

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

Financial Statements as of and for the
Years Ended December 31, 2013 and 2012
Independent Auditors' Report

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Port Commission
Port of Houston Authority of Harris County

We have audited the accompanying financial statements of the Promotion and Development Fund of the Port of Houston Authority (the "Fund"), which collectively comprise the statements of net position and the related statements of revenues, expenses and changes in net position and statements of cash flows as of and for the years ended December 31, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Fund's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2013 and 2012, 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.

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, 2013 and 2012, the changes in its financial position, or its cash flows for the year 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.

Houston, Texas
April __, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2013

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, 2013 and 2012. 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, 2013, 2012 and 2011 was \$3,421,966, \$4,021,465 and \$3,750,523 respectively, and is considered unrestricted net position.

The Fund's total liabilities at December 31, 2013, 2012 and 2011 were \$34,958, \$206,506 and \$62,812, respectively.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	<u>\$ 3,456,924</u>	<u>\$ 4,227,971</u>	<u>\$ 3,813,335</u>
Total assets	<u>3,456,924</u>	<u>4,227,971</u>	<u>3,813,335</u>
Current liabilities	<u>34,958</u>	<u>206,506</u>	<u>62,812</u>
Total liabilities	<u>34,958</u>	<u>206,506</u>	<u>62,812</u>
Net position — unrestricted	<u>\$ 3,421,966</u>	<u>\$ 4,021,465</u>	<u>\$ 3,750,523</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>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Current fund contributions	\$ 4,101,512	\$ 4,520,627	\$ 3,398,438
Advertising contributions	-	535	2,250
Nonoperating revenue (expenses)	<u>(118,602)</u>	<u>13,450</u>	<u>(6,653)</u>
Total revenue	3,982,910	4,534,612	3,394,035
Total operating expenses	<u>4,582,409</u>	<u>4,263,670</u>	<u>3,333,410</u>
Change in net position	(599,499)	270,942	60,625
Net position – January 1	<u>\$ 4,021,465</u>	<u>\$ 3,750,523</u>	<u>\$ 3,689,898</u>
Net position – December 31	<u>\$ 3,421,966</u>	<u>\$ 4,021,465</u>	<u>\$ 3,750,523</u>

The Fund's changes in net position for the years ended December 31, 2013, and 2012 were (\$599,499) and \$270,942, respectively. The decrease in net position for the fiscal year ended December 31, 2013 resulted primarily from a decline in current fund contributions of \$419,115 and an increase in operating expenses of \$318,739.

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 10 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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash	\$ 3,380,257	\$ 3,950,072
Due from Port of Houston Authority	-	215,316
Prepaid expenses	<u>76,667</u>	<u>62,583</u>
Total Assets	<u>\$ 3,456,924</u>	<u>\$ 4,227,971</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>\$ 34,958</u>	<u>\$ 206,506</u>
Total Liabilities	34,958	206,506
NET POSITION – Unrestricted	<u>3,421,966</u>	<u>4,021,465</u>
Total Liabilities and Net Position	<u>\$ 3,456,924</u>	<u>\$ 4,227,971</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
REVENUES:		
Current fund contributions	\$ 4,101,512	\$ 4,520,627
Advertising revenue	-	535
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Total Revenues	4,101,512	4,521,162
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EXPENSES:		
Fees and services	1,337,474	1,221,231
Economic development support	699,387	728,500
PHA sponsored events	636,986	753,272
MV Sam Houston	491,068	-
Printing and production	361,279	466,973
Travel	324,485	326,190
Advertising and Promotion	297,322	278,089
Dues and subscriptions	114,904	97,542
Educational sponsorship	106,467	109,216
PHA table purchases	98,528	83,350
Maintenance	4,791	90,143
Materials	4,193	24,687
Other	105,525	84,477
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Total Expenses	4,582,409	4,263,670
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OPERATING INCOME (LOSS)	(480,897)	257,492
NONOPERATING REVENUE (EXPENSES)	(118,602)	13,450
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CHANGES IN NET POSITION	(599,499)	270,942
NET POSITION – January 1	4,021,465	3,750,523
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NET POSITION – December 31	<u>\$ 3,421,966</u>	<u>\$ 4,021,465</u>

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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Authority	\$ 4,101,512	\$ 4,520,627
Cash paid for other services	(492,470)	(263,524)
Cash paid to suppliers	<u>(4,191,000)</u>	<u>(4,070,069)</u>
Net cash (used in) provided by operating activities	<u>(581,958)</u>	<u>187,034</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest on bank deposits	<u>12,143</u>	<u>13,450</u>
Net cash provided by financing activities	<u>12,143</u>	<u>13,450</u>
NET INCREASE IN CASH	569,815	200,484
CASH – January 1	<u>3,950,072</u>	<u>3,749,588</u>
CASH – December 31	<u>\$ 3,380,257</u>	<u>\$ 3,950,072</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	(480,897)	257,492
Adjustment to reconcile operating income to net cash:		
Changes in current assets and liabilities:		
Increase in prepaid expenses	(14,083)	(38,968)
Decrease / (increase) in receivable from Port of Houston Authority	84,570	(175,184)
(Decrease) / increase in accounts payable and accrued Liabilities	<u>(171,548)</u>	<u>143,694</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (581,958)</u>	<u>\$ 187,034</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, 2013 AND 2012

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”). 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.

Revenues – The primary source of resources for the Fund, reported as current fund contributions, consist of contributions from the Authority’s Current Fund in amounts not to exceed 5% of the annual gross operating revenues of the Authority.

Expenses – Expenditures of the Fund reflect those items which comply with the statutes as described above. In 2013, expenses associated with the personnel operating and maintaining the *MV Sam Houston*, a vessel used exclusively in support of the charter of the Fund, were recognized as expenses of the Fund.

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.

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.

3. CASH

The Fund’s cash of \$3,380,257 and \$3,950,072 as of December 31, 2013 and 2012, 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.