Houston First Corporation

(A Component Unit of the City of Houston, Texas)

Financial Statements
December 31, 2021

Contents

RSM

Independent Auditor's Report

RSM US LLP

Board of Directors
Houston First Corporation

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Houston First Corporation (the Corporation), a component unit of the City of Houston, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed on the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Corporation's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
July 29, 2022

Management's Discussion and Analysis (Unaudited)

The following discussion of Houston First Corporation (the Corporation or HFC) should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Historical results and trends that might appear should not be taken as indicative of future operations. The results of operations and financial condition of the Corporation, as reflected in the accompanying financial statements and related notes, are subject to management's evaluation and interpretation of business conditions, changing capital market conditions and other factors that could affect the ongoing viability of the Corporation.

The Houston Convention Center Hotel Corporation (Hotel Corporation) was formed on behalf of the City of Houston, Texas (the City), in February 2000 pursuant to Chapter 431, Subchapter D, of the Texas Transportation Code, and Chapter 394 of the Texas Local Government Code. It was organized for the specific purpose of constructing, improving, enlarging, equipping, repairing, operating and maintaining a convention center hotel (the Hotel) located near and connected to the George R. Brown Convention Center (the Convention Center). In this regard, the Hotel Corporation was responsible for overseeing the construction and development of the Hotel; a 1,600-space parking garage (the Parking Garage); and three skywalks connecting the Hotel, the Parking Garage and the Convention Center (the Project). Construction was completed and the Project opened for business in December 2003 as the Hilton Americas–Houston (the Hilton). As of December 31, 2021, Hilton Management LLC managed the Hotel through a qualified management contract (the Management Agreement).

On June 1, 2011, the Houston City Council (the City Council) approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as the Houston First Corporation, which assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the Board of Directors appointed and approved by the Mayor and the City Council.

The City entered into a lease agreement and an interlocal agreement (the Consolidation Interlocal Agreement) with the Corporation, whereby the Corporation (a) leases all previously existing Department facilities and Department-managed facilities; (b) operates, manages, maintains, develops and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget including, but not limited to, municipal HOT receipts, license fees and concession revenues; and (d) as the City's agent, collects, administers and audits HOT funds in accordance with terms of City ordinances. The Corporation paid the City a one-time fee of $8,620,000 during the City's fiscal year ended June 30, 2012, from operating revenues of the Hotel. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

On March 4, 2013, the Corporation formed Houston First Holdings, LLC, a wholly owned subsidiary of the Corporation, as a special-purpose entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, managing and otherwise dealing with the Hilton and its parking garage.

On June 18, 2014, the Corporation entered into a services agreement with the Greater Houston Convention and Visitors Bureau (the Bureau), which engaged the Corporation to provide marketing, advertising and promotional programs on behalf of the Bureau at a minimum of the same levels previously funded by the Corporation to the Bureau. The Bureau's employees have been added to the Corporation's existing personnel services contract, effective July 1, 2014. The services agreement required the Corporation to amend its Certificate of Formation to increase the number of authorized board members from 11 to 13 to include two Bureau board members. The expenses incurred as a result of the services agreement are included in operating expenses as Visit Houston expenses.

The City and the Corporation entered into the First and Second Amendment to the lease agreement between the parties to amend and restate certain provisions pertaining to insurance, disasters, damage from casualty and City Council approvals, allocations and appropriations.

Overview of the Financial Statements

The statement of net position presents information on all of the Corporation's assets, deferred outflows and inflows of resources and liabilities, with the difference reported as net position. Comparisons in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The statement of net position can be found on page 10 of this report.

The statements of revenues, expenses and changes in net position report the Corporation's revenues, expenses and resulting change in net position during the period reported regardless of when cash is received or paid. Therefore, revenues and expenses are reported in the statement of revenues, expenses and changes in net position for some items that will affect cash flow in future fiscal years. The statement of revenues, expenses and changes in net position can be found on page 11 of this report.

The statement of cash flows report how much cash was provided by or used for, the Corporation's operations, financing and investing activities, and acquisition or retirement of capital assets. The statement of cash flows can be found on pages 12-13 of this report.

The notes to the financial statements provide additional information that is essential for a complete understanding of the data in the financial statements described above. The notes to the financial statements can be found on pages 14-30 of this report.

Financial Highlights

COVID-19: The wide availability of vaccines has loosened the impact of COVID-19 to revenues in 2021 with several larger events being held in the summer of 2021 and leisure travel returning. Some Houston businesses have employees returning to work, albeit a more hybrid model. However, COVID-19 variants caused some cancelations and postponement of some large events (particularly in the first half of the year). COVID-19 continued to impact the hospitality and convention industries in 2021 and, to a lesser extent, has continued into 2022.

HFC has managed expenses in 2021 but drew on the City's $20 million commitment, as well as the available Subordinated Note program. Analysis of previous economic downturns reveals a three to five-year time span for revenues to return to normal. As economic recovery continues, Management intends to monitor changes in economic conditions closely with a more fluid budget to accommodate changing conditions. However, the availability of cash reserves and access to the Subordinated Note program will allow HFC to meet its debt obligations and operating expenses through 2023 when HFC expects to return to a balanced budget.

Condensed Statements of Net Position Information
December 31, 2021 and 2020

	2021	2020
Current assets	$ 84,508,871	$ 74,731,598
Noncurrent assets	153,588,343	158,284,733
Capital assets	474,543,929	488,250,559
Total assets	$ 712,641,143	$ 721,266,890
Deferred outflow of resources	$ 3,777,885	$ 4,093,272
Current liabilities	$ 83,501,919	$ 89,944,594
Long-term liabilities	470,234,511	449,357,468
Total liabilities	$ 553,736,430	$ 539,302,062
Deferred inflow of resources	$ 54,590,506	$ 59,551,231
Net investment in capital assets	$ 120,696,516	$ 124,111,110
Restricted for debt service	7,493,341	6,230,832
Restricted—other	3,554,451	-
Unrestricted deficit	(23,652,216)	(3,835,073)
Net position	$ 108,092,092	$ 126,506,869

Net position: The Corporation's net position decreased $18,314,777 to $108,092,092 at December 31, 2021, from $126,506,869 at December 31, 2020, representing a 14.49% decrease. Of this decrease, $14,434,368 is attributable to an increase in liabilities offset by a decrease in deferred inflow of resources of $4,960,725, combined with a decrease in total assets of $8,625,747.

Total assets decreased $8,625,747 to $712,641,143 at December 31, 2021, from $721,266,890 at December 31, 2020. This decrease was primarily the result of a $13,706,630 decrease in capital assets, as described below, offset by an increase in current assets of $9,777,273. The increase in current assets was largely caused by an increase in deposits held by others of $6,167,715, as described below.

Total liabilities increased $14,434,368 to $553,736,430 in 2021, from $539,302,062 in 2020. The change was attributable to an increase in current portion of notes payable of $3,425,597 and an increase in long-term portion of notes payable of $7,418,854, as described below, and a $16 million increase in other liability due to the City, as described in Note 9. These increases are offset by a decrease in due to city of Houston of $15,797,613. The decrease in due to City is reflective of the net settlement of HOT proceeds between the Corporation and the City.

