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

Financial Report
December 31, 2022

Contents

Independent Auditor's Report

Board of Directors
Houston First Corporation

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, 2022, 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, 2022, 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). 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.

Emphasis of Matter
As discussed in Note 14, the Corporation adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* The impact to the financial statements, as a result of adoption is disclosed in Note 14. Our opinion is not modified with respect to this matter.

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 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, 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 and the schedule of the Corporation's proportionate share of net pension liability and schedule of contributions-Houston Municipal Employees' Retirement System 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.

RSM US LLP

San Antonio, Texas
June 22, 2023

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). Hilton Management LLC manages 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 onetime 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, and otherwise managing 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 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 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.

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 Statements 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 reports 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 14–33 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.

Debt: The corporation has continued to manage expenses in 2022, which eased cash flow concerns and allowed a pay down of approximately $6 million in excess of the scheduled debt service requirements for FY2022.

Pension: The pension lawsuit was settled in 2022 between the City and Houston Municipal Employees' Retirement System. The settlement resulted in the provision of certain pension benefits to the Corporation's employees. Consistent with cost sharing pension plan requirements, the City determined the Corporation's allocable share of the pension costs based on the proportionate share of the annual required contributions. In accordance with GASB 68, the Corporation has been allocated a portion of the City's pension liability, deferred outflows, deferred inflows and pension expense as more fully discussed in Note 14.

Condensed Statements of Net Position Information
December 31, 2022 and 2021

	2022	2021
Current assets	$ 92,257,967	$ 84,508,871
Noncurrent assets	140,314,020	141,762,975
Capital assets	477,480,453	486,369,297
Total assets	710,052,440	712,641,143
Deferred outflows of resources	16,812,280	3,777,885
Current liabilities	74,342,550	83,501,919
Long-term liabilities	452,392,633	470,234,511
Total liabilities	526,735,183	553,736,430
Deferred inflow of resources	54,078,612	54,590,506
Net investment in capital assets	136,839,889	120,696,516
Restricted for debt service	6,000,139	7,493,341
Restricted-other	5,478,468	3,554,451
Unrestricted deficit	(2,267,572)	(23,652,216)
Net position	$ 146,050,924	$ 108,092,092

Net position: The Corporation's net position increased $37,958,832 to $146,050,924 at December 31, 2022 from $108,092,092 at December 31, 2021, representing a 35.1% increase. This increase is attributable to a decrease in total liabilities of $27,001,247, combined with an increase in deferred outflows of resources of $13,034,394, offset by a decrease in total assets of $2,588,703.

Total liabilities decreased $27,001,247 to $526,735,183 in 2022, from $553,736,430 in 2021. The change was attributable to a decrease in current portion and long-term portion of notes payable of $4,469,198 and $26,415,205, respectively, as described below, as well as a decrease of $10,746,688 in due to City of Houston caused by the use of working capital. These decreases were offset by an increase in pension liability of $11,069,398 as described above and in Note 14, combined with a $2,844,721 increase in accounts payable due to the return of normal operations.

Total assets decreased $2,588,703 to $710,052,440 at December 31, 2022, from $712,641,143 at December 31, 2021. This decrease was primarily the result of a decrease of $8,888,845 in capital assets, as described below, combined with an increase in current assets of $7,749,097. The increase in current assets was largely caused by an increase in deposits held by others of $4,721,717 from a new debt service reserve requirement by the hotel mortgage lender, along with a modest $3,756,060 net increase cash, restricted cash and investments.

Capital Assets

Property, plant, and equipment—net decreased by $8,888,844 to $477,480,453 at December 31, 2022 from $486,369,297 in 2021. This decrease was caused by depreciation and amortization expense of $24,280,364 offset by capital acquisitions and lease assets of $15,517,459, the majority from the Lynn Wyatt Square project.

Debt Payment and Issuance

The Corporation made required principal payments totaling $16,420,000 and $14,245,000 in 2022 and 2021, respectively. In addition, in 2022 the Corporation paid $6,066,290 on the City of Houston Note payable for the 2017 Subordinated Note Program, and had the PPP loan of $2,601,405 forgiven.

The total notes payable balance includes the Corporation's allocable portion of the unamortized bond premiums, net of discounts, which totaled $19,136,637 and $22,552,662 at December 31, 2022 and 2021, 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 $26,441,392 and $25,430,065 at December 31, 2022 and 2021, respectively.

