Port of Houston Authority
Restated Retirement Plan
Independent Auditor's Report and Financial Statements

July 31, 2021 and 2020

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Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis
July 31, 2021 and 2020
(Unaudited)

As management of the Port of Houston Authority of Harris County, Texas (the "Authority"), we offer readers of the Port of Houston Authority Restated Retirement Plan's (the "Plan") financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended July 31, 2021 and 2020.

Financial highlights

The net position restricted for pensions (the "net position") of the Plan at July 31, 2021, 2020, and 2019 was $225,894,734, $191,251,270, and $184,407,686, respectively. This net position is restricted for the payment of future employee pension benefits. Overall, the financial position of the Plan increased for the fiscal year ended July 31, 2021.

The Plan's net position increased by $34,643,464, and $6,843,584, between fiscal years 2021 and 2020. ("FY2021", "FY2020"). The increase in net position for FY 2021 was attributed to increased market performance which led to an increase in net appreciation in fair value of investments.

The Plan investments had a net appreciation in fair value of $35,830,124, $1,004,138, and $827,774, for FY2021, FY2020, and FY2019. respectively. The net increase in fair value was primarily due to realized and unrealized gains during each year including other earnings from interest bearing securities.

Additions to the Plan are made primarily through contributions from the Authority. These contributions totaled $5,834,000, $10,625,000, and $4,658,000, for the years ended July 31, 2021, 2020, and 2019, respectively.

Investment incomes consist of interest earnings, dividend income, and net appreciation in fair value of investments.

The following table shows the actual asset allocation of Plan investments, by major asset category, for the fiscal years ended July 31, 2021, 2020, and 2019:

	2021	2020	2019
Asset allocation:			
Domestic and international equities	50 %	47 %	47 %
Fixed income investments	43	47	44
Master limited partnerships	-	2	7
Mutual Funds	5	3	-
Cash and cash equivalents	2	1	2

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Benefit payments are the primary expense of the Plan. Such payments totaled $11,131,851, $10,548,501, and $10,326,046, for the years ended July 31, 2021, 2020, and 2019, respectively. Benefit payments across all periods remained at a reasonable level. Other expenses of the Plan include administrative expenses, which totaled $268,881, $257,083, and $243,143, for the years ended July 31, 2021, 2020, and 2019, respectively. Administrative expenses across all periods remained at a reasonable level.

Statements of Fiduciary Net Position

	2021	2020	2019
Assets:			
Cash and cash equivalents	$ 4,776,912	$ 1,129,421	$ 2,730,045
Investments	220,869,882	189,575,018	181,121,789
Accrued investment income	304,515	599,059	612,324
Total assets	225,951,309	191,303,498	184,464,158
Liabilities:			
Accrued administrative and investment expenses	56,575	52,228	56,472
Total liabilities	56,575	52,228	56,472
Net position restricted for pensions	$ 225,894,734	$ 191,251,270	$ 184,407,686

Net position restricted for pensions, the excess of contributions and investment income over benefit payments and administrative and investment expenses, is accumulated by the Plan to meet future pension benefit obligations.

Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis
July 31, 2021 and 2020
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Condensed Statements of Changes in Fiduciary Net Position

	2021	2020	2019
Additions:			
Contributions	$ 5,834,000	$ 10,625,000	$ 4,658,000
Net investment income	40,210,196	7,024,168	6,031,094
Total additions	46,044,196	17,649,168	10,689,094
Deductions:			
Benefit payments	11,131,851	10,548,501	10,326,046
Administrative expenses	268,881	257,083	243,143
Total deductions	11,400,732	10,805,584	10,569,189
Net increase in net position	34,643,464	6,843,584	119,905
Net position restricted for pensions			
Beginning of year	191,251,270	184,407,686	184,287,781
End of year	$ 225,894,734	$ 191,251,270	$ 184,407,686

Requests for Information

The financial report is designed to provide an overview of the Plan's finances for those with an interest in the Authority's pension related activities. Questions concerning 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 Restated Retirement Plan

Statements of Fiduciary Net Position
As of July 31,

	2021	2020
Assets:		
Cash and cash equivalents	$ 4,776,912	$ 1,129,421
Investments	220,869,882	189,575,018
Accrued investment income	304,515	599,059
Total assets	225,951,309	191,303,498
Liabilities:		
Accrued administrative and investment expenses	56,575	52,228
Total liabilities	56,575	52,228
Net position restricted for pensions	$ 225,894,734	$ 191,251,270

The accompanying notes are an integral part of these financial statements.

