

Houston First Corporation

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

Financial Statements as of and for the
Year Ended December 31, 2020
and Independent Auditor's Report Thereon

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RSM US LLP

Independent Auditor's Report

Board of Directors of
Houston First Corporation
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Houston First Corporation (the Corporation), which comprise the Statement of Net Position as of December 31, 2020, and the related Statement of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed on the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Houston First Corporation as of December 31, 2020 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12, effective January 1, 2020, the Corporation adopted Statement No. 87 of the Governmental Accounting Standards Board, *Leases*. The implementation of Statement No. 87 restated beginning net position. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as listed in 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 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.

RSM US LLP

San Antonio, Texas
September 28, 2021

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

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, 2020, 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 also agreed to pay 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 or GHCVB), which engaged the Corporation to provide

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Management's Discussion and Analysis (Unaudited)

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 2 Bureau board members. 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 amend and restate certain provisions pertaining to insurance, 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 Statement 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: 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 and the various restrictions and guidelines related to controlling its spread, most event organizers and arts groups cancelled or postponed revenue-producing events and productions in the Corporation managed facilities for the remaining year. In addition, most business travel ceased for the remainder of the year. Most Houston businesses required employees to work from home. These conditions resulted in a significant reduction in planned revenues.

In response to the reduction in all of the major sources of revenue and the significantly reduced use of the managed facilities, the Corporation's Board of Directors adopted an emergency budget for the remainder of the calendar year. The reduced expenditure budget recognized a period of limited activity in all facilities managed by the Corporation. Personnel expenditure reductions were implemented and included both layoffs and furloughs, as well as salary reductions of remaining personnel.

The City, as the primary government of the Corporation, provided \$15 million in financial assistance, as well as a commitment for a \$20 million loan at rates more favorable than the Subordinated Note program.

The measures noted above, combined with existing reserves ensured the corporation had adequate funds to service debt and maintain the facilities.

Houston First Corporation
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Management's Discussion and Analysis (Unaudited)

Implementation of Governmental Accounting Standards Board (GASB) Statement No. 87: The Corporation implemented GASB 87 effective January 1, 2020; this had a major impact on the Corporation's assets, liabilities, deferred inflow of resources and net position. GASB 87 requires the net present value of the payment stream associated with the right to use an asset be included in the Statement of Net Position, whether as lessee or lessor. As a result of the implementation, the Statement of Net Position includes the following balances at December 31, 2020:

Current assets:	
Lease receivable	\$1,883,567
Noncurrent assets:	
Lease receivable	\$59,709,918
Right to use lease asset	14,260,245
Current liabilities:	
Current portion of the lease payable	2,212,206
Noncurrent liabilities:	
Lease payable	12,016,802
DEFERRED INFLOW OF RESOURCES:	
Deferred amounts from leases	59,551,231

In addition, GASB 87 required net position as of December 31, 2019 to be restated as follows:

Net position, as previously stated	\$162,680,811
Effect of GASB Statement No. 87	<u>(14,884,478)</u>
Unrestricted net position, as restated	<u>\$147,796,333</u>

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

Management's Discussion and Analysis (Unaudited)

CONDENSED STATEMENT OF NET POSITION INFORMATION

DECEMBER 31, 2020, AND 2019

	2020 (Restated)	2019
Current assets	\$ 74,731,598	\$ 141,874,193
Noncurrent assets	158,284,733	96,009,189
Capital assets	488,250,559	483,451,673
Total assets	\$ 721,266,890	\$ 721,335,055
Deferred outflow of resources	\$ 4,093,272	\$ 4,408,659
Current liabilities	\$ 89,944,594	\$ 124,848,281
Long-term liabilities	449,357,468	438,214,622
Total liabilities	\$ 539,302,062	\$ 563,062,903
Deferred inflow of resources	\$ 59,551,231	\$ -
Net investment in capital assets	\$ 162,707,461	\$ 140,129,459
Restricted for debt service	6,230,832	3,943,537
Restricted—other	-	217,627
Unrestricted	(42,431,424)	18,390,188
Net position	\$ 126,506,869	\$ 162,680,811

Net Position: The Corporation's net position decreased \$36,173,942 to \$126,506,869 at December 31, 2020, from \$162,680,811 at December 31, 2019, representing a 22.24% decrease. Of this decrease, \$23,760,841 is attributable to a decrease in liabilities offset by an increase in deferred inflow of resources of \$59,551,231, as described below. In addition, implementation of GASB Statement No. 87 caused a \$14,884,478 restatement in beginning net position.

