

Port of Houston Authority
of Harris County, Texas —
Promotion and Development Fund

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011
Independent Auditors' Report



Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Port Commission
Port of Houston Authority of Harris County

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We have audited the accompanying basic financial statements of the Promotion and Development Fund of the Port of Houston Authority (the "Fund"), which collectively comprise the statements of net position as of December 31, 2012 and 2011 and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port of Houston Promotion and Development Fund as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Promotion and Development Fund and do not purport to, and do not, present fairly the financial position of the Port of Houston Authority of Harris County, as of December 31, 2012 and 2011, the changes in its financial position or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Houston, Texas
October 7, 2013

**PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS —
PROMOTION AND DEVELOPMENT FUND**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2012**

As management of the Port of Houston Authority of Harris County, Texas — Promotion and Development Fund (the “Fund”), a fund of the Port of Houston Authority of Harris County, Texas (the “Authority”), we offer readers of the Fund’s basic financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended December 31, 2012 and 2011. All amounts, unless otherwise indicated, are expressed in rounded dollars.

The Port Commission, consistent with Section 60.202 of the Texas Water Code, created and maintains the Fund in amounts not to exceed five percent of its gross income from operations (operating revenues) in each calendar year. The Fund is used for activities connected with: (a) advertising, developing, and promoting the Port Authority and the Port of Houston; (b) furthering the general welfare of the Port Authority and the Port of Houston; and (c) improving the Port Authority’s relations with steamship and rail lines, shippers, freight interests, governmental officials, and others who are interested or may be interested in the Port of Houston.

FINANCIAL HIGHLIGHTS

The net position of the Fund at December 31, 2012, 2011, and 2010 was \$4,021,465, \$3,750,523 and \$3,689,898 respectively, and is considered unrestricted net position.

The Fund’s total liabilities at December 31, 2012, 2011 and 2010 were \$206,506, \$62,812 and \$130,833, respectively.

**Port of Houston Authority of Harris County, Texas —
Promotion and Development Fund
Statements of Net Position**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	<u>\$ 4,227,971</u>	<u>\$ 3,813,335</u>	<u>\$ 3,820,731</u>
Total assets	<u>4,227,971</u>	<u>3,813,335</u>	<u>3,820,731</u>
Current liabilities	<u>206,506</u>	<u>62,812</u>	<u>130,833</u>
Total liabilities	<u>206,506</u>	<u>62,812</u>	<u>130,833</u>
Net position — unrestricted	<u>\$ 4,021,465</u>	<u>\$ 3,750,523</u>	<u>\$ 3,689,898</u>

**Port of Houston Authority of Harris County, Texas —
Promotion and Development Fund
Statements of Changes in Revenues, Expenses and Changes in Net Position**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:			
Current fund contributions	\$ 4,520,627	\$ 3,398,438	\$ 5,019,765
Advertising contributions	535	2,250	44,298
Nonoperating revenue (expenses)	<u>13,450</u>	<u>(6,653)</u>	<u>4,075</u>
Total revenue	4,534,612	3,394,035	5,068,138
Total operating expenses	<u>4,263,670</u>	<u>3,333,410</u>	<u>4,675,429</u>
Change in net position	270,942	60,625	392,709
Net position – January 1	<u>\$ 3,750,523</u>	<u>\$ 3,689,898</u>	<u>\$ 3,297,189</u>
Net position – December 31	<u>\$ 4,021,465</u>	<u>\$ 3,750,523</u>	<u>\$ 3,689,898</u>

The Fund's changes in net position for the years ended December 31, 2012, and 2011, were \$270,942 and \$60,625 respectively. The net increase for the fiscal year ended December 31, 2012 consisted of current fund contributions \$4,520,627 and an increase in nonoperating revenue of \$20,103. Total operating expenses increased by \$930,260 from 2011. The majority of the increases resulted from the following: a) an increase of \$453,624 in PHA sponsored events; b) an increase of \$371,833 in economic development support; c) an increase of \$207,762 in fees and services offset by d) a decrease of \$101,701 in printing and production.

The Port of Houston Authority International Corporation ("POHAIC") was organized during fiscal year 2002 for the purpose of aiding, assisting and acting on behalf of the Authority in the performance of its governmental functions to promote the common good and general welfare by providing consulting services to international port authorities and private businesses, and to promote, develop, encourage and maintain employment, commerce and economic development in the local region and the nation.

Given the POHAIC charter aligned closely with that of the Fund, specifically the development of commerce in the local region, POHAIC activities were funded by the Authority through the Fund. The Fund recognized a receivable from POHAIC related to its funding of such activities on behalf of POHAIC.

In April 2011, the Port Commission acting on behalf of the Authority, and as the Board of POHAIC, approved the dissolution of POHAIC. Accordingly, the Fund recognized a loss on dissolution of POHAIC of \$10,919 resulting from a write-off of the receivable.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements comprise the following: (1) statements of net position; (2) statements of revenues, expenses, and changes in net position; (3) statements of cash flows; and (4) notes to financial statements. The basic financial statements can be found on pages 6 through 9 of this report.

The statements of net position present information on all of the Fund's assets and liabilities with the difference between the two reported as net position.