Condensed Statement of Changes in Net Position
December 31, 2022 and 2021

	2022	2021
Operating revenues:		
Hotel revenues	$ 86,468,109	$ 42,647,280
Venue Revenues	41,064,524	21,088,569
Parking revenues	18,259,329	11,530,132
Other operating revenues	6,794,487	3,322,346
Total operating revenues	152,586,449	78,588,327
Operating expenses:		
Hotel expenses	28,322,267	15,178,296
Venue expenses	48,766,246	31,189,518
Parking expenses	8,284,621	6,450,028
Visit Houston expenses	20,089,020	11,933,427
General administration	35,871,192	27,637,398
Enterprise development	3,261,769	1,994,216
Disaster expenses	-	190,359
Depreciation and amortization	21,952,952	21,992,150
Total operating expenses	166,548,067	116,565,392
Operating loss	(13,961,618)	(37,977,065)
Nonoperating revenues (expenses):		
Intergovernmental revenue from primary government	74,216,712	57,127,628
Sponsorship expenses	(4,498,942)	(4,025,864)
Grants	-	2,291,457
Intergovernmental expenses-primary government	(17,215,414)	(28,706,851)
Other contributions	13,531,655	8,000,000
Interest expenses	(16,990,550)	(17,188,230)
Interest income	2,876,989	2,064,148
Total nonoperating revenues	51,920,450	19,562,288
Change in net position	37,958,832	(18,414,777)
Net position—beginning of period	108,092,092	126,506,869
Net position—end of period	$ 146,050,924	$ 108,092,092

Operating Revenues

Total operating revenues for 2022 and 2021 were $152,586,449 and $78,588,327, respectively, which represents a 94.16% increase of $73,998,122. The majority of the increase in operating revenues for 2022 was attributable to the recovery from the impact of the COVID-19 pandemic. Hotel revenues showed the largest increase with a 102.75% increase year over year making up $43,820,829 of the increase. Venue revenues showed a 94.72% increase and made up $19,975,955 of the increase. Food and beverage revenues and other concession revenues drove this increase due to increase in attendance at events.

Operating Expenses

Total operating expenses increased $49,982,675 to $166,548,067 in 2022, from $116,565,392 in 2021. As discussed above, the increase was mainly due to the recovery from the pandemic, noting a $13,143,971 increase in hotel expense representing an 86.66% increase. Venue expense increased 56.35% to $48,766,246 in 2022 from $31,189,518 in 2021 due to increases in food and beverage and janitorial expenses from increased attendance.

The Corporation's operating loss, which includes the noncash charge of depreciation, totaled $13,961,618, and $37,977,065, in 2022 and 2021, 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 transfer of other remaining Department fund balances.

In 2022, the intergovernmental revenue from Primary Government increased $17,089,084 to $74,216,712 from $57,127,628 in 2021. This increase was caused by the increase in HOT and pledged parking revenues from the pandemic recovery and additional intergovernmental revenues of $10 million from the City's Convention and Entertainment Facilities Department for working capital, offset by an increase in debt-related expenses.

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, 2022, and 2021, these payments totaled $17,215,414, and $28,706,851, respectively. Of this decrease, $16,080,615 is due to the 2021 pension settlement described in Note 8. As these payments are primarily based on HOT revenues, the offsetting increase was directly related to the corresponding increase in HOT revenues.

Grant Award

In 2021, the Corporation received a one-time $2,291,457 grant from the US Small Business Association in the form of a Shuttered Venue Operators Grant. The Corporation did not receive a similar award in FY2022.

Other Contributions
The Corporation began a project to redesign the City-owned property, formerly named Jones Plaza. The majority of the redesign costs for the renamed Lynn Wyatt Square is being funded by private contributions. The Lynn Wyatt Square project is schedule to be completed at the end of 2023. In 2022 and 2021, the Corporation received $10,930,250 and $8,000,000 respectively, of contributions from the fund-raising organization to offset construction costs. The amount of unspent proceeds appears as restricted cash.

Also showing in other contributions in 2022 is the forgiveness of the PPP loan of $2,601,405.