Total assets decreased \$68,164 to \$721,266,890 at December 31, 2020, from \$721,335,055 at December 31, 2019. This decrease was primarily the result of a decrease in cash and cash equivalents, accounts receivable, net and short-term equity in pooled investments in current assets of \$62,321,643, caused by loss of revenues from the effects of the COVID-19 pandemic on the hospitality and convention industry. This was offset by an increase in lease receivable in noncurrent assets of \$59,709,918 as a result of the implementation of GASB Statement No. 87, and an increase in property, plant and equipment, net as described below.

Total liabilities decreased \$23,760,841 to \$539,302,062 in 2020, from \$563,062,903 in 2019. The majority of the change was attributable to a decrease in current portion of notes payable of \$25,391,818 as described below.

Deferred inflow of resources increased to \$59,551,231 in 2020, due to the implementation of GASB Statement No. 87.

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Management's Discussion and Analysis (Unaudited)

Property, Plant and Equipment

Property, plant and equipment, net increased by \$4,798,886 to \$488,250,559 in 2020 from \$483,451,673 in 2019. This increase was caused by acquisitions of \$25,783,358, offset by depreciation expense of \$20,984,472. Acquisitions were the result of continuing work on Hilton room refresh project and restoration work from Hurricane Harvey.

Debt Payment and Issuance

The Corporation made required principal payments totaling \$11,300,000 and \$10,920,000 in 2020 and 2019, respectively. In addition, in January 2020 the Corporation made additional principal payments totaling \$32,000,000 on the 2017 Subordinate Lien Flexible Rate Notes, Series A.

In March 2020, the Corporation drew \$20,000,000 on the 2017 Subordinate Lien Flexible Rate Notes, Series A. In July, the Corporation drew \$1,000,000 on the 2019 Subordinate Lien Flexible Rate Notes, Series B. As of December 31, 2020, the Corporation had \$55,000,000 available on the 2017 Subordinate Lien Flexible Rate Notes, Series A and \$49,000,000 available on the 2019 Subordinate Lien Flexible Rate Notes, Series B.

The total notes payable balance includes the Corporation's allocable portion of the unamortized bond premiums, net of discounts, which totaled \$26,064,615 and \$29,693,354 at December 31, 2020 and 2019, respectively.

The Corporation funds 1/12th of the annual debt service payment each month so that, on 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 \$23,932,368 and \$22,946,278 at December 31, 2020 and 2019, respectively.

Houston First Corporation
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Management's Discussion and Analysis (Unaudited)