Capital Assets

Property, plant and equipment—net decreased by $13,706,630 to $474,543,929 in 2021 from $488,250,559 in 2020. This decrease was caused by depreciation expense of $21,992,150 offset by capital acquisitions of $8,285,522.

Right to use-leased asset decreased by $2,434,877 to $11,825,368 in 2021 from $14,260,245 in 2020, caused by amortization.

Debt Payment and Issuance

The Corporation made required principal payments totaling $14,245,000 and $11,300,000 in 2021 and 2020, respectively.

In March 2021 and July 2021, the Corporation drew on the $20,000,000 commitment from the City for COVID-19 recovery. In June 2021, the Corporation drew $6,000,000 from the 2017 Subordinate Lien Flexible Rate Notes to fund a debt service reserve requirement as a result of the refinancing of the VALIC mortgage loan, as well as other fees associated with the refinancing.

The total notes payable balance includes the Corporation's allocable portion of the unamortized bond premiums, net of discounts, which totaled $22,552,662 and $26,064,615 at December 31, 2021 and 2020, respectively.

The Corporation funds 1/12th of the annual debt service payment each month so that, on March 1 and September 1 of each year, the full amount will be available for payment. These funds, along with the required reserve funds are held by the City. Funds held by the City, listed as equity in pooled investments—restricted, are invested in the City's general investment pool. The amount of the investments held by the City was $25,430,065 and $23,932,368 at December 31, 2021 and 2020, respectively.

Condensed Statements of Changes in Net Position Information
December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Hotel revenues	$ 42,647,280	$ 27,677,033
Venue revenues	21,088,569	19,683,056
Parking revenues	11,530,132	5,622,653
Other operating revenues	3,322,346	8,787,211
Total operating revenues	78,588,327	61,769,953
Operating expenses:		
Hotel expenses	15,178,296	12,953,739
Venue expenses	31,189,518	26,863,305
Parking expenses	6,450,028	6,283,032
Visit Houston expenses	11,933,427	10,717,269
General and administrative	27,637,398	30,896,772
Enterprise development	1,994,216	2,644,797
Hurricane Harvey costs	190,359	345,289
Depreciation and amortization	21,992,150	20,984,471
Total operating expenses	116,565,392	111,688,674
Operating loss	(37,977,065)	(49,918,721)
Nonoperating revenues (expenses):		
Intergovernmental revenue from primary government	57,127,628	60,712,154
Grants	2,291,457	-
Intergovernmental expenses—primary government	(32,732,715)	(14,206,331)
Other contributions	8,000,000	-
Interest expense	(17,188,230)	(16,369,249)
Interest income	2,064,148	1,562,180
Loss on capital asset disposal	-	(3,069,497)
Total nonoperating revenues	19,562,288	28,629,257
Change in net position	(18,414,777)	(21,289,464)
Net position—beginning of year	126,506,869	147,796,333
Net position—end of year	$ 108,092,092	$ 126,506,869

Operating Revenues

Total operating revenues for 2021 and 2020 were $78,588,327 and $61,769,953, respectively, which represents a 27.23% increase of $16,818,374. The majority of the increase in operating revenues for 2021 was attributable to the recovery in the hospitality and convention industries from the impact of the COVID-19 pandemic. Hotel revenues benefited from the increase in leisure travel in Houston with a 56% increase in occupancy year over year.

Operating Expenses

Total operating expenses increased $4,876,719 to $116,565,392 in 2021, from $111,688,674 in 2020. As discussed above, the increase was due to the slow recovery, noting a $2 million increase in hotel expense and venue expense each due to the increased use of the managed facilities. In addition, the 2021 operating expenses included a $1 million estimated year-end accruals.

The Corporation's operating loss, which includes the noncash charge of depreciation, totaled $37,977,065 and $49,918,721 in 2021 and 2020, respectively.

Nonoperating Revenues (Expenses)

Intergovernmental Revenue From Primary Government

In the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to fund operating expenses, capital expenditures and for any other lawful purpose. The intergovernmental revenue represents the HOT and pledged parking revenues remaining after debt service and other debt-related expenses, and the revenue of other remaining Department fund balances.

In 2021, the intergovernmental revenue from Primary Government decreased $3,584,526 to $57,127,628 from $60,712,154 in 2020. This decrease was due to the combination of the City having a reduction in reimbursements of the Hurricane Harvey related costs and insurance proceeds in 2021, offset by an increase in HOT and pledged parking revenues from the pandemic recovery.

Intergovernmental Expenses to Primary Government

In the Consolidation Interlocal Agreement, the Corporation agreed to make certain payments to the City for obligations previously paid directly by the Department. At December 31, 2021 and 2020, these payments totaled $32,732,715 and $14,206,331, respectively. Of this increase, $16,080,615 is due to the settlement described in Note 9. As the largest of these payments is based on HOT revenues, the remaining increase was directly related to the corresponding increase in HOT revenues.

Grant Award

In 2021, the Corporation received a $2,291,457 grant from the U.S. Small Business Administration in the form of a Shuttered Venue Operators Grant.

Other Contributions

The Corporation began a project to redesign the City owned former Jones Plaza, the majority of which is being funded by contributions. The renamed Lynn Wyatt Square is schedule to be completed at the end of 2022 or beginning of 2023. In 2021, the Corporation received $8,000,000 of cash contributions from the fundraising organization to offset construction costs of which $3,554,451 remains as restricted cash at December 31, 2021.

Economic Factors and Going Forward

As HFC began 2022, the national economic climate and in the Houston region were trending in a more favorable direction, in spite of the lingering affects of the Omicron variant of COVID-19. As the Federal Reserve Bank of Dallas' January 2022 report indicated, "Houston extended its jobs recovery through November (2021), and leading economic indicators suggest further recovery over the next several months." It also noted that the unemployment rate in Houston had fallen and labor force participation began approaching pre-pandemic levels. Additionally, a leading indicator, the Purchasing Managers Index had remained above 50 from November 2021 through January 2022. However, the infection rate and hospitalizations were once again surging.

At the end of 2021, management's view was that the corporation was entering a significant period of recovery in 2022. The Corporation has collected $39.8 million HOT, its largest revenue, from January 1st to May 31, 2022, which is nearing pre-pandemic levels. Corporation collected $42.5 HOT in 2019 the same period. Also, in first five months of 2022, the corporation's second largest revenue, Hilton Hotel, produced total operating revenue of $44.7 million, which is very closed to Hilton's revenue in the same period in 2019 (collected $49.2 million in first five months of 2019). Due to the 29 city-wide conventions on the books for 2022 and rising Houston hotel occupancy, management maintained a favorable view for major revenues.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Net Position
December 31, 2021