Economic Factors and Next Year's Budget

The 2023 budget includes increases in operating and interest costs due to the continuing impact of inflation which includes higher interest expense. In spite of this economic landscape, the corporation's approved 2023 budget reflects a return to a balanced budget with the expectation to borrow for major capital funding. Current forecast of 2023 major revenues projects streams in excess of pre-pandemic levels with the growth expectation to carry forward into 2024. Proactive management of major expenses will continue on a go forward basis with concurrent monitoring of macroeconomic conditions. The Corporation refinanced the AIG mortgage loan on the Hilton Americas-Houston Hotel to obtain more favorable terms as well as offset debt related costs such as rising rates. The refinancing included a paydown of $10 million via the use of the existing reserves.

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

Statement of Net Position
December 31, 2022

Assets		
Current assets:		
Cash and cash equivalents	$	25,770,315
Cash and cash equivalents—restricted		5,478,468
Accounts receivable, net		7,436,842
Notes receivable—current		296,420
Prepaid expenses and other current assets		4,477,999
Deposits held by others—current		13,934,351
Lease receivable		2,042,315
Short-term equity in pooled investments		32,821,257
Total current assets		92,257,967
Non-current assets:		
Notes receivable		59,738,331
Equity in pooled investments—restricted		26,441,392
Property plant and equipment—net		477,480,453
Lease receivable		54,134,297
Total non-current assets		617,794,473
Total assets		710,052,440
Deferred outflow of resources:		
Deferred amounts of pension		13,349,780
Deferred amounts from refunding of debt		3,462,500
Total deferred outflows of resources		16,812,280
Total assets and deferred outflows of resources	$	726,864,720
Liabilities		
Current liabilities:		
Accounts payable	$	19,398,698
Accrued interest		5,981,260
Accrued expenses		7,609,204
Due to City of Houston		18,376,997
Subordinated management fee		1,342,536
Current portion of note payable		18,925,000
Current portion of lease payable		2,371,820
Current portion of unearned revenue		337,035
Total current liabilities		74,342,550
Long-term liabilities:		
Accounts payable to City of Houston		16,080,615
Note payable		411,294,663
Unearned revenue		6,375,583
Net pension liability		11,069,398
Lease payable		7,572,374
Total long-term liabilities		452,392,633
Total liabilities		526,735,183
Deferred inflow of resources—Deferred amounts from lease		51,516,773
Deferred inflow of resources—Deferred amounts from pension		2,561,839
Total liabilities and deferred inflows of resources	$	580,813,795
Net Position		
Net investment in capital assets	$	136,839,889
Restricted for debt service		6,000,139
Restricted-other (Note 2)		5,478,468
Unrestricted deficit		(2,267,572)
Total net position	$	146,050,924

See notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022

Operating revenues:	
Hotel revenues	$ 86,468,109
Venue revenues	41,064,524
Parking revenues	18,259,329
Other operating revenues	6,794,487
Total operating revenues	152,586,449
Operating costs and expenses:	
Hotel expenses	28,322,267
Venue expenses	48,766,246
Parking expenses	8,284,621
Visit Houston expenses	20,089,020
General administration	35,871,192
Enterprise development	3,261,769
Depreciation	21,952,952
Total operating costs and expenses	166,548,067
Operating loss	(13,961,618)
Nonoperating revenues (expenses):	
Intergovernmental revenue from primary government	74,216,712
Sponsorship expense	(4,498,942)
Intergovernmental expenses-primary government	(17,215,414)
Other contribution	13,531,655
Interest expense	(16,990,550)
Interest income	2,876,989
Total nonoperating revenues	51,920,450
Increase in net position	37,958,832
Net position—beginning of period	108,092,092
Net position—end of period	$ 146,050,924