CONDENSED STATEMENTS OF CHANGES IN NET POSITION INFORMATION

DECEMBER 31, 2020 AND 2019

	2020 (Restated)	2019
OPERATING REVENUES:		
Hotel revenues	\$ 27,677,033	\$ 91,626,259
Venue revenues	19,683,056	24,674,003
Parking revenues	5,622,653	14,042,926
Other operating revenues	8,787,211	4,182,050
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Total operating revenues	61,769,953	134,525,238
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OPERATING EXPENSES:		
Hotel expenses	12,953,739	41,264,764
Venue expenses	26,863,305	31,363,911
Parking expenses	6,283,032	9,791,712
Visit Houston expenses	10,717,269	23,867,221
General and administrative	30,896,772	40,320,876
Enterprise development	2,644,797	4,375,535
Hurricane Harvey costs	345,289	294,706
Depreciation and amortization	20,984,471	17,715,532
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Total operating expenses	111,688,674	168,994,257
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OPERATING LOSS	(49,918,721)	(34,469,019)
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NONOPERATING REVENUES (EXPENSES):		
Intergovernmental revenue from primary government	60,712,154	154,617,775
Interlocal agreement expenses - primary government (sponsorship)	(3,233,955)	(5,789,215)
Interlocal agreement expenses - primary government	(10,972,376)	(18,328,517)
Interest expense	(16,369,249)	(19,126,549)
Interest income	1,562,180	2,119,022
Loss on capital assets disposal	(3,069,497)	3,857
	<hr/>	<hr/>
Total nonoperating revenues	28,629,257	113,496,373
	<hr/>	<hr/>
CHANGE IN NET POSITION	(21,289,464)	79,027,354
	<hr/>	<hr/>
NET POSITION—Beginning of year,	147,796,333	83,653,457
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NET POSITION—End of year	\$ 126,506,869	\$ 162,680,811
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Houston First Corporation
(A Component Unit of the City of Houston, Texas)

Management's Discussion and Analysis (Unaudited)

Operating Revenues

Total operating revenues for 2020 and 2019 were \$61,769,953 and \$134,525,238, respectively, which represents a 54.08% decrease of \$72,755,285. The majority of the decrease in operating revenues for 2020 was attributable to the impact of the COVID-19 pandemic on the hospitality and convention industries.

Operating Expenses

Total operating expenses decreased \$57,305,583 to \$111,688,674 in 2020, from \$168,994,257 in 2019. As discussed above, the decrease was due to the reduced use of the managed facilities and HFC's efforts to manage the effects of COVID-19 on the financial condition of the organization.

The Corporation's operating loss, which includes the noncash charge of depreciation, totaled \$49,918,721 and \$34,469,019, in 2020 and 2019, 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 2020, the intergovernmental revenue from Primary Government decreased \$93,905,620 to \$60,712,154 from \$154,617,775 in 2019. This decrease was due to the combination of a reduction of HOT and pledged parking revenues caused by the pandemic, combined with a reduction of other reimbursements from Primary Government for Hurricane Harvey related costs.

Interlocal Agreement 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, 2020, and 2019, these payments totaled \$10,972,376, and \$18,328,517, respectively. As the largest of these payments is based on HOT revenues, the majority of the decrease of \$7,356,141 was directly related to the corresponding reduction in HOT revenues.

Interest Expense

Interest expense decreased \$2,757,300 in 2020 to \$16,369,249 in 2020 from \$19,126,549 in 2019. The decrease was primarily due to the cost of issuance from new debt offerings in 2019.

Economic Factors and Next Year's Budget

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. Many Houston businesses have employees returning to work, some on a more hybrid model. However, COVID-19 variants are causing cancellations and postponement of large events. COVID-19 continues to impact the hospitality and convention industries into 2021 and, to a lesser extent, is expected to continue into 2022.

HFC has managed expenses in 2021, but will draw on the City's \$20 million commitment, as well as draw on the available Subordinated Note program. Analysis of previous economic downturns reveals a three to four year time span for revenues to return to pre-downturn. 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 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.

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)
STATEMENT OF NET POSITION
December 31, 2020