Assets		
Current assets:		
Cash and cash equivalents	$	30,358,380
Cash and cash equivalents—restricted		3,554,451
Accounts receivable, net		7,999,570
Notes receivable—current		295,502
Prepaid expenses and other current assets		4,741,914
Deposits held by others—current		9,212,634
Lease receivable		1,945,270
Short-term equity in pooled investments		26,401,150
Total current assets		84,508,871
Noncurrent assets:		
Notes receivable		60,034,751
Equity in pooled investments—restricted		25,430,065
Property, plant and equipment—net		474,543,929
Lease receivable		56,298,159
Right to use lease asset		11,825,368
Total noncurrent assets		628,132,272
Total assets		712,641,143
Deferred outflow of resources:		
Deferred amounts from refunding of debt	$	3,777,885
Liabilities		
Current liabilities:		
Accounts payable	$	16,553,977
Accrued interest		5,229,280
Accrued expenses		5,786,648
Due to City of Houston		29,141,685
Subordinated management fee		773,711
Current portion of note payable		23,394,198
Current portion lease payable		2,285,385
Current portion of unearned revenue		337,035
Total current liabilities		83,501,919
Long-term liabilities:		
Due to City of Houston		16,080,615
Notes payable		437,709,868
Unearned revenue		6,712,609
Lease payable		9,731,419
Total long-term liabilities		470,234,511
Total liabilities		553,736,430
Deferred inflow of resources:		
Deferred amounts from lease		54,590,506
Total liabilities and deferred inflows of resources	$	608,326,936
Net Position		
Net investment in capital assets	$	120,696,516
Restricted for debt service		7,493,341
Restricted—other (Note 3)		3,554,451
Unrestricted deficit		(23,652,216)
Total net position	$	108,092,092

See notes to financial statements.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2021

Operating revenues:	
Hotel revenues	$ 42,647,280
Venue revenues	21,088,569
Parking revenues	11,530,132
Other operating revenues	3,322,346
Total operating revenues	78,588,327
Operating expenses:	
Hotel expenses	15,178,296
Venue expenses	31,189,518
Parking expenses	6,450,028
Visit Houston expenses	11,933,427
General and administrative expenses	27,637,398
Enterprise development expenses	1,994,216
Hurricane Harvey costs	190,359
Depreciation and amortization	21,992,150
Total operating costs and expenses	116,565,392
Operating loss	(37,977,065)
Nonoperating revenues (expenses):	
Intergovernmental revenue from primary government	57,127,628
Grants	2,291,457
Intergovernmental expenses—primary government	(32,732,715)
Other contributions	8,000,000
Interest expense	(17,188,230)
Interest income	2,064,148
Total nonoperating revenues	19,562,288
Decrease in net position	(18,414,777)
Net position—beginning of year	126,506,869
Net position—end of year	$ 108,092,092

See notes to financial statements.

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Cash Flows
Year Ended December 31, 2021

Cash flows from operating activities:	
Receipts from customers	$ 76,779,249
Cash payments to suppliers for goods and services	(64,864,468)
Cash payments for personnel services contract	(25,193,526)
Cash from intergovernmental payments from primary government	41,330,015
Cash payments for intergovernmental expenses to the primary government	(9,709,291)
Cash payments for intergovernmental expenses to the primary government (sponsorships)	(4,025,864)
Cash payments from grants	2,291,457
Cash payments for Hurricane Harvey costs	(174,247)
Net cash provided by operating activities	16,433,325
Cash flows from noncapital financing activities:	
Proceeds from note receivable	301,949
Other contributions	8,000,000
Payments for interest	(2,456,041)
Net cash provided by (used in) noncapital financing activities	5,845,908
Cash flows from capital and related financing activities:	
Payments for interest	(14,908,814)
Principal payment on notes payable	(14,245,000)
Proceeds from debt financing	26,000,000
Payment for deposits held by others	(6,167,715)
Acquisition of property, plant and equipment	(8,450,029)
Net cash used in capital and related financing activities	(17,771,558)
Cash flows from investing activities:	
Interest received on investments	2,064,148
Purchase of investments	(37,399,392)
Proceeds from sales and maturities of investments	49,009,830
Net cash provided by investing activities	13,674,586
Net decrease in cash and cash equivalents	18,182,261
Cash and cash equivalents—beginning of year	15,730,570
Cash and cash equivalents—end of year	$ 33,912,831

(Continued)

Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Statement of Cash Flows (Continued)
Year Ended December 31, 2021

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (37,977,065)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	21,992,150
Intergovernmental payments from the primary government	57,127,628
Interlocal agreement payments to the primary government	(9,709,291)
Interlocal agreement payments to the primary government (sponsorship)	(1,734,407)
Decrease in accounts receivable—net	138,633
Decrease in prepaid expenses and other assets	1,433,142
Decrease in leased assets	5,784,933
Decrease in leased liability	(7,172,931)
Decrease in accounts payable	(47,197)
Decrease in accrued expenses	2,732,386
Increase in due to primary government	(15,797,613)
Decrease in deferred revenue	(337,043)
	54,410,390
Net cash provided by operating activities	$ 16,433,325
Noncash transactions:	
Fair market value adjustment related to investments	$ (33,238)

See notes to financial statements.

Note 1. Organization

Houston First Corporation (the Corporation or HFC) [formerly, Houston Convention Center Hotel Corporation (the Hotel Corporation)], a component unit of the City of Houston, Texas (the City), was formed on February 18, 2000, under the provisions of Chapter 431, Subchapter D of the Texas Transportation Corporation Act and Chapter 394, Vernon's Texas Codes Annotated, Local Government Code. The purpose of the Hotel Corporation was to aid and act on behalf of the City in establishing, constructing, improving, enlarging, equipping, repairing, operating or maintaining (any or all) a 1,200-room convention center hotel in downtown Houston [such hotel to be within 1,000 feet of the George R. Brown Convention Center (the Convention Center)] (the Hotel) and a parking garage (the Parking Garage) for approximately 1,600 vehicles adjacent to the Hotel. The Hotel was completed in 2003 and opened on December 4, 2003.

On June 1, 2011, City's city council (the City Council) approved the consolidation of the City's Convention & Entertainment Facilities Department (the Department) into the Hotel Corporation (the Consolidation), effective July 1, 2011, in order to improve the coordination of the City's convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax (HOT) revenues under one governing body. In connection with the Consolidation, the Hotel Corporation reconstituted and renamed itself as Houston First Corporation, and Houston First Corporation assumed the primary roles and responsibilities of the Department. To accomplish this, the Hotel Corporation amended its bylaws and articles of incorporation to broaden its authority to accomplish its expanded duties and responsibilities. The Corporation has the authority to exercise all rights and privileges of a Texas nonprofit corporation and, as a governmental unit within the meaning of Chapter 101 of the Texas Civil Practice Remedies Code, its operations are governmental and not proprietary functions. The Corporation is governed by the Board of Directors appointed and approved by the mayor and City Council.

The Corporation (a) leases all previously existing Department facilities and Department-managed facilities; (b) operates, manages, maintains, develops and redevelops those existing facilities; (c) has been assigned and now administers all of the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget including, but not limited to, municipal HOT receipts, license fees and concession revenues; and (d) as the City's agent, collects, administers and audits HOT funds in accordance with terms of City ordinances. The Corporation currently has no employees but has entered into personnel services contracts to provide the personnel and expertise required to operate its facilities. The City has entered into an interlocal agreement with the Corporation (the Consolidation Interlocal Agreement), whereby the Corporation will pay $1,380,000 for each agreement year to lease all existing Department facilities and Department-managed facilities; provided, that, on each adjustment date, the rent described in this clause shall be adjusted to an amount equal to the lesser of (1) 105% of the rent in effect for the agreement year immediately preceding the adjustment date, and (2) the product of the rent of effect for the agreement year immediately preceding the adjustment date, multiplied by the adjustment factor. The Consolidation Interlocal Agreement's initial term expires on December 31, 2026, but will be extended automatically until June 30, 2041, unless canceled by either party on or before June 30, 2026.