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, 2022

Cash flows from operating activities:	
Receipts from customers	$ 149,738,419
Payments to vendors	(83,861,099)
Payments to employees	(53,483,180)
Net cash provided by operating activities	12,394,140
Cash flows from noncapital financing activities:	
Payments from the City	74,216,712
Payments to the City	(27,026,083)
Payments to sponsorship	(4,498,942)
Payments to disaster	(16,111)
Proceeds from notes receivable	295,502
Payments for interest	(2,456,041)
Net cash provided by noncapital financing activities	40,515,037
Cash flows from capital and related financing activities:	
Other contribution	10,930,250
Payments received from leasing activities	3,872,731
Payments made on leasing activities	(2,451,262)
Payments for interest	(17,088,810)
Principal payments on notes payable	(24,866,974)
Proceeds from debt financing	219,316
Payment for deposits held by others	(4,721,717)
Acquisition of property, plant, and equipment	(14,988,719)
Net cash used in capital and related financing activities	(49,095,185)
Cash flows from investing activities:	
Interest received on investments	953,392
Purchase of investments	(45,376,082)
Proceeds from sales and maturities of investments	37,944,650
Net cash provided by investing activities	(6,478,040)
Net decrease in cash and cash equivalents	(2,664,048)
Cash and cash equivalents, beginning of period	33,912,831
Cash and cash equivalents, end of period	$ 31,248,783

(Continued)

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

Statement of Cash Flows (Continued)
Year Ended December 31, 2022

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (13,961,618)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	21,952,952
Leasing activity	(1,620,480)
Decrease in accounts receivable	562,728
Decrease in current prepaid expenses	263,914
Increase in accounts payable	2,844,721
Increase in accrued expenses	1,838,667
Increase in accrued expenses-management fee	568,825
(Decrease) in unearned revenue	(337,026)
Increase in pension laibility	11,069,398
(Decreased) in deferred outflows—pension	(13,349,780)
Increase in deferred inflows—pension	2,561,839
Net cash provided by operating activities	$ 12,394,140
Noncash transactions:	
Fair market value adjustment related to investment	$ (33,238)
Contributions-PPP loan payable	2,601,405
Premium amortization	3,416,024

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, Houston 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 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 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 $4,256,168 as of December 31, 2022.

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.

Deferred Outflows of Resources: Deferred outflows of resources represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. At December 31, 2022, the statement of net position included deferred outflows of resources related to pensions and debt issuance which result in a deferred gain or loss on refunding.

Deferred Inflows of Resources: Deferred inflows of resources represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At December 31, 2022, the statement of net position included deferred outflows of resources related to pensions and leases.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Re-measurement of lease receivables occurs 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.

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 reports 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.

Pension: For purpose of measuring the net pension liability, deferred inflows and deferred outflows of resources related to pensions and pension expenses, information about the fiduciary net position of the Houston Municipal Employee Pension System (HMEPS) and additions to/deductions from HMEPS's fiduciary net position have been determined on the same basis as reported by HMEPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by HMEPS are reported at fair value.

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, 2022, totaled $337,035, which is included in garage revenues.

Note 2. Summary of Significant Accounting Policies (Continued)

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 $74,216,712 for 2022 and represents the net HOT and parking revenues of $63,080,039 and other of $11,136,673.

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, 2022, the interlocal agreement expenses totaled $21,714,356 of which $17,215,414 and $4,498,942 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 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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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.

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 these Statements 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 $31,248,783 as of December 31, 2022, 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 $5,478,468) are described below:

Demand deposit accounts	$ 12,147,914
Money market	13,414,543
Cash on hand	207,858
Restricted cash	5,478,468
Total	$ 31,248,783

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 $13,414,543. The money market account is the sweep balance of one of the demand deposit accounts with a balance of $13,414,543. 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 9 and included in the statement of net position totaled $13,934,351 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, 2022, the Corporation's pooled investments included $32,821,257, 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, 2022, totaled $26,441,392.

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, 2022, 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	$ 32,821,257	$ 32,821,257	$ -
Total	$ 32,821,257	$ 32,821,257	$ -

Note 4. Equity in Pooled Investments (Continued)

The Corporation's exposure to credit risk at December 31, 2022, is presented below by investment category as rated by Standard & Poor's:

	Fair Value	Rating
TexSTAR	$ 32,821,257	AAAm by Standard and Poor's
Total investment pools	$ 32,821,257	

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 9, 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 of December 31, 2022 the deposits held by others included in the statement of net position totaled $13,934,351.

Note 6. Notes Receivable

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, loaned $27 million to the Hotel Owner. The purchase price of the hotel site land and other closing costs 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 $57,636,102 as of December 31, 2022, with $250,000 reported in current other assets in the statement of net position. 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 and the Seller agreed to execute a termination agreement of the Contract which included a repayment of the purchase price paid. The total remaining balance as of December 31, 2022 is $2,398,649.