Port of Houston Authority Restated Retirement Plan

Statements of Changes in Fiduciary Net Position
Years ended July 31,

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	2021	2020
Additions:		
Employer contributions	$ 5,834,000	$ 10,625,000
Investment income:		
Net appreciation in fair value	35,830,124	1,004,138
Interest	2,440,095	2,299,388
Dividends	2,742,442	4,349,395
Other	(133,293)	18,713
Total investment income	40,879,368	7,671,634
Investment expenses	(669,172)	(647,466)
Net investment income	40,210,196	7,024,168
Total additions	46,044,196	17,649,168
Deductions:		
Retirement benefits	11,131,851	10,548,501
Administrative expenses	268,881	257,083
Total deductions	11,400,732	10,805,584
Net increase in net position	34,643,464	6,843,584
Net position restricted for pensions		
Beginning of year	191,251,270	184,407,686
End of year	$ 225,894,734	$ 191,251,270

The accompanying notes are an integral part of these financial statements.

The following brief description of the Plan is provided for general informational purposes only. Reference should be made to the Plan document for more complete information.

General - The Plan is a single-employer noncontributory defined benefit pension plan sponsored and administered by the Port of Houston Authority of Harris County, Texas (the "Authority" or the "Plan Sponsor"). As a governmental plan, the Plan is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). Three members of the Port Commission of the Authority ("the Commission") serve as the Pension and Benefits Committee ("Committee") responsible for providing advice and recommendations to the Commission and assisting the Commission in performing its responsibilities for the Plan. The Authority controls and manages the operation and administration of the Plan. The seven-member Commission, appointed by the Harris County Commissioners Court; City of Houston, Texas; City of Pasadena, Texas; and the Harris County Mayors' and Councils' Association, maintains the authority to amend the Plan provisions and the investment policy as necessary. As fiduciaries, Commissioners and Authority staff shall act solely in the interest of the participants and beneficiaries of the Plan. BBVA USA serves as the trustee of the Plan.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Measurement focus refers to the definition of the resource flows measured.

The Plan is subject to the pronouncements of the Governmental Accounting Standards Board ("GASB"). The Plan is maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial assets and related liabilities, both current and long term, and the changes therein are reported in the Plan's financial statements. Revenues, including contributions, are recognized when earned, and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows.

2. 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 changes therein, disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

3. Risks and Uncertainties

The Plan utilizes various investment securities, including U.S. treasuries, U.S. government agencies, corporate obligations, mutual funds, international fixed income, and municipal obligations. Investment securities, in general, are exposed to various risks, including interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Cash and Cash Equivalents

Cash and short-term investments with original maturities of three months or less when purchased are considered cash equivalents.

5. Investment Valuation and Income Recognition

Investments are stated at fair value. Quoted market prices are used in determining fair value of Plan assets. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

6. Administrative and Investment Expenses

The Plan’s expenses are paid by the Plan as provided in the Plan document.

7. Payment of Benefits

Cash payments to participants for benefits are recorded upon distribution.

NOTE B – PLAN DESCRIPTION

1. Contributions

Contributions to provide benefits under the Plan are made solely by the Authority. The Authority’s funding policy originally adopted on September 14,1997 prescribes a contribution equal to 100% of the cost of benefits earned by Plan members plus an additional amount to finance any unfunded accrued liability and may be amended by the Commission at its discretion. This method and the actuarial assumptions have been designed to provide sufficient funds to pay benefits as they become payable under the Plan. The policy was amended by the Commission on July 28, 2015, and again formally on December 11, 2020, to allow the Authority’s staff the flexibility to fund the Plan throughout the year without seeking further authorization from the Commission, provided the aggregate contributions in a fiscal year do not exceed 105% of the actuarially determined contribution as calculated by the Authority’s actuary. The Authority made contributions of $5,834,000 and $10,625,000 for FY2021 and FY2020, respectively.