The Corporation is presented as a discretely presented component unit of the City (legally separate from the City). Board members are appointed by the mayor of the City and confirmed by the City Council. There is fiscal dependency by the Corporation on the City as well as a financial burden on the City.

Note 1. Organization (Continued)

On March 4, 2013, the Corporation formed Houston First Holdings, LLC (HFH), a wholly owned subsidiary of the Corporation, as a special-purpose entity for the purpose of owning, holding, selling, leasing, transferring, exchanging, operating, managing and otherwise dealing with the property known as the Hilton Americas–Houston and its parking garage. The subsidiary is included in the financial statements of the Corporation as a blended component unit; accordingly, all intercompany accounts and transactions are eliminated.

On June 18, 2014, the Corporation entered into a Services Agreement with the Greater Houston Convention and Visitors Bureau (the Bureau), which engaged the Corporation to provide advertising and promotional programs on behalf of the Bureau at a minimum of the same levels as previously funded by the Corporation to the Bureau. The Bureau's employees have been added to the Corporation's existing personnel services contracts, effective July 1, 2014. The Services Agreement required the Corporation to amend the Certificate of Formation to increase the number of authorized board members from 11 to 13. The expenses incurred as a result of the Services Agreement are included in operating expenses as Visit Houston expenses.

On May 22, 2018, the City and the Corporation entered into the First Amendment to the lease agreement between the parties to amendment and restate certain provisions pertaining to insurance, damage from casualty and City Council approvals, allocations and appropriations.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Corporation have been prepared on the accrual basis of accounting, a flow of economic resources measurement focus. Under the measurement focus, resources are recognized in the period earned and expenses are recognized in the period incurred.

The Corporation defines operating revenues and expenses consistent with the precepts of Statement of Government Accounting Standards No. 9. Generally, receipts collected or due from customers for providing services are considered operating revenues. The payments or amounts due to provide these services are considered operating expenses. All other receipts and payments are considered nonoperating. The significant accounting policies are described below.

Cash and cash equivalents: The Corporation defines cash and cash equivalents as cash and investments that are highly liquid, with less than three-month maturities when purchased.

Accounts receivable: Accounts receivable are stated at the historical carrying amount net of an allowance for uncollectible accounts. An allowance for uncollectible accounts receivable has been established based on historical experience and any specific customer collection issues that have been identified. Uncollectible accounts receivable are written off when a settlement is reached for an amount that is less than the outstanding historical balance or when management has determined that the balance will not be collected. The allowance for doubtful accounts totaled $4,661,592 as of December 31, 2021.

Prepaid expenses: Prepaid expenses include prepaid insurance, interest and other miscellaneous prepaid expenses. Prepaid insurance is expensed on a straight-line basis over the period of the coverage.

Other assets: Other assets consist of the unamortized balance of prepaid rent that was paid by the Corporation to the City under the Consolidation Interlocal Agreement and the unamortized balance of rent concessions.

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: The Corporation participates in a City investment pool managed internally by City personnel. The Corporation also invests in the Texas Short-Term Asset Reserve Program (TexSTAR). TexSTAR was created in April 2003 under the Interlocal Cooperation Act of the State of Texas Article 4413 (32C), Vernon's Texas Civil Statutes, as amended. It is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. The City's investment funds are administered using a pooling concept, which combines the monies of various City departments for investment purposes (the City's Investment Pools). The Corporation's pro rata share of participation in the City's Investment Pools is displayed in the statement of net position as equity in pooled investments held by the City in accordance with the Governmental Accounting Standard Board (GASB) statement *Accounting Standards Codification on Accounting and Financial Reporting for Certain Investments for External Investment Pools* and are carried at fair value. The fair value adjustment is included as part of interest income. The Corporation is apportioned interest earnings from the City's investment pools based upon the Corporation's relative pro rata share of the applicable investment pool. All of the Corporation's funds in the City's investment pools are restricted for debt service and the TexSTAR investments are unrestricted.

Property, plant and equipment: Property, plant and equipment are recorded at original cost for items purchased. Capital assets are defined as assets with an initial cost of $1,000 or more for Hotel operation and $5,000 or more for others, and an estimated useful life in excess of one fiscal year. Ordinary maintenance and repairs are charged to expense when incurred. Expenses related to the development of real estate are carried at cost, plus capitalized carrying charges.

Management reviews its long-lived assets for impairment whenever events indicate that the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future undiscounted cash flows (without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Depreciation: Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets, ranging from three to 40 years.

Capitalized interest: The Corporation follows GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period,* and no longer capitalizes interest on construction projects.

Leases: The Corporation follows GASB Statement No. 87, *Leases*, which defines the Corporation's leasing arrangement as the right to use an underlying asset as a lessor or lessee.

As lessor, the Corporation recognizes a lease receivable. The lease receivable is measured using the net present value of future lease payments to be received for the lease term and deferred inflow of receivables at the beginning of the lease term. Periodic payments are reflected as a reduction of the discounted lease receivable and as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease.

Re-measurement of lease receivables occur when there are modifications including, but not limited to, changes in the contract price, lease term and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the carrying value of the lease receivable and the related deferred inflow of resources will be reduced and will include a gain or loss for the difference.

Note 2. Summary of Significant Accounting Policies (Continued)

As lessee, the Corporation recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying asset. The right-of-use lease assets are measured based on the net present value of the future lease payments at inception using the incremental borrowing rate. Remeasurement of a lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability. The Corporation calculates the amortization of the discount on the lease liability and report that amount as outflows of resources. Payments are allocated first to accrued interest liability and then to the lease liability.

As a lessee or lessor, the Corporation does not consider variable lease payments in the lease liability and lease receivable calculations but are recognized as outflows of resources in the period in which the obligation was incurred.

For lease contracts that are short-term, the Corporation recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received subsequent to the reporting period.

Debt issuance costs/notes payable: Premiums and discounts included in notes payable are amortized as a component of interest expense over the applicable term using the effective interest method. Debt issuance costs are expensed when incurred.

Unearned revenue: A parcel of land was conveyed to the Corporation by the City for the construction of the Hilton Parking Garage (the Parking Garage), which is attached to the Hotel. The cost of the land was included as unearned revenue at the City's recorded acquisition value of $3,144,362 at the date of transfer. In addition, the City made a grant to the Corporation in the amount of $10 million, which provides the City the right to use up to one-half of the spaces available in the Parking Garage and to share in the net income of the parking proceeds in perpetuity. This right was transferred to the Corporation upon formation.

The Corporation recognizes the unearned revenue as garage revenue ratably over the estimated 39-year useful life of the Parking Garage. Amortization of unearned revenue for the year ended December 31, 2021, totaled $337,035, which is included in garage revenues.