The scheduled payments on the above two loans are as follows:

Years ending December 31:	
2023	$ 296,420
2024	297,357
2025	298,313
2026	299,289
2027	550,283
2028-2032	2,767,057
2033-2037	5,295,119
2038-2042	7,826,130
2043-2047	7,860,412
2048-2052	8,898,269
2053-2057	10,440,119
2058-2062	10,069,880
2063-2066	5,136,103
	$ 60,034,751

Note 7. Property, Plant and Equipment—Net

The changes in the Corporation's property, plant and equipment for the year ended December 31, 2022, were as follows:

	December 31, 2021	Additions	Retirements and Reclassifications	December 31, 2022
Property, plant, and equipment not subject to depreciation:				
Land	$ 14,824,298	$ -	$ -	$ 14,824,298
Work in process	10,476,517	12,676,378	(938,579)	22,214,316
Total property, plant, and equipment not subject to depreciation	25,300,815	12,676,378	(938,579)	37,038,614
Property, plant, and equipment subject to depreciation:				
Buildings	608,268,589	1,481,366	938,579	610,688,534
Furnishings and equipment	44,195,864	1,126,476		45,322,340
Leased equipment	419,496	233,239	(125,939)	526,796
Leased real estate	16,252,603	-	-	16,252,603
Total property, plant, and equipment subject to depreciation	669,136,552	2,841,081	812,640	672,790,273
Less accumulated depreciation for:				
Hotel and garage buildings	(166,541,074)	(19,667,145)	-	(186,208,219)
Furnishings and equipment	(36,680,265)	(2,285,807)		(38,966,072)
Leased equipment	(203,131)	(5,611)	-	(208,742)
Leased real estate	(4,643,600)	(2,321,801)	-	(6,965,401)
Total accumulated depreciation and amortization	(208,068,070)	(24,280,364)	-	(232,348,434)
Total property, plant, and equipment, net	$ 486,369,297	$ (8,762,905)	$ (125,939)	$ 477,480,453

Depreciation and amortization includes approximately $2.3 million in amortization expenses which are part of venue expenses.

Note 8. Accounts Payable To City of Houston

In March 2022, the Houston Municipal Employees Pension System (HMEPS) and the City of Houston entered into a settlement agreement which required additional funding of HMEPS by the City of Houston. The impact of the agreement resulted in a liability of approximately $16 million which is presented as accounts payable to City of Houston on the statement of net position. The Corporation's tentative terms for the long-term liability will allow for an interest rate of 2.6%.

Note 9. Long-Term Debt

The Corporation's notes payable and related premium for the year ended December 31, 2022, were as follows:

	January 1, 2022	Retirements/ Amortization	Additions	December 31, 2022	Current Portion
Notes payable:					
Notes payable—City of Houston	$ 310,950,000	$ (25,086,289)	$ 219,317	$ 286,083,028	$ 18,925,000
Premium—net of discount	22,552,661	(3,416,024)		19,136,637	-
Total notes payable—City of Houston	333,502,661	(28,502,313)	219,317	305,219,665	18,925,000
Note payable—VALIC	125,000,000	-	-	125,000,000	-
Lease liabilities	12,016,802	(2,305,848)	233,239	9,944,193	2,371,820
PPP Loan payable	2,601,405	(2,601,405)	-	-	-
Total long term liabilities	$ 473,120,868	$ (33,409,566)	$ 452,556	$ 440,163,858	$ 21,296,820

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 9. Notes Payable (Continued)

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

	Notes payable-City of Houston			Notes payable-VALIC		
	Principal	Interest	Total	Principal	Interest	Total
Years ending December 31:						
2023	$ 18,925,000	$ 11,895,532	$ 30,820,532	$ -	$ 8,912,500	$ 8,912,500
2024	40,678,028	11,333,191	52,011,219	125,000,000	2,970,833	127,970,833
2025	21,295,000	10,086,800	31,381,800	-	-	-
2026	23,010,000	9,200,363	32,210,363	-	-	-
2027	22,055,000	8,319,325	30,374,325	-	-	-
2028-2032	94,885,000	30,852,046	125,737,046	-	-	-
2033-2037	48,365,000	9,570,560	57,935,560	-	-	-
2038-2042	13,020,000	2,250,400	15,270,400	-	-	-
2043-2045	3,850,000	232,600	4,082,600	-	-	-
	$ 286,083,028	$ 93,740,817	$ 379,823,845	$ 125,000,000	$ 11,883,333	$ 136,883,333

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 acceleration of the outstanding balance will result in a default rate of the greater of 15% or a per annum rate of 5% plus the prime rate as defined in the agreement. Provided, however, that such rate shall not exceed the maximum permitted by applicable law. The outstanding balance as of December 31, 2022, 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, 2022, is $66,695,000.