	2020
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 15,730,570
Accounts receivable, net	8,138,203
Notes receivable-current	250,000
Prepaid expenses and other current assets	6,175,056
Deposits held by others-current	3,044,919
Lease receivable	1,883,567
Short-term equity in pooled investments	39,509,283
Total current assets	<u>74,731,598</u>
NON-CURRENT ASSETS:	
Notes receivable	60,382,202
Equity in pooled investments-Restricted	23,932,368
Property, plant and equipment—net	488,250,559
Lease receivable	59,709,918
Right to use lease asset	14,260,245
Total non-current assets	<u>646,535,292</u>
Total assets	<u>721,266,890</u>
DEFERRED OUTFLOW OF RESOURCES:	
Deferred amounts from refunding of debt	4,093,272
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	\$ 11,861,864
Accrued interest	4,810,743
Accrued expenses	5,041,136
Due to City of Houston	44,939,298
Subordinated management fee	773,711
Current portion of note payable	19,968,601
Current portion lease payable	2,212,206
Current portion of unearned revenue	337,035
Total current liabilities	<u>89,944,594</u>
LONG-TERM LIABILITIES:	
Notes payable	430,291,014
Unearned revenue	7,049,652
Lease payable	12,016,802
Total long-term liabilities	<u>449,357,468</u>
Total liabilities	<u>539,302,062</u>
DEFERRED INFLOW OF RESOURCES:	
Deferred amounts from lease	59,551,231
Total liabilities and deferred inflows of resources	<u>598,853,293</u>
NET POSITION	
Net investment in capital assets	162,707,462
Restricted for debt service	6,230,832
Unrestricted	(42,431,424)
Total net position	<u>\$ 126,506,869</u>

See notes to the 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, 2020

	2020
OPERATING REVENUES:	
Hotel revenues	\$ 27,677,033
Venue revenues	19,683,056
Parking revenues	5,622,653
Other operating revenues	<u>8,787,211</u>
Total operating revenues	<u>61,769,953</u>
OPERATING EXPENSES:	
Hotel expenses	12,953,739
Venue expenses	26,863,305
Parking expenses	6,283,032
Visit Houston expenses	10,717,269
General and administrative expenses	30,896,772
Enterprise development expenses	2,644,797
Hurricane Harvey costs	345,289
Depreciation and amortization	<u>20,984,471</u>
Total operating costs and expenses	<u>111,688,674</u>
OPERATING LOSS	<u>(49,918,721)</u>
NONOPERATING REVENUES (EXPENSES):	
Intergovernmental revenue from primary government	60,712,154
Interlocal agreement expenses—primary government (sponsorship)	(3,233,955)
Interlocal agreement expenses—primary government	(10,972,376)
Interest expense	(16,369,249)
Interest income	1,562,180
Loss on capital assets disposal	<u>(3,069,497)</u>
Total nonoperating revenues	<u>28,629,257</u>
DECREASE IN NET POSITION	(21,289,464)
NET POSITION—Beginning of year, as restated (Note 12)	<u>147,796,333</u>
NET POSITION—End of year	<u><u>\$ 126,506,869</u></u>

See notes to the financial statements.

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 65,043,897
Cash payments to suppliers for goods and services	(73,293,052)
Cash payments for personnel services contract	(33,230,615)
Cash from intergovernmental payments from primary government	69,618,346
Cash payments for Interlocal agreement to the primary government	(10,972,376)
Cash payments for interlocal agreement to the primary government-sponsorships	(3,233,956)
Cash payments for Hurricane Harvey costs	(345,289)
Net cash provided by operating activities	<u>13,586,955</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments for interest	<u>(2,624,933)</u>
Net cash used in noncapital financing activities	<u>(2,624,933)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Payments for interest	(16,852,325)
Principal payment on notes payable	(43,300,000)
Proceeds from debt financing	21,000,000
Payment for deposits held by others	5,651,196
Acquisition of property, plant, and equipment	(36,885,868)
Net cash used in capital and related financing activities	<u>(70,386,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	1,562,180
Purchase of investments	(34,993,678)
Proceeds from sales and maturities of investments	43,327,138
Net cash provided by investing activities	<u>9,895,640</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(49,529,335)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>65,259,905</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 15,730,570</u>

(Continued)

HOUSTON FIRST CORPORATION
(A Component Unit of the City of Houston, Texas)
STATEMENTS OF CASH FLOWS—CONTINUED
YEAR ENDED DECEMBER 31, 2020