2. Eligibility

All permanent, full-time employees hired prior to August 1, 2012 are eligible for the Plan. On December 16, 2014, the Port Commission approved a Third Amendment to the Plan which, among other things, modified the definition of eligible employee. The Plan was amended and restated effective as of October 24, 2017 to modify the periods of service credited to totally and permanently disabled participants, and to clarify the benefits, powers, authorities, duties, and responsibilities provided under the Plan. Employees become vested after five continuous years of service, as defined by the Plan. Fully vested employees are entitled to Plan benefits upon retirement. There is no partial vesting of benefits.

NOTE B – PLAN DESCRIPTION – Continued

Employees hired on or after August 1, 2012 are not eligible for the Plan. They participate in a defined contribution retirement benefit plan sponsored by the Authority, which is operated and administered separately from this Plan.

3. Benefit Payments

The Plan provides for normal retirement benefits upon reaching the age of 65 and has provisions for early retirement, death, and disability benefits. Benefits under the Plan are determined based on a final pay formula. Generally, the final pay formula is calculated as a percentage of earnings multiplied by years of credited service with certain adjustments, as provided in the Plan. Participants may elect to receive their pension benefits from various forms of single life or joint and survivor annuities. Certain participants may receive a lump sum payment. Cost-of-living adjustments are provided at the discretion of the Commission.

4. Plan Membership

The number of plan members consisted of the following at August 1, 2021 and 2020, the date of the two latest actuarial valuations:

	2021	2020
Retirees and beneficiaries receiving payments	566	560
Terminated vested participants not yet receiving benefits	162	165
Disabled participants	4	4
Active participants	292	318
Total	1,024	1,047

NOTE C – INVESTMENTS

The investment strategy of the Plan as administered by the Commission is to preserve principal while emphasizing relative total return versus the liability growth rate and to maintain sufficient income or liquidity to pay monthly benefits.

The Plan's investment policy may be amended by the Commission by a majority vote of its members. The investment policy is reviewed at least annually by the Port Commission. It was last amended on July 20, 2021 authorizing staff to 1) add a Bank Loan Portfolio investment option which provided additional diversification to the portfolio which also provided a measure of protection to rising interest rates and 2) adjust the target asset allocation to accommodate the new investment option. The policy also stipulates that investment manager performance should be reviewed over three-, five- and ten-year periods. A copy of the investment policy is available on the Authority's website (www.porthouston.com).

NOTE C – INVESTMENTS – Continued

The Commission is responsible for approving the total asset allocation among stocks, bonds, and cash. The Commission adopted the following asset allocation parameters as a general guideline in investing the Plan's asset

ASSET CLASS	MINIMUM	**TARGET**	MAXIMUM
Large Cap Domestic Equity	15.0%	**20.0%**	25.0%
Mid Cap Domestic Equity	2.5%	**7.5%**	12.5%
Small Cap Domestic Equity	5.0%	**10.0%**	15.0%
International Equity	2.5%	**7.5%**	12.5%
Fixed Income	30.0%	**35.0%**	40.0%
High Yield Fixed Income	0.0%	**5.0%**	10.0%
Bank Loans	0.0%	**5.0%**	10.0%
Real Estate	0.0%	**5.0%**	10.0%
Global Tactical Asset Allocation (GTAA)	0.0%	**5.0%**	10.0%
Cash and Equivalents	0.0%	**0.0%**	0.5%

As outlined above, the Plan is allowed to invest in fixed income securities, equity securities, real estate, bank loans and Global Tactical Asset Allocation. In addition, the Plan's fixed income assets may be held in cash and cash equivalents (e.g., commercial paper, money market mutual funds, etc.), U.S. treasuries, U.S. government agency bonds, and other short-term and long-term debt securities, provided such instruments comply with investment policy guidelines, especially those relating to credit quality and diversification.

The Plan's assets are rebalanced in line with the above asset allocation parameters from time to time.