Note 9. 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, 2022, is $74,025,000.

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, 2022, is $9,210,000.

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, 2022, is $20,153,027.

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, 2022, is $78,800,000.

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, 2022, 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, 2022, 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, 2022, 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 2.50% at December 31, 2022. The note matures on March 1, 2024. The outstanding balance as of December 31, 2022, is $3,700,000.

Note 9. 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, 2022, 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%; $21,000,000 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, 2022. The Notes payable to the City contain a provision that in the event of default, outstanding amounts are due immediately.

Note 10. 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.

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 its portion in mid-2023.

Note 10. Commitments and Contingencies (Continued)

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. The Corporation has no potential liability as of December 31, 2022.

Note 11. 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 12. Convention Services Agreements

The Corporation has agreements with various hotels to rebate a portion or all of 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 rebated 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 rebated to them. The agreements with JW Marriott, Aloft Houston Downtown, LeMeridian and the Laura has expired or 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.

Note 12. Convention Services Agreements (Continued)

The Corporation paid the following under the aforementioned agreements. Such amounts are included in venue expenses for the year ended December 31, 2022.

JW Marriott	$ 264,169
Hampton Inn Homewood Suites	529,672
Aloft Houston	100,537
The Laura Hotel	17,323
LeMeridian	139,361
Total	$ 1,051,062

Note 13. 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, 2022, is as follows:

	Inflows
Lease revenue	$ 2,942,715
Interest income	1,923,597

The Corporation did not have any 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:

	Principal	Interest	Total
Years ending December 31:			
2023	$ 2,042,315	$ 1,861,904	$ 3,904,219
2024	2,176,162	1,791,720	3,967,882
2025	2,215,822	1,718,420	3,934,242
2026	2,157,954	1,644,434	3,802,388
2027	2,131,130	1,573,302	3,704,432
2028-2032	12,388,185	6,680,262	19,068,447
2033-2037	15,951,366	4,308,647	20,260,013
2038-2042	10,765,589	1,888,798	12,654,387
2043-207	5,876,698	492,592	6,369,290
2048-2052	471,391	28,611	500,002
Total	$ 56,176,612	$ 21,988,690	$ 78,165,302

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.

Note 13. Leases (Continued)

The real estate right to use lease asset 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, 2022. 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.

As of December 31, 2022, the principal and interest requirements to maturity for the lease liability are as follows:

	Principal	Interest	Total
Year ending December 31:			
2023	$ 2,371,820	$ 351,084	$ 2,722,904
2024	2,428,558	264,095	2,692,653
2025	2,475,577	175,237	2,650,814
2026	2,643,554	83,333	2,726,887
2027	24,685	475	25,160
Total	$ 9,944,194	$ 874,224	$ 10,818,418

Note 14. Pension

As a component unit of the City of Houston, the Corporation participates in the Houston Municipal Employees' Pension System (HMEPS or the Plan). The participation in the Plan, which publishes separate financial statements, was effective during FY2022. The participation requires the Corporation to report a proportionate share of the net pension liability. The proportionate share of the Corporation increased from 0.0% to 0.69% as of December 31, 2022 and was determined based on the annual required employer contributions which were effective during the year. The change in the proportionate share was the result of the extension of pension benefits to (participation in HMEPS) the Corporations' employees for the first time in 2022. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from HMEPS at 1201 Louisiana St., Suite 900, Houston, Texas 77002-5608 or via http://www.hmeps.org.