The statements of revenues, expenses and changes in net position present information showing how the Fund's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Fund follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all Governmental Accounting Standards Board (GASB) pronouncements.

FINANCIAL ANALYSIS

Greater than 99% of the Fund's net position reflects the contributions from the Authority as determined by the Texas Water Code. These funds are held as cash in interest earning bank deposits.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the Fund's finances and does not provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Office of the Controller, Port of Houston Authority, 111 East Loop North, Houston, Texas 77029.

**PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS —
PROMOTION AND DEVELOPMENT FUND**

**STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS:		
Cash	\$ 3,950,072	\$ 3,749,588
Due from Port of Houston Authority	215,316	40,132
Prepaid expenses	<u>62,583</u>	<u>23,615</u>
Total Assets	<u>\$ 4,227,971</u>	<u>\$ 3,813,335</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>\$ 206,506</u>	<u>\$ 62,812</u>
Total Liabilities	206,506	62,812
NET POSITION – Unrestricted	<u>4,021,465</u>	<u>3,750,523</u>
Total Liabilities and Net Position	<u>\$ 4,227,971</u>	<u>\$ 3,813,335</u>

See accompanying notes to financial statements.

**PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS —
PROMOTION AND DEVELOPMENT FUND**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
REVENUES:		
Current fund contributions	\$ 4,520,627	\$ 3,398,438
Advertising revenue	535	2,250
	<hr/>	<hr/>
Total Revenues	4,521,162	3,400,688
EXPENSES:		
Fees and services	1,221,231	1,013,469
PHA sponsored events	753,272	299,648
Economic development support	728,500	356,667
Printing and production	466,973	568,674
Travel	326,190	244,271
Advertising and promotion	278,089	339,166
Educational sponsorship	109,216	63,746
Dues and subscriptions	97,542	158,717
Maintenance	90,143	90,348
PHA table purchases	83,350	90,029
Materials	24,687	28,786
Other	84,477	79,889
	<hr/>	<hr/>
Total Expenses	4,263,670	3,333,410
OPERATING INCOME	257,492	67,278
NONOPERATING REVENUE (EXPENSES)	<hr/>	<hr/>
	13,450	(6,653)
CHANGES IN NET POSITION	270,942	60,625
NET POSITION – January 1	<hr/>	<hr/>
	3,750,523	3,689,898
NET POSITION – December 31	<hr/>	<hr/>
	\$ 4,021,465	\$ 3,750,523

See accompanying notes to financial statements.

**PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS —
PROMOTION AND DEVELOPMENT FUND**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Authority	\$ 4,520,627	\$ 3,398,438
Cash paid for other services	(263,524)	(6,332)
Cash paid to suppliers	(4,070,069)	(3,468,065)
	<u>187,034</u>	<u>(75,959)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest on bank deposits	13,450	4,817
	<u>13,450</u>	<u>4,817</u>
Net cash provided by financing activities		
NET INCREASE (DECREASE) IN CASH	200,484	(71,142)
CASH – January 1	<u>3,749,588</u>	<u>3,820,731</u>
CASH – December 31	<u>\$ 3,950,072</u>	<u>\$ 3,749,588</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	257,492	67,278
Adjustment to reconcile operating income to net cash:		
Loss on dissolution of POHAIC	-	(10,919)
Changes in current assets and liabilities:		
Increase in prepaid expenses	(38,968)	(23,615)
Increase in receivable from Port of Houston Authority	(175,184)	(40,833)
Increase / (decrease) in accounts payable and accrued liabilities	143,694	(67,870)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 187,034</u>	<u>\$ (75,959)</u>

See accompanying notes to financial statements.

PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS — PROMOTION AND DEVELOPMENT FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. ORGANIZATION AND PURPOSE

The Port of Houston Authority of Harris County, Texas — Promotion and Development Fund (the “Fund”), as designated by state statute, may be used for payment of advertising, development, or promotion expenditures of the Port of Houston Authority of Harris County, Texas (the “Authority”). The primary source of funds for the Fund, reported as current fund contributions, consists of contributions from the Authority’s Current Fund in amounts not to exceed 5% of the annual gross operating revenues of the Current Fund. These financial statements present only the operations and activities of the Fund and are not intended to present fairly the financial position and results of operations of the Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The accounts of the Fund are maintained in the same manner as the Authority which follows enterprise fund accounting and reporting requirements including the accrual basis of accounting and application of GASB pronouncements.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Position – Net position represents the residual interest in the Fund’s assets after liabilities are deducted. As no constraints are imposed by third parties, the Fund’s net position is classified as unrestricted.

Operating and Non-operating Revenues and Expenses – Operating revenues and expenses consist of revenues and expenses that result from the ongoing activities of the Promotion and Development Fund. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing activities and result from non-exchange transactions.

3. CASH

The Fund’s cash of \$3,950,072 and \$3,749,588 as of December 31, 2012 and 2011, respectively, is held by the Authority’s depository institution in joint safekeeping at the Federal Reserve Bank in the Authority’s name or covered by federal deposit insurance through the Federal Depository Insurance Corporation. All cash amounts represent bank deposits.

4. DUE FROM PORT AUTHORITY

The Fund recognizes a receivable arising from intercompany transactions with the Authority as a result of payments made by the Fund on the Authority’s behalf.