The Plan's cash and cash equivalents and investments are held by a bank-administered trust fund. Fair values of these assets at July 31, 2021 and 2020 are as follows:

	2021	2020
Fixed income investments	$ 97,955,259	$ 89,818,994
Money market funds	4,776,912	1,129,421
Balanced Fund	10,930,030	4,981,200
Equity investments:		
Domestic	89,874,525	78,561,047
International	22,110,068	16,213,777
Total equity investments	111,984,593	94,774,824
Total	$ 225,646,794	$ 190,704,439

NOTE C – INVESTMENTS – Continued

For purposes of the Plan's financial statements, fair value is generally defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the Plan, such fair values are provided by third-party market pricing sources utilized by BBVA USA as trustee and custodian of the Plan's assets and reflected on the monthly and annual custody statements provided to the Authority.

The Plan's investments during the years ended July 31, 2021 and 2020 (including realized gains on investments) depreciated/appreciated in total value as follows:

	2021	2020
Fixed income investments	$ 96,308	$ 5,203,275
Equity investments	35,733,816	(4,199,137)
Total	$ 35,830,124	$ 1,004,138

During the fiscal years ended July 31, 2021 and 2020, interest and dividends earned and other income on the Plan's investments amounted to $5,049,244 and $6,667,496, respectively.

As of July 31, 2021 and 2020 the Plan had the following investments in its fixed income accounts:

	2021		2020	
Investment Type	Fair value	Percentage of total	Fair value	Percentage of total
U.S. treasuries	$ 15,394,346	15.72 %	$ 9,451,723	10.52 %
U.S. government agencies	8,296,232	8.47	14,162,242	15.77
U.S. corporate obligations	56,498,764	57.67	49,968,011	55.63
Mutual fund	10,871,869	11.10	9,335,687	10.40
International fixed income	5,721,303	5.84	5,139,241	5.72
Municipal obligations	1,172,745	1.20	1,762,090	1.96
	$ 97,955,259	100.00 %	$ 89,818,994	100.00 %

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, financial statements are required to address credit risk, concentration of credit risk, interest rate risk, and foreign currency risk of investments.

NOTE C – INVESTMENTS – Continued

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize this risk, the Plan's investment policy does not allow any fixed income securities below the rating of B, and no more than 20% in bonds rated below investment grade. Securities are considered investment grade if they are rated Baa3 or higher by Moody's Investor Service, or BBB- or higher by Standard and Poor's or Fitch Ratings. U.S. treasuries and U.S. government agency bonds are rated Aaa/AA+/AAA by Moody's, Standard and Poor's and Fitch, respectively. The Plan's investments in corporate obligations have credit ratings that range from B3/B/B up to Aaa/AAA/AAA.

2. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The Plan's investment policy limits the amount that may be invested in any one issuer.

As of July 31, 2021 and 2020, the Plan had the following investments in excess of 5% of total investments:

	2021	2020
Vanguard Inst Index (Cusip 922040100)	$ 23,327,059	$ 15,084,776
Causeway International Value-Institutional (Cusip 14949P208)	16,586,538	11,512,671
Cohen & Steers Institutional Realty Shares (Cusip 19247U106)	11,746,844	10,485,219
Total	$ 51,660,441	$ 37,082,666

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Plan's investments. Duration is a measure of interest rate risk and measures a bond's price sensitivity to a 100-basis-point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates. The value of a fixed income mutual fund investment is determined by its net asset value (NAV). Fair value approximates the total NAV based on market value or the total market value of the holdings. Because the NAV is based in part on the market value of the fund's assets, a rising, and declining interest rate environment can have a negative or positive impact on the NAV of a fixed income fund.