As outlined below, the summarized impact of the extension of pension benefits is as follows:

- Net pension liability for its proportionate share of $11.1 million
- Deferred Outflow of resources of $13.3 million
- Deferred Inflow of resources of $2.5 million
- Pension expenses of $3.1 million

Plan description: HMEPS is a single employer, defined benefit pension plan, which covers all eligible municipal employees of the City, including all employees of Houston First Corporation. HMEPS was created under Chapter 358, Acts of the 48th Texas Legislature, Regular Session, 1943 (Article 6243g, Vernon's Texas Civil Statutes) and reenacted and continued under HB1573, 77th Texas Legislature, Article 6243h, Vernon's Texas Civil Statutes, (the "Pension Statute") as amended. An independent Board of Trustees administers the Plan. The fiscal year of HMEPS ends June 30. In this Financial Report, the Corporation reports separately from the City and is required to report as a cost-sharing plan since the Corporation is allocated a proportionate share of the net pension liability ("NPL"). The schedules of Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources show the Corporation's cost share of the City's plan.

Note 14. Pension (Continued)

Benefits provided: HMEPS includes three contributory groups, groups A, B, and D, and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of credited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of between 0% and 2% depending on investment returns. The maximum pension benefit is 90% of the participant's average monthly salary. As defined by the Plan, pension benefits are increased annually by a Cost of Living Adjustment (COLA) except for Group D members who terminated employment prior to July 1, 2017 who do not receive COLAs. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Employees covered by benefit terms: In March 2022, employees of the Corporation were determined to be eligible to participate in the Plan based on a settlement agreement between the City and HMEPS. Under the Plan, participants eligibility is based on hire date by the City of Houston or the Corporation. Employees hired on or after January 1, 2008 automatically become members of Group D. with normal retirement eligibility at age 62 with five years or credited service and option to elect an early reduced retirement benefit.

A former participant in the Plan who is rehired as an employee of the Corporation on or after January 1, 2008 is a member of the group in which the employee participated at the time of the employee’s immediately preceding separation from service. For those participants in Group A and Group B employed effective January 1, 2005, a participant who terminates employment with the Corporation is eligible for a normal retirement pension beginning on the member’s effective retirement date after the date the member completes at least five years of credited service and attains:

- 62 years of age, or
- A combination of years of age and years of credited service, including parts of years, the sum of which equals the number 75, provided the participant is at least 50 years of age, or
- Any combination of age and credited service that when added together equal 70 or more, provided that the member, prior to January 1, 2005 completed at least five years of credited service and attained a combination of age and credited service that when added together equal 68 or more.

Contributions: Employer and employee obligation to contribute, as well as employee contribution rates, are included in the enabling pension statutes. The contribution rates for employees in the HMEPS are either eight percent, four percent, or three percent for group A, B and D participants, respectively. HFC’s employer annual required contributions to the plan were approximately $3.1 million for the year ended December 31, 2022 of which approximately $1.7 million is in accounts payable.

The HMEPS annual required contributions are determined in accordance with the Pension Statute as amended, and consist of (a) an actuarially determined percentage of payroll multiplied by actual payroll and (b) a fixed dollar amount which is based on the Unfunded Actuarial Accrued Liability as of July 1, 2016, amortized over 30 years beginning July 1, 2017. The Corporation’s required contribution rate was 8.41% of payroll for the period from January 1 through June 30, 2022 and 8.44% plus a fixed dollar amount of approximately $1.7 million for the period of July 1 through December 31, 2022.

Note 14. Pension (Continued)

Actuarial assumptions: The net pension liability as of June 30, 2022, was determined by an actuarial valuation of July 1, 2021, and rolled-forward using generally accepted actuarial principles. As of June 30, 2021, the last experience study was performed in 2015. The following are the actuarial assumptions used to determine the total pension liability:

Inflation	2.25%
Salary changes	3.00% to 5.25%
Investment rate of return	7.00%
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	26 and 27 years
Asset valuation method	5 Year smoothed market, direct offset of deferred gains and losses
Mortality assumption	RP-2000 Table scaled by 125% for males and 112% for females The rates are then projected on a fully generational basis by scale BB

Long-Term expected rate of return: The long term expected rate of return on the investment was supported using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimate of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation are as follows for June 30, 2022:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	32.50 %	7.30 %
Private equity	17.00	10.25
Fixed income	10.00	5.88
Real estate	12.50	6.35
Absolute return	8.00	7.00
Inflation linked	15.00	7.70
Private debt	5.00	7.80
Cash/liquidation	-	3.65
	100.0 %	

Pension expense: For the year ended June 30, 2022, the Corporation's proportionate share recognized as pension expense is $267,000 plus the allocation of the proportionate share due to the change in benefits of $2.8 million net of contributions subsequent to the measurement date for a total current period expense of $3.1 million.