Revenue recognition: Service and other sales revenues are recognized when services are rendered or when revenue is earned, net of sales tax.

Intergovernmental revenue from Primary Government: As part of the Consolidation Interlocal Agreement, the City assigned to the Corporation the net available pledged revenues to pay for operating expenses, capital expenditures and for any other lawful purpose, and they are shown as intergovernmental revenue from Primary Government. The amount of intergovernmental revenue from the City totaled $57,127,628 for 2021 and represents the net HOT and parking revenues of $52,706,120 and other reimbursed expenses of $4,421,507.

The Corporation received a grant award of $2,291,457 in 2021 from the Small Business Administration as direct funding. The funding provided to the Corporation is to support ongoing operating costs of live venues for the period ending December 31. 2021.

Note 2. Summary of Significant Accounting Policies (Continued)

Intergovernmental expenses to Primary Government: As part of the Consolidation Interlocal Agreement, the Corporation agreed to make certain payments primarily for City obligations to the local arts previously paid directly by the Department. At December 31, 2021, the interlocal agreement expenses totaled $16,652,100 of which $12,626,236 and $4,025,864 were related to funding of the arts and sponsorship expense, respectively. In additional to the above payment to City, the Corporation accrued $16,080,615 payable to City to cover the settlement between the Houston Municipal Employees Pension System and the City of Houston for obligations described in Note 9.

Income taxes: The Corporation is exempt from federal income tax under Section 115 (1) of the Internal Revenue Code of 1986.

Effective for taxable years beginning on January 1, 2007, the State of Texas enacted the Revised Texas Franchise Tax, which imposes a tax at the entity level. The Corporation is exempt from the Revised Texas Franchise Tax.

Use of estimates in financial statement preparation: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported financial statement amounts, as well as disclosures. The Corporation's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

New accounting pronouncements: In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement establishes accounting and financial reporting requirements related to the replacement of LIBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after December 31, 2021. The Corporation is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement (1) clarifies rules related to reporting of fiduciary activities under Statements No. 14 and No. 84; (2) mitigate costs for defined contribution plans; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting of Code section 457 plans that meet the definition of a pension plan. The requirements in paragraphs 4 and 5 are effective upon issuance. All other requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2021. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

GASB Statement No. 99, *Omnibus 2022*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to derivative instruments, leases, PPP and APA arrangements, SBITAs and various other topics. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections-Amendment of GASB Statement No. 62*. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2023. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this statement are effective for financial statements for reporting periods beginning after December 15, 2023. The Corporation is evaluating the impact that adoption of this Statement will have on its financial position, results of operations and cash flows.

Note 3. Cash and Cash Equivalents

The Corporation's cash and cash equivalents balance of $33,912,831 as of December 31, 2021, are maintained in cash, demand accounts, escrow and money market mutual funds. The accounts that comprise this balance (which includes the remaining restricted contributions of $3,554,451) are described below:

Demand deposit accounts	$ 33,739,950
Cash on hand	172,881
Total	$ 33,912,831

Note 3. Cash and Cash Equivalents (Continued)

The demand deposit accounts are either fully collateralized by the depository institution primarily in direct obligations of the U.S. government or its agencies, or insured by the Federal Deposit Insurance Corporation (FDIC) except for $3,240,301. The money market account is the sweep balance of one of the demand deposit accounts with a balance of $12,461,530. It is held with a mutual fund managed by Bank of America and invests primarily in direct obligations of the U.S. government or its agencies. There are deposits held by others, as required escrow reserves with VALIC as described at Note 8, and included in the statement of net position totaled $9,212,635 which is not collateralized for amounts in excess of FDIC limit.

Note 4. Equity in Pooled Investments

Short-term equity in pooled investments: As of December 31, 2021, the Corporation's pooled investments included $26,401,151, invested in the TexSTAR. TexSTAR was created in April 2003, under the Interlocal Cooperation Act of the State of Texas Article 4413 (32C), Vernon's Texas Civil Statutes, as amended. It is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. The TexSTAR investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

As with all the investment pools, funds are readily available to support daily cash requirements while maintaining yields slightly higher than standard bank deposit accounts.

Equity in pooled investments—restricted: The City issued bonds in 2001, 2011, 2012, 2014, 2015, 2017 and 2019, a portion of which was for the benefit of the Corporation to fund construction, interest and operating expenses incurred during the construction of the Hotel, the Convention District Projects and the Development and Funding Agreement discussed in Note 6. Certain proceeds were designated as debt service reserve funds to be used by the Corporation to service the debt during the initial months of the Hotel's operations and during periods of decreased operational liquidity. In addition, the Corporation makes monthly payments to the City to fund the semiannual bond payments made by the City. These funds are restricted as debt service funds. All above-referenced funds are held in the City's investment pools. The balance of such accounts at December 31, 2021, totaled $25,430,065.

The City of Houston Investment Pool consists of U.S. Treasury Notes, Agency Notes, Municipal Bonds, Commercial Paper, Certificates of Deposits, Money Market Funds and Mortgaged Backed Securities. Certain investments of the Corporation are commingled in this pool to gain operational efficiency. The City of Houston included the required risk disclosures for its Internal Investment Pool as part of the City's Annual Comprehensive Financial Report which is available on the City's website.

As of December 31, 2021, the Corporation's exposure to interest rate risk as measured by the segmented time distribution by investment type is summarized below:

		Investment Maturities (in Years)	
	Fair Value	Less than 1	1-5
TexSTAR	$ 26,401,151	$ 26,401,151	$ -
Total	$ 26,401,151	$ 26,401,151	$ -

Note 4. Equity in Pooled Investments (Continued)

The Corporation's exposure to credit risk at December 31, 2021, is presented below by investment category as rated by Standard & Poor's:

	Fair Value	Rating
TexSTAR	$ 26,401,151	AAAm by Standard and Poor's
Total investment pools	$ 26,401,151	

Fair value measurements: The Corporation is required to disclose the fair value level of its investments within the fair value hierarchy established by GASB Statement No. 72. In the fair value hierarchy, there are three levels:

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

Level 2: Inputs (other than quoted prices included within level one) that are observable for an asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for an asset or liability.

The Corporation invests in both the City's general pool and TexSTAR investment pool. The City general pool investment is a Level 2 investment. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third-party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments measured at net asset value do not have terms or conditions for redemptions or commitments for additional funding.

TexSTAR is reported at fair value measured at net asset value. Under this method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. When sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics, such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

Note 5. Deposits Held by Others

As discussed in Note 8, the Corporation closed a $125,000,000 mortgage loan with Variable Annuity Life Insurance Company, (VALIC), which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon and certain personal property. In consideration of the Mortgage Loan, VALIC required the Corporation to fund certain reserves to be held with their agent. These reserves represent debt service reserve, the subordinated management fee and the deferred fee from hotel operator, as discussed in Note 9, and a reserve for furniture, fixtures and equipment replacement and renewal. As more fully described in Note 9, the termination of the former Hotel Management Agreement in 2014 caused a corresponding release of the subordinated management fee reserves. As of December 31, 2021, the deposits held by others included in the statement of net position totaled $9,212,635.