NOTE C – INVESTMENTS – Continued

The following table details the U.S. dollar bond holdings and their duration by fund manager as of July 31, 2021 and 2020:

	Smith Graham		MacKay Shields, LLC	
	Fair value	Duration in years	Fair value	Duration in years
2021				
U.S. treasuries	$ 5,876,712	0.95	$ 9,517,634	10.70
U.S. government agencies	3,072,892	1.54	5,223,340	2.95
U.S. corporate obligations	31,124,695	7.65	25,374,068	5.95
Municipal obligations	1,046,911	5.86	125,834	19.60
International fixed income	1,398,610	3.97	4,322,692	6.74
Total fair value	$ 42,519,820		$ 44,563,568	
Portfolio average duration		5.77		6.57
2020				
U.S. treasuries	$ 5,910,885	12.24	$ 3,540,838	13.02
U.S. government agencies	5,569,236	2.18	8,593,006	2.23
U.S. corporate obligations	25,893,588	5.95	24,074,423	6.39
Municipal obligations	1,441,753	6.13	320,337	10.81
International fixed income	1,429,365	4.84	3,709,876	6.94
Total fair value	$ 40,244,827		$ 40,238,480	
Portfolio average duration		6.32		6.17

4. **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan holds investments in American Depository Receipts ("ADRs") which have currency risk; however, the ADRs are not included in foreign currency as they are denominated in U.S. dollars and accounted for at fair market value. The Plan had indirect exposure to foreign currency risk of $27,831,370 and $21,353,017 through its investments in international mutual funds, international equities, and international fixed income securities as of July 31, 2021 and 2020, respectively.

Annual Money-Weighted Rate of Return

For the year ended July 31, 2021 the annual money-weighted rate of return on Plan investments, net of investment expense, was 19.71%. For the year ended July 31, 2020 the annual money-weighted rate of return on Plan investments, net of investment expense, was 1.66%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

NOTE C – INVESTMENTS – Continued

5. **Fair Value of Investments**

The Plan has estimated the fair value of financial instruments in accordance with the fair value guidance provided in accordance with GASB 72 – *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Plan's significant financial instruments consist of cash and cash equivalents, and investments. The carrying amounts for cash and cash equivalents and other liabilities approximate fair value due to the short-term nature of these items.

Determining the level at which an asset or liability falls within the hierarchy requires significant judgment considering the lowest level input that is significant to the fair value measurement. The hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable.

Level 3 - Unobservable inputs for an asset or liability, which reflect those that market participants would use.

The following tables represent information about the Plan's long-term investments that are measured at fair value as of July 31, 2021 and 2020 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

2021	Level 1	Level 2	Total
Domestic equity	$ 54,800,624		$ 54,800,624
International equity	5,523,530		5,523,530
International fixed income		5,721,302	5,721,302
Municipal obligations		1,172,745	1,172,745
Mutual fund	73,462,340		73,462,340
U.S. corporate obligations		56,498,763	56,498,763
U.S. government agencies		8,296,232	8,296,232
U.S. treasuries	15,394,346		15,394,346
Total	$ 149,180,840	$ 71,689,042	$220,869,882

NOTE C – INVESTMENTS – Continued

2020	Level 1	Level 2	Total
Domestic equity	$ 48,646,130		$ 48,646,130
International equity	4,701,107		4,701,107
Mutual fund	51,399,552		51,399,552
U.S. treasuries	9,451,723		9,451,723
U.S. corporate obligations		49,968,011	49,968,011
Municipal obligations		1,762,090	1,762,090
U.S. government agencies		14,162,242	14,162,242
International fixed income		5,139,241	5,139,241
Master limited partnerships	4,344,922		4,344,922
Total	$ 118,543,434	$ 71,031,584	$ 189,575,018

NOTE D – NET PENSION LIABILITY

The net pension liability is to be measured as the total liability less the amount of the pension plan's fiduciary net position. The table below illustrates the calculation for the net pension liability.

Net pension liability	July 31, 2021	July 31, 2020
Total pension liability	$ 208,737,998	$ 203,776,913
Fiduciary net position	225,894,734	191,251,270
Net pension (asset) liability	(17,156,736)	12,525,643
Fiduciary net position as a % of total pension liability	108.22%	93.85%
Covered payroll	28,395,351	29,924,796
Net pension (asset) liability as a % of covered payroll	(60.42%)	41.86%

NOTE D – NET PENSION LIABILITY – Continued

1. **Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of August 1, 2020 and rolled forward to the measurement date of July 31, 2021, the Plan's fiscal year end, using the following actuarial assumptions applied to all periods included in the measurement. These actuarial assumptions were based on the results of an actuarial experience study for the period August 1, 2009 through August 1, 2015.