2020

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating loss	<u>\$ (49,918,721)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	20,984,471
Intergovernmental payments from the primary government	60,712,154
Interlocal agreement payments to the primary government	(13,362,249)
Interlocal agreement payments to the primary government (sponsorship)	(3,233,956)
Decrease in accounts receivable—net	3,690,387
Decrease in prepaid expenses and other assets	835,696
Increase in other assets	(2,203,769)
Decrease in accounts payable	(10,280,329)
Decrease in accrued expenses	(4,516,352)
Increase in due to primary government	11,296,065
Decrease in deferred revenue	(416,442)
	<u>63,505,676</u>
Net cash provided by operating activities	<u>\$ 13,586,955</u>
NONCASH TRANSACTIONS:	
Fair market value adjustment related to investments	<u>\$ (114,642)</u>

See notes to the financial statements.

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

Note 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.

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

Note to Financial Statements

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 is 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 \$2,705,000 as of December 31, 2020.

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.

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

Note to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 (see Note 9).

Investments—The Corporation participates in a City investment pool managed internally by City personnel. The Corporation also invest 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 statements 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. The loss of capital assets recognized by the Corporation during the year ended December 31, 2020 totaled \$3,069,000.

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.

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.

Houston First Corporation
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Note to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2020 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 \$60,712,154 for 2020, and represents the HOT and parking revenues remaining after debt service of \$16,413,358, other reimbursed expenses of \$44,298,795.

Interlocal Agreement 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, 2020, the interlocal agreement expenses totaled \$14,206,331 of which \$10,972,376 and \$3,233,955 were related to funding of the arts and sponsorship expense, respectively.

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 June of 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB Statement No. 87 are effective for reporting periods beginning after June 15, 2021. The Corporation early adopted GASB Statement No. 87 effective January 1, 2020.

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

Note to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

In March of 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an LIBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Corporation has not yet determined effect on its financial position, results of operations or cash flows upon adoption.

In March of 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter into public-private and public-public partnership arrangements and provides guidance for availability payment arrangements. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Corporation has not yet determined effect on its financial position, results of operations or cash flows upon adoption.

In May of 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides. The requirements of this statement are effective immediately. The impact is that the Corporation is allowed to delay the implementation dates of GASB Statements that have not been adopted.

In May of 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for Subscription based information technology arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance and consistency of information about SBITAs. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Corporation has not yet determined effect on its financial position, results of operations, or cash flows upon adoption.

In June 2020, GASB issued Statement No 97 Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The objectives of this statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Corporation has not yet determined effect on its financial position, results of operations, or cash flows upon adoption.

Houston First Corporation
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Note to Financial Statements

Note 3. Cash and Cash Equivalents

The Corporation's cash and cash equivalents balance of \$15,630,570 as of December 31, 2020, are maintained in cash, demand accounts, escrow, and money market mutual funds. The accounts that comprise this balance are described below:

Demand deposit accounts	\$ 15,662,705
Cash on hand	67,865
Total	<u>\$ 15,730,570</u>

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 except for \$581,659. The money market account is the sweep balance of one of the demand deposit accounts. 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.

Note 4. Equity in Pooled Investments

Short-Term Equity in Pooled Investments—As of December 31, 2020, the Corporation's pooled investments included \$39,509,283, invested 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 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, 2020 totaled \$23,932,368.

The City of Houston Investment Pool consists of U.S. Treasury Notes, Agency Notes, Municipal Bonds, Certificates of Deposits, Money Market Funds and Mortgaged Backed Securities. Certain investment 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 Comprehensive Annual Financial Report which is available on the City's website.

Houston First Corporation
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Note to Financial Statements

Note 4. Equity in Pooled Investments (Continued)

As of December 31, 2020, the Corporation's exposure to interest rate risk as measured by the segmented time distribution by investment type is summarized below:

	Fair Value	Investment Maturities in Years	
		Less than 1	1-5
TexSTAR	\$ 39,509,283	\$ 39,509,283	\$ -
Total	\$ 39,509,283	\$ 39,509,283	\$ -

The Corporation's exposure to credit risk at December 31, 2020 is presented below by investment category as rated by Standard & Poor's:

	Fair Value	Rating
TexSTAR	\$ 39,509,283	AAAm by Standard & Poor's
Total	\$ 39,509,283	

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:

1. 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
2. Level 2: inputs (other than quoted prices included within level one) that are observable for an asset or liability, either directly or indirectly
3. 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.

