 80% in year four of service. Senior level managers, defined as having supervisory responsibilities and having a base salary higher than $110,000 annually, have a three-year vesting plan.

NOTE M – CONTINGENCIES

The 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 Authority, based on consultation with outside counsel, believes the outcome of such matters will not materially affect its financial position.