Note 6. Notes Receivable and Due From Affiliate

Development and funding agreement: On April 9, 2013, the Corporation entered into a Development and Funding Agreement with the Houston Center Hotel, LLC (Hotel Owner), for the development of an approximately 1,000-room new hotel facility located on the north end of the Convention Center. The Development & Funding Agreement called for the Corporation to purchase and convey the hotel site land to the Hotel Owner and, subject to certain benchmarks, loan $27 million to the Hotel Owner. The purchase price of the hotel site land and other closing cost totaled $32,153,221. The Hotel Owner was obligated to a) design, construct, operate and maintain the hotel facility, and b) reimburse the Corporation annually for the hotel site land and the loan commencing on January 5th of the year following opening of the hotel facility.

The total receivable from the Hotel Owner to the Corporation was $57,886,102 as of December 31, 2021, with $250,000 reported in current other assets in the balance sheets. The note does not bear interest.

Buffalo Bayou Partnership: the Corporation entered into an earnest money contract (the Contract) with Buffalo Bayou Partnership (the Seller). The Seller agreed to sell to the Corporation certain real estate that called for all building and improvements on the property to be modified in accordance with the Contract. Prior to closing, the Seller agreed to receive and the Corporation agreed to advance the purchase price to construct, restore and rehabilitate the improvements located on the land. On September 17, 2018, the Corporation paid the purchase price of $2,499,765 to allow the Seller to complete the design and construction of the Project. The Seller did not complete the improvements. Accordingly, the Corporation as the buyer and the Seller agreed to execute a termination agreement of the Contract along with the associated note for the repayments of $2,499,765.

During fiscal year 2021, the Seller initiated the repayment of the purchase price. Total receivable from the Seller was $2,444,151 as of December 31, 2021.

The scheduled payments on the loan are as follows:

Years ending December 31:	
2022	$ 295,502
2023	296,420
2024	297,357
2025	298,313
2026	299,289
2027-2031	2,761,773
2032-2036	4,289,279
2037-2041	7,819,687
2042-2046	7,853,268
2047-2051	8,390,390
2052-2056	10,431,415
2057-2061	10,161,457
2062-2066	7,136,103
	$ 60,330,253

Note 7. Property, Plant and Equipment—Net

The changes in the Corporation's property, plant and equipment for the year ended December 31, 2021, were as follows:

	December 31, 2020	Additions	Retirements and Reclassifications	December 31, 2021
Property, plant and equipment not subject to depreciation:				
Land	$ 14,824,298	$ -	$ -	$ 14,824,298
Work in process	5,143,881	6,292,125	(959,489)	10,476,517
Total property, plant and equipment not subject to depreciation	19,968,179	6,292,125	(959,489)	25,300,815
Property, plant and equipment subject to depreciation:				
Hotel and garage buildings	606,199,442	1,109,658	959,489	608,268,589
Furnishings and equipment	43,312,126	883,738	-	44,195,864
Total property, plant and equipment subject to depreciation	649,511,568	1,993,396	959,489	652,464,453
Less accumulated depreciation for:				
Hotel and garage buildings	(146,885,513)	(19,655,561)	-	(166,541,074)
Furnishings and equipment	(34,343,676)	(2,336,589)	-	(36,680,265)
Total accumulated depreciation	(181,229,189)	(21,992,150)	-	(203,221,339)
Total property, plant and equipment, net	$ 488,250,558	$ (13,706,629)	$ -	$ 474,543,929

Note 8. Notes Payable

The Corporation's notes payable and related premium for the year ended December 31, 2021, were as follows:

	January 1, 2021	Retirements/ Amortization	Additions	December 31, 2021	Short-Term Payable
Notes payable:					
Notes payable—City of Houston	$ 299,195,000	$ (14,245,000)	$ 26,000,000	$ 310,950,000	$ 19,020,000
Premiums	26,064,615	(3,511,954)	-	22,552,661	1,772,793
Total notes payable-City of Houston	325,259,615	(17,756,954)	26,000,000	333,502,661	20,792,793
Note payable—VALIC	125,000,000	-	-	125,000,000	-
PPP loan payable	-	-	2,601,405	2,601,405	2,601,405
Total notes payable	$ 450,259,615	$ (17,756,954)	$ 28,601,405	$ 461,104,066	$ 23,394,198

Payment of the Corporation's notes payable to the City is based on the amortization of the City hotel-allocated bonds and HFC-allocated bonds. The VALIC loan requires monthly interest payments only until maturity on May 1, 2024.

Note 8. Notes Payable (Continued)

Scheduled principal and interest payments on debt are summarized as follows:

	Total Principal	Interest	Total
Years ending December 31:			
2022	$ 19,020,000	$ 18,640,031	$ 37,660,031
2023	18,925,000	17,811,936	36,736,936
2024	172,525,000	13,849,396	186,374,396
2025	21,295,000	9,805,664	31,100,664
2026	22,010,000	9,021,784	31,031,784
2027-2031	99,350,000	34,533,238	133,883,238
2032-2036	62,330,000	12,653,740	74,983,740
2037-2041	14,835,000	2,974,750	17,809,750
2042-2046	5,660,000	459,000	6,119,000
	$ 435,950,000	$ 119,749,539	$ 555,699,539

On April 3, 2013, the Corporation closed a $125,000,000 mortgage loan with VALIC, which is secured by a deed of trust on the Hilton, its parking garage, the improvements located thereon and certain personal property. The proceeds were used to further economic development in and around the Convention Center and the Hilton, including a new 1,000-room convention center hotel, and to fund the Convention District Projects, including a new 1,900-space parking garage and certain other residential and retail opportunities to be located on the north end of the Convention Center. The initial loan advance of $50,000,000 was funded on April 4, 2013, at an initial interest rate of 3.90%. In March 2014, an additional $30,000,000 was drawn and bears interest at 4.78%. In July 2014, the final draw of $45,000,000 was funded and bears interest at 4.81%. In April 30, 2021, the Maturity date of the note has been extended to May 1, 2024, subject to borrower's right to extend the maturity date up to two (2) times for an additional twelve (12) months each, unless such maturity date, as the same may be extended by Borrower, is further extended or renewed by lender in accordance with the terms of the note, or unless the maturity shall be accelerated for any reason. The outstanding balance as of December 31, 2021, is $125,000,000.

In August 2014, the City issued $73,725,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2014. This issue included $52,195,000 of Serial Bonds with stated interest rates between 2% and 5% maturing in various amounts from 2015 to 2032, and $21,530,000 of Term Bonds with stated interest rates of 5% maturing in various amounts from 2033 to 2039. The true interest cost was 4%. Proceeds were used to (a) refund the City's Outstanding Convention & Entertainment Facilities Department Hotel Occupancy Tax and Special Revenue Refunding Bonds, Series 2012, (b) finance certain project costs and (c) pay the costs of issuance of the bonds. Net present value savings totaled $4.6 million or 11% of the refunded bonds. The outstanding balance as of December 31, 2021, is $67,730,000.