TexSTAR is 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.

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

Note to Financial Statements

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. The reserves represent 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, 2020, the deposits held by others included in the statement of net position totaled \$3,044,919.

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 \$58,136,102 as of December 31, 2020, 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 2020, the Seller initiated the repayment of the purchase price. Total receivable from the Seller was \$2,496,100 as of December 31, 2020

Houston First Corporation
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Note to Financial Statements

Note 6. Notes Receivable and Due From Affiliate (Continued)

The scheduled payments on the loan are as follows:

	Total Payments
Years Ending December 31:	
2021	\$ 294,601
2022	295,502
2023	296,420
2024	297,357
2025	2,048,313
2026-2030	3,256,593
2031-2035	6,783,556
2036-2040	7,813,352
2041-2045	7,846,279
2046-2050	9,882,666
2051-2055	10,422,873
2056-2060	10,258,587
2061-2065	1,136,102
	<u>\$ 60,632,202</u>

Note 7. Property, Plant and Equipment—Net

The changes in the Corporation's property, plant and equipment for the year ended December 31, 2020, were as follows:

	2019	Additions	Retirements and Reclassifications	2020
Property, plant and equipment not subject to depreciation:				
Land	\$ 14,824,298	\$ -	\$ -	\$ 14,824,298
Work in process	13,163,945	1,453,946	(9,474,010)	5,143,881
Total property, plant, and equipment not subject to depreciation	<u>27,988,243</u>	<u>1,453,946</u>	<u>(9,474,010)</u>	<u>19,968,179</u>
Property, plant and equipment subject to depreciation:				
Buildings	574,159,500	32,841,699	(801,757)	606,199,442
Furnishings and equipment	48,830,849	961,723	(6,480,445)	43,312,127
Total property, plant and equipment subject to depreciation	<u>622,990,349</u>	<u>33,803,423</u>	<u>(7,282,202)</u>	<u>649,511,569</u>
Less accumulated depreciation for:				
Hotel and garage buildings	(129,235,365)	(18,451,905)	801,757	(146,885,513)
Furnishings and equipment	(38,291,554)	(2,532,567)	6,480,445	(34,343,676)
Total accumulated depreciation	<u>(167,526,919)</u>	<u>(20,984,473)</u>	<u>7,282,202</u>	<u>(181,229,189)</u>
Total property, plant and equipment, net	<u>\$ 483,451,673</u>	<u>\$ 14,272,896</u>	<u>\$ (9,474,010)</u>	<u>\$ 488,250,559</u>

Houston First Corporation
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Note to Financial Statements

Note 8. Notes Payable

The Corporation's notes payable and related premium for the year ended December 31, 2020 were as follows:

	January 1, 2020	Retirements/ Amortization	Additions	December 31, 2020	Short Term Payable
Notes payable:					
Notes payable—City of Houston	\$ 321,495,000	\$ (43,300,000)	\$ 21,000,000	\$ 299,195,000	\$ 17,195,000
Premium—net of discount	29,693,354	(3,628,739)	-	26,064,615	2,773,601
Total notes payable—City of Houston	351,188,354	(46,928,739)	21,000,000	325,259,615	19,968,601
Note payable—VALIC	125,000,000	-	-	125,000,000	-
Total notes payable	<u>\$ 476,188,354</u>	<u>\$ (46,928,739)</u>	<u>\$ 21,000,000</u>	<u>\$ 450,259,615</u>	<u>\$ 19,968,601</u>

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. Subsequent to year-end but prior to issuance of this report, the Corporation renewed the VALIC loan. (See Note 13.)