Note 14. Pension (Continued)

Deferred outflows and inflows of resources: At December 31, 2022 the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Differences between expected and actual experience	$ 134,000	$ 96,000	$ 38,000
Change of assumptions	-	149,000	(149,000)
Net difference between projected and actual earnings on pension plan investments	-	2,316,839	(2,316,839)
Change in proportion	10,719,000	-	10,719,000
Subsequent contribution	2,496,780	-	-
Total	$ 13,349,780	$ 2,561,839	$ 8,291,161

For the year ended December 31, 2022, the Corporation recognized an adjustment to pension expense of $2,496,780 resulting from the Corporation's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the next fiscal year. Net deferred outflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized in pension expense over five years as of the beginning of each measurement period. Other deferred inflows and outflows are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources for the year ended December 31, 2022 will be recognized as a component of future pension expense are as follows:

Years ending June 30:	
2023	$ (3,137,261)
2024	(3,181,389)
2025	(1,865,483)
2026	(107,028)
Total	$ (8,291,161)

Discount rate: The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that the Plan's annual required contributions will continue to follow the current funding policy. Based on the actuarial assumptions applied, the Plan's fiduciary net position is projected to be available to make all projected future benefit payments of current plan members for all future years and hence, the blended GASB discount rate is equal to the long-term rate of return of 7.0%. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments to determine the total pension liability.

Note 14. Pension (Continued)

Sensitivity of the Corporation's proportionate share of the net pension liability to the changes in the discount rate. The following represents the sensitivity of the proportionate share of the net pension liability to changes in the discount rate if it were calculated using a single discount rate that is one percentage-point lower or one percentage point higher than the single discount rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension	$ 2,180,572,000	$ 1,609,795,000	$ 1,129,984,000
The Corporation's proportionate share of NPL (0.69%)	$ 14,994,000	$ 11,069,000	$ 7,770,000

The Corporation reported a payable to the City of Houston as an employer remittance to the Plan of $1.7 million as of December 31, 2022.

Note 15. Subsequent Event

Refinance of the VALIC note payable: On June 1, 2023, the Corporation executed a refinancing agreement with Equitable Financial Life Insurance Company in the amount of $115 million. The new loan converted the variable rate VALIC Note Payable into a stated fixed rate of 6.5% note and will mature over the next 83 months with the option to pay down a portion of the outstanding balance prior to maturity.

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

Required Supplementary Information (Unaudited)
Schedule of the Corporation's Proportionate Share of Net Pension Liability—
Houston Municipal Employees Retirement System
Year Ended December 31, 2022

Corporation's proportionate percentage of collective net pension liability		0.687630%
Corporation's proportionate share amount of collective net pension liability	$	11,069,435
Corporation's covered payroll		15,411,145
Corporation proportionate amount of the collective net pension liability as a percentage of the employer's covered payroll		71.83%
Plan fiduciary net position as a percentage of total pension liability	$	71.06%

Information prior to 2022 is not available and the information presented is as of the measurement date for HMEPS which is June 30, 2022.

Change in benefit terms
Prior to FY2022, the Corporation was not a participant in the Plan. The pension plan benefit provisions of HMEPS were adopted in fiscal year 2022.

Change in assumptions
Economic and demographic assumptions changes over which HMEPS, the City of Houston and the Corporation do not have influence are not presented.

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

Required Supplementary Information (Unaudited)
Schedule of the Corporation's Contributions—Houston Municipal Employees' Retirement System
Year Ended December 31, 2022

Schedule of Employer Contributions

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll (1)	Actual Contribution as a % of Covered Payroll
2022	$ 3,040,030	$ 1,312,334	$ 1,727,696	$ 15,411,145	8.5%

(1) The covered payroll reported is based on total gross compensation on which contributions to the plan are based.

The information presented in the required supplementary schedules was determined as part of the June 30, 2022 actuarial valuation and excludes payables associated with separately finance specific liabilities.

Prior to FY2022, the Corporation was not a participant in the Plan. The pension plan benefit provisions of HMEPS were adopted in fiscal year 2022.