Note 8. Notes Payable (Continued)

On March 19, 2015, the City issued $132,590,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2015. This issue included $99,620,000 Serial Bonds with stated interest rates between 2% and 5% maturing in various amounts from 2015 to 2035, and $32,970,000 of Term Bonds with stated interest rates between 4.0% and 5.0% maturing in various amounts from 2035 to 2044. The true interest cost was 3.3%. Proceeds were used to (a) refund a portion of the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011, (b) refund outstanding commercial paper, (c) finance certain project costs and (d) pay the costs of issuance of the bonds. Of the $132,590,000, the City loaned the Corporation $99,620,000. The outstanding balance as of December 31, 2021, is $79,675,000.

On November 16, 2017, the City issued $12,030,000 of Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2017. This issue has a stated interest rates of 2.55% maturing in 2033. Proceeds were used to refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2011B. Net present value savings totaled $1.9 million or 16.5% of the refunded bonds. The outstanding balance as of December 31, 2021, is $10,300,000.

On November 16, 2017, the City issued $75,000,000 of Convention & Entertainment Facilities Subordinate Lien HOT and Parking Revenue Flexible Rate Notes, Series A (Credit Facility Series A). The Corporation used $6,000,000 of the available Credit Facility Series A in 2021. The taxable variable rate is equal to 100% London Interbank Offered Rate (LIBOR), plus 1.08%. The tax-exempt variable rate is equal to 65.01% LIBOR, plus 0.69%. The commitment fee is equal to 0.20%. The outstanding balance as of December 31, 2021, is $26,000,000.

On April 9, 2019, the City issued $106,320,000 of Convention & Entertainment Facilities Department HOT and Special Revenue and Refunding Bonds, Series 2019. This issue has a stated interest rates of 4% and 5% maturing in 2036. Proceeds were used to (a) refund the City's outstanding Convention & Entertainment Facilities Department HOT and Special Revenue Refunding Bonds, Series 2001 C-1 and 2001 C-2, (b) finance certain Hurricane Harvey related project costs and (c) pay the costs of issuance of the bonds. Net present value savings totaled $5.6 million or 8% of the refunded bonds. The outstanding balance as of December 31, 2021, is $87,445,000.

On May 2, 2019, the City closed on a $50 million Subordinate Lien Hotel Occupancy Tax and Parking Revenue Flexible Rate Notes, Series B (Credit Facility Series B). As of December 31, 2021, there was a $1,000,000 draw on this note and $49,000,000 is available. Interest is variable at the greater of JPMorgan prime or the adjusted one-month LIBOR, plus a spread based upon the rating of the existing senior lien Hotel Occupancy Tax and Parking Revenue Bonds. The commitment fee is equal to 0.1% and the notes terminate on May 2, 2026. The outstanding balance as of December 31, 2021, is $1,000,000.

On May 3, 2019, the City loaned the Corporation $12,500,000, which was used to help finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 2.134% on December 31, 2019, and the note matures on September 1, 2030. The outstanding balance as of December 31, 2021, is $12,500,000.

On December 12, 2019 the City loaned the Corporation an additional $8,900,000, to finance project costs related to Hurricane Harvey. Interest will accrue based on the rate received on the City's commercial paper Series E line, which was 1.30% at December 31, 2019. The note matures on March 1, 2024. The outstanding balance as of December 31, 2021, is $6,300,000.

Note 8. Notes Payable (Continued)

In March and July of 2021, the City loaned the Corporation $10,000,000 and $10,000,000, respectively, which was used to help finance project costs related to Hurricane Harvey. The notes bear interest at the rate equal to a) the rate of the City's commercial paper program or other debt instrument issued by the City, or b) the rate equal to the interest earned on pool cash depending on how the City funds the notes. The interest rate on the note was 1.340% on March 1, 2021, and the note matures on September 1, 2027. The outstanding balance as of December 31, 2021, is $20,000,000.

Of the total $310,950,000 notes payable to the City, $245,150,000 of the principal balance relates to the City's fixed rate bonds and carries interest rates ranging from 2% to 5%; $27,000,000 related to the flexible rate notes and the remaining $38,800,000 related to the notes from the City. Interest presented on the above payment schedule is calculated on the stated interest rate on the fixed-rate bonds and the interest rate on the variable rate notes as of December 31, 2021.

On April 14, 2021, the Corporation was granted $2,601,405 through the Payroll Protection Program loan (PPP loan). The PPP loan is expected to be forgiven in 2022. No interest and principal will be paid.

Note 9. Commitments and Contingencies

Litigation and claims: The Corporation is currently involved in a lawsuit with possible exposure and the related estimated amounts are accrued at December 31, 2021.

Hotel Management Agreement: The Corporation entered into a hotel management agreement (the Management Agreement) on March 21, 2001, with the Hilton Hotels Corporation (the Hotel Operator). The Management Agreement had a term of 15 years and commenced with the opening of the Hotel.

On October 1, 2014, the Corporation executed a Management Agreement Termination Agreement (the Termination Agreement) to terminate the Management Agreement described above and executed a new Management Agreement (the New Management Agreement) with the Hotel Operator for the Hilton, with an effective date of January 1, 2014. In connection with the Termination Agreement, the Hotel Operator released the Corporation from repayment of the unamortized inducement fee from the original agreement, and the Corporation disbursed the accrued subordinated management fee. The New Management Agreement is effective for 15 years and, consistent with the original Management Agreement, the New Management Agreement provides for a base management fee of $1,900,000 and a subordinated management fee of $850,000 (collectively referred to as the Management Fees). The Management Fees adjust annually based on the percentage change in the competitive set's prior 12-month revenue per available room with the base fee to commence adjustment, effective January 1, 2015, and the subordinate fee to commence adjustment, effective January 1, 2017. The subordinate fee is also subject to sufficient operating cash flows (as defined) and any unpaid subordinated fees will accrue. Upon termination of the new management agreement, any unpaid subordinated fees will be due and payable.

Lynn Wyatt Square: The Corporation has undertaken a project to redesign the City property formerly known as Jones Plaza. The $26 million project is being funded by contributions and a $5 million commitment from the Corporation. The Corporation expects to fund their portion in late 2022.

Hurricane Harvey: Under the Consolidation Interlocal Agreement, the Corporation is responsible for rebuilding and repairing the leased facilities in the event of a damage from casualty. The majority of these costs have been reimbursed by the City based on approval of claims and obligation of such funds by FEMA with only $472,990 remaining in the combined commitment at December 31, 2021.

Note 9. Commitments and Contingencies (Continued)

Pension: Since March 2015, the City has been involved in a lawsuit with the Houston Municipal Employees Pension System (HMEPS) the subject of which is the determination of whether employees of certain local government corporations and not-for-profit entities are employees of the City for purposes of the pension. In March 2022, HMEPS and the City reached a tentative settlement. The terms of the tentative settlement are 1) HFC employees will be treated as employees of the City for HMEPS purposes, 2) the City will make payment to HMEPS of $16 million 3) pension contribution payments covering HFC personnel will begin January 2022.