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

	Total Principal	Interest	Total
Years Ending December 31:			
2021	\$ 17,195,000	\$ 18,841,853	\$ 36,036,853
2022	18,900,000	18,139,531	37,039,531
2023	143,795,000	13,926,811	157,721,811
2024	37,390,000	10,690,665	48,080,665
2025	16,155,000	9,478,558	25,633,558
2026-2030	91,785,000	38,226,445	130,011,445
2031-2035	70,180,000	16,081,393	86,261,393
2036-2040	21,395,000	4,044,500	25,439,500
2041-2044	7,400,000	755,000	8,155,000
	<u>\$ 424,195,000</u>	<u>\$ 130,184,756</u>	<u>\$ 554,379,756</u>

Houston First Corporation
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Note to Financial Statements

Note 8. Notes Payable (Continued)

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%. The interest rates are effective through maturity.

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.

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 2.0% and 5.0% 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. Net present value savings totaled \$9.2 million or 13.1% of the refunded bonds.

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 16.50% of the refunded bonds.

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). As of December 31, 2020, the outstanding balance was \$20,000,000. The taxable variable rate is equal to 100% 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%.

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.

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Note to Financial Statements

Note 8. Notes Payable (Continued)

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, 2020 there were \$1,000,000 draws on this note and \$49,000,000 is available. Interest is variable at the greater of JPMorgan prime or the adjusted one month LIBOR rate 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.

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.

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.

Of the total \$299,195,000 notes payable to the City, \$256,795,000 of the principal balance relates to the City's fixed rate bonds and carries interest rates ranging from 2.0% to 5%; \$21,000,000 related to the flexible rate notes and the remaining \$21,400,000 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, 2020.

Note 9. Commitments and Contingencies

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.

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 \$1,137,981 remaining in the combined commitment at December 31, 2020.

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Note to Financial Statements

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. If HMEPS prevails, the City may be subject to additional funding requirements which could result in those costs being passed on to the Corporation, the amount of which cannot be determined at this time. Management believes such cost could be material to the financial statements. The City has appealed and intends to continue to vigorously defend this litigation.

Hilton Room Refresh—The Corporation has undertaken a project to refresh the rooms at the Hilton Americas-Houston. Each of the 1,237 rooms are being updated to include substantial redesign of the bathrooms and improvements to amenities. At December 31, 2020, the project was approximately 100% complete with a remaining obligation of approximately \$44,761.

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, 2020 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.

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.

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Note to Financial Statements

Note 11. Convention Services Agreements (Continued)

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 Marriot, 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, 2020.

JW Marriott	\$ 284,013
Hampton Inn Homewood Suites	322,241
Aloft Houston	73,048
LeMeridian	84,262
Total	\$ 763,564

Note 12. Leases

On January 1, 2020, the Corporation implemented GASB Statement No. 87, Leases, to match July 1, 2020 implementation of the City of Houston, the Corporation primary government. This change in accounting principle required retrospective application to prior periods resulting in the restatement of net position at the beginning of the year. A summary of the restated balance is as follows:

	As Previously Reported	GASB Statement No. 87 Impact	Restatement Reported
Lease receivable	\$ -	\$ 61,593,486	\$ 61,593,486
Right to use lease asset	-	14,260,246	14,260,246
Other assets—net	14,884,478	(14,884,478)	-
Lease payable	-	14,229,008	14,229,008
Deferred inflow from lease	-	59,551,234	59,551,234
Net Position	162,680,811	(14,884,478)	147,796,333

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.