The Corporation has recorded the $16 million liability as a long-term liability at December 31, 2021, since the tentative payment terms call for payments to the City to begin in more than one year. In accordance with GASB 68, the City will remeasure the net pension liability to include HFC employees and assign a proportionate share from the City to the Corporation’s fiscal year ending December 31, 2022. The amount of HFC’s proportionate share cannot be determined at December 31, 2021; however, Management believes such cost will be material to the financial statements.

Guarantee: Every three years, the World Petroleum Council (Council) organizes the World Petroleum Congress as the principal meeting place for a global discussion of oil and gas issues. Following a 12-month campaign period, the City of Houston was selected by its fellow Council members to host the 23rd World Petroleum Congress in December 2021. The WPC Organizing Committee (the Organizing Committee) was established as a 501(c)(6) nonprofit corporation to assist with the organization, administration, management, promotion and operations relating to hosting the event. To induce the Council to execute the agreement with the Organizing Committee, the Corporation agreed to guarantee the full payment and performance of all liabilities, obligations and duties imposed upon the Organizing Committee. As of December 31, 2021, there has been no call on the guarantee. The Corporation is unable to estimate the potential liability, if any.

Note 10. Risk Management

As the owner of the Hotel operated as the Hilton, and as a local government corporation, the Corporation maintains, or has maintained on its behalf, various policies and/or insurance programs to cover the various risks of loss to which it is exposed. Through commercial policies, the following coverages have been secured: property, general liability, umbrella liability, auto and theft. In lieu of a workers’ compensation policy, the Hilton has procured a nonsubscriber program administered by a third-party administrator. Due to the division of responsibilities, the Corporation maintains separate policies for directors and officers, employment practices liability, crime and property.

The Corporation is a defendant in various pending lawsuits arising out of the conduct of its business. Management does not believe that the outcome of any of these matters will have a material adverse effect on the Corporation’s financial position, results of operations or cash flows.

Note 11. Convention Services Agreements

The Corporation has agreements with various hotels to rebate their HOT. The purpose of these agreements is to encourage the development of hotels in the City’s central business district, promote local economic development and stimulate business and commercial. These agreements vary based on the hotel’s proximity to the Convention Center and other criteria determined by the Corporation and require a room block agreement. The room block agreement grants the Corporation access to a specified number of room nights for use with city-wide events.

Note 11. Convention Services Agreements (Continued)

The agreement with Hampton Inn Homewood Suites requires that 100% of their HOT paid will be paid back to them. The hotel has agreed to provide HFC with room blocks for various events in exchange for the agreement. The agreement with and Hampton Inn Homewood Suites is valid until April 1, 2023. The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian and Alessandra state that 50% of their HOT paid will be paid back to them. The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian and Alessandra will expire on September 1, 2021, December 1, 2023, October 1, 2032 and October 1, 2024, respectively. All hotels have agreed to provide HFC with room blocks for various events in exchange for this agreement.

The Corporation paid the following under the aforementioned agreements. Such amounts are included in venue expenses for the year ended December 31, 2021.

JW Marriott	$	284,013
Hampton Inn Homewood Suites		322,241
Aloft Houston		73,049
Alessandra		140,654
LeMeridian		84,262
Total	$	904,219

Note 12. Leases

As lessor: The Corporation leases retail, office, rehearsal and equipment space in its managed facilities to others. The majority of these facilities are subleased from the City of Houston. These leases have terms between 22 months and 60 years, with payments required monthly, semiannually or annually. In addition to the above payments, the Corporation receives variable payments for common area maintenance, percentage of sales, pro rata operating expenses and various utility reimbursements associated with the spaces that are not included in the measurement of lease receivable.

The total amount of inflows of resources recognized for the period ending December 31, 2021, is follows:

		Inflows
Lease revenue	$	2,880,507
Interest income		1,884,215
Other variable		712,659

The Corporation did not have any revenue associated with residual value guarantees and termination penalties. In addition to the lease revenue recognized of $3.5 million, the Corporation recognized other venue related revenue which consist of food and beverage and other concessions revenue of $9.1 million and facility and equipment rental fees for events of $8.4 million.

Note 12. Leases (Continued)

Below is a schedule of future payments that are included in the measurement of the lease receivable:

	Principal	Interest	Total
Years ending December 31:			
2022	$ 1,945,270	$ 1,926,450	$ 3,871,720
2023	2,042,566	1,862,313	3,904,879
2024	2,149,222	1,794,219	3,943,441
2025	2,210,732	1,722,332	3,933,064
2026	2,180,372	1,648,130	3,828,502
2027-2031	11,943,609	7,099,197	19,042,806
2032-2036	15,191,896	4,831,934	20,023,830
2037-2041	12,585,202	2,281,691	14,866,893
2042-2046	7,270,980	715,916	7,986,896
2047-2051	723,580	51,419	774,999
Total	$ 58,243,429	$ 23,933,601	$ 82,177,030

As lessee: The Corporation leases facilities and equipment from others. These leases have terms between three years and six years requiring monthly or annual payments.

As of December 31, 2021, the total amount of right-to-use lease assets by major class, and the related accumulated amortization, disclosed separately from other capital assets is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Leased assets being amortized:				
Leased—equipment	$ 419,496	$ -	$ -	$ 419,496
Leased—real estate	16,252,603	-	-	16,252,603
Total leased assets being amortized	16,672,099	-	-	16,672,099
Less accumulated amortization				
Leased—equipment	(90,053)	(113,078)	-	(203,131)
Leased—real estate	(2,321,800)	(2,321,800)	-	(4,643,600)
Total accumulated amortization	(2,411,853)	(2,434,878)	-	(4,846,731)
Total, net of accumulated amortization	$ 14,260,246	$ (2,434,878)	$ -	$ 11,825,368

The real estate right to use lease asset above is leased from the City of Houston and parts of these facilities are leased to others, as noted above. There are no variable payments for the period ending December 31, 2021. The Corporation did not have other payments attributable to residual value guarantees or termination penalties not previously included in the measurement of the lease liability.

Note 12. Leases (Continued)

As of December 31, 2021, the principal and interest requirements to maturity for the lease liability is as follows:

	Principal	Interest	Total
Years ending December 31:			
2022	$ 2,273,797	$ 422,319	$ 2,696,116
2023	2,339,890	341,238	2,681,128
2024	2,382,783	256,506	2,639,289
2025	2,427,427	170,023	2,597,450
2026	2,592,907	80,618	2,673,525
Total	$ 12,016,804	$ 1,270,704	$ 13,287,508

Note 13. COVID-19

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. As a result of the pandemic, in 2021 the impact lingered in the beginning of the year with several COVID-19 variants emerging; however, the impact was somewhat offset by the wide availability of vaccines and boosters. The middle of fiscal year 2021 saw a return to in-person meetings, albeit with lower than pre-pandemic less attended. The beginning of 2022 has seen much better attendance and Management expects revenues to be returning to near pre-pandemic levels.

The City, as the primary government of the Corporation, provided $15 million in financial assistance in 2020, as well as $20 million in loans at rates more favorable than the Subordinated Note program in 2021. In addition, the Corporation has $98 million available on the Subordinated Note program at December 31, 2021, if needed, to cover future cash needs.

Note 14. Subsequent Events

Settlement: In March 2022, the City and HMEPS have reached a tentative settlement more fully described in Note 9.