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Note to Financial Statements

Note 12. Leases (Continued)

The total amount of inflows of resources recognized for the period ending December 31, 2020 is follows:

	<u>Inflows</u>
Lease revenue	\$ 3,055,206
Interest income	1,022,483
Other variable	779,212

The Corporation did not recognized revenue associated with residual value guarantees and termination penalties.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,883,568	\$ 2,020,911	\$ 3,904,479
2022	1,948,963	1,949,905	3,898,868
2023	2,024,904	1,886,290	3,911,194
2024	2,119,222	1,819,174	3,938,396
2025	2,176,764	1,748,481	3,925,245
2026-2030	12,297,319	7,575,692	19,873,011
2031-2035	15,793,189	5,225,307	21,018,496
2036-2040	13,939,641	2,537,358	16,476,999
2041-2045	7,552,504	951,752	8,504,256
2046-2050	1,784,856	91,338	1,876,194
2051	72,555	2,445	75,000
Total	<u>\$ 61,593,485</u>	<u>\$ 25,808,653</u>	<u>\$ 87,402,138</u>

As Lessee—The Corporation leases facilities and equipment from others. These leases have terms between 3 years and 6 years requiring monthly or annual payments.

As of December 31, 2020, 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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Leased assets being amortized:				
Leased—equipment	\$ 419,496	\$ -	\$ -	\$ 419,496
Leased—real estate	16,252,603	-	-	16,252,603
Total leased assets being amortized	<u>16,672,099</u>	<u>-</u>	<u>-</u>	<u>16,672,099</u>
Less accumulated amortization				
Leased—equipment	(90,053)	-	-	(90,053)
Leased—real estate	(2,321,800)	-	-	(2,321,800)
Total accumulated amortization	<u>(2,411,853)</u>	<u>-</u>	<u>-</u>	<u>(2,411,853)</u>
Total, net of accumulated amortization	<u>\$ 14,260,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,260,246</u>

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Note to Financial Statements

Note 12. Leases (Continued)

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. The amount of lease expenses recognized for variable payment not included in the measurement of the lease liability are \$0.0 for the period ending December 31, 2020. The Corporation did not recognized other payments attributable to residual value guarantees or termination penalties not previously included in the measurement of the lease liability.

As of December 31, 2020, the principal and interest requirements to maturity for the lease liability is as follows:

	Principal	Interest	Total
Year Ending December 31:			
2021	\$ 2,212,206	\$ 502,095	\$ 2,714,301
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	2,592,905	80,618	2,673,523
Total	\$14,229,008	\$ 1,772,799	\$16,001,807

Note 13. Subsequent Events

On March 1, 2021 and July 1, 2021, the Corporation drew \$10,000,000, respectively, from the City loan to support recovery activities related to Hurricane Harvey. The City loan has a variable interest rate, which is at 1.340% for the outstanding draws. The note matures on September 1, 2027.

On April 28, 2021, the Corporation drew \$6,000,000 from Convention & Entertainment Facilities Subordinate Lien HOT and Parking Revenue Flexible Rate Notes, Series A.

Payroll Protection Program (PPP) loan: On April 19, 2021, the Corporation received funding from the U.S. Small Business Administration (SBA) for a PPP loan for \$2,601,405. The proceeds are being used to fund payroll costs at the Hilton Americas-Houston in 2021.

Shuttered Venue Operators Grant: On July 21, 2021, the Corporation received a \$660,503 Shuttered Venue Operators Grant from the SBA. The purpose of this grant is to offset economic hardships caused by COVID-19 on venue operators.

Note 14. COVID

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 and the various restrictions and guidelines related to controlling its spread, most event organizers and arts groups canceled or postponed revenue-producing events and productions in the Corporation managed facilities for the remaining year. In addition, most business travel ceased for the remainder of the year. Most Houston businesses required employees to work from home. These conditions resulted in a significant reduction in planned revenues.

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Note to Financial Statements

Note 14. COVID (Continued)

In response to the reduction in all of the major sources of revenue and the significantly reduced use of the managed facilities, the Corporation's Board of Directors adopted an emergency budget for the remainder of the calendar year. The reduced expenditure budget recognized a period of limited activity in all facilities managed by the Corporation. Personnel expenditure reductions were implemented and included both layoffs and furloughs, as well as salary reductions of remaining personnel.

The City, as the primary government of the Corporation, provided \$15 million in financial assistance, as well as a commitment for a \$20 million loan at rates more favorable than the Subordinated Note program.