	2021	2020
Valuation date	August 1, 2020	August 1, 2019
Measurement date	July 31, 2021	July 31, 2020
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar method	Level dollar method
Equivalent single amortization period of the unfunded liabilities	30 years	30 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	6.25%	6.25%
Projected salary increases	2.5% to 10.0%	2.5% to 10.0%
Inflation	2.20%	2.20%
Cost-of-living adjustment	None	None
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per MP-2020	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per MP-2019

2. **Long-Term Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class.

NOTE D – NET PENSION LIABILITY – Continued

These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of arithmetic rates of return for each major asset class included in the Plan's target asset allocation as of July 31, 2021 and 2020 are summarized in the following table:

2021

Asset class	Index	Target Allocation	Long-term expected rate of return*
Large Cap U.S. Equity	S&P 500	20.0%	7.5%
Mid Cap U.S. Equity	Russell 2000	7.5%	7.5%
Small Cap U.S. Equity	Russell 2000	10.0%	7.5%
Developed Foreign Equity	MSCI EAFE	7.5%	8.5%
Fixed Income	Bloomberg Barclays U.S. Aggregate	35.0%	2.5%
High Yield Fixed Income	Merrill Lynch High Yield Master II Constrained	5.0%	2.5%
Bank Loans	Merrill Lynch High Yield Master II Constrained	5.0%	2.5%
Real Estate	FTSE NAREIT All REITs Total Return	5.0%	4.5%
Global Tactical Asset Allocation	50% S&P 500/59% Bloomberg Barclays	5.0%	5.0%
	Long-term expected (weighted) rate of return:		5.05%
Actuarial assumed long-term investment rate of return or discount rate:			6.25%

2020

Asset class	Index	Target Allocation	Long-term expected rate of return*
Core Fixed Income	Bloomberg Barclays U.S. Aggregate	40.0%	2.5%
High Yield Fixed Income	Merrill Lynch High Yield Master II Constrainec	5.0%	2.5%
Large Cap U.S. Equity	S&P 500	20.0%	7.5%
Mid Cap U.S. Equity	Russell Mid Cap	7.5%	7.5%
Small Cap U.S. Equity	Russell 2000	10.0%	7.5%
Developed Foreign Equities	MSCI EAFE	7.5%	8.5%
Real Estate (REITs)	FTSE NAREIT All REITS Total Return	5.0%	4.5%
Global Tactical Asset Allocation	50% S&P 500/50% Bloomberg Barclays	5.0%	5.0%
	Long-term expected (weighted) rate of return:		5.05%
Actuarial assumed long-term investment rate of return or discount rate:			6.25%

*Assumed rates of return utilized by the Plan's investment consultant for the current fiscal period's allocation.

3. Discount Rate

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that the Authority contributions will be made at rates equal to the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 6.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	July 31, 2021	July 31, 2020
Discount rate	6.25%	6.25%
Long-term expected rate of return, net of investment expense	6.25%	6.25%

NOTE D – NET PENSION LIABILITY – Continued

4. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority, calculated using the discount rates of 6.25% and 6.25%, respectively, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

July 31, 2021

	1% decrease 5.25%	Current discount rate 6.25%	1% increase 7.25%
Net pension liability (asset)	7,030,755	(17,156,736)	(37,708,735)

July 31, 2020

	1% decrease 5.25%	Current discount rate 6.25%	1% increase 7.25%
Net pension liability (asset)	36,573,096	12,525,643	(7,839,781)

NOTE E – PLAN TERMINATION

Although it has not expressed any intention to do so, the Commission and the Authority have the right under the Plan, in certain circumstances, to discontinue its contributions at any time and to terminate the Plan subject to the Plan provisions. In the event the Plan is terminated, the net position of the Plan will be allocated for payment of benefits to the participants in an order of priority determined in accordance with the Plan document and the Internal Revenue Code.

NOTE F – SUBSEQUENT EVENT

On June 1, 2021, The PNC Financial Services Group, Inc. ("**PNCFSG**") acquired 100% of the interests in BBVA USA Bancshares, Inc. ("**BBVA Bancshares**"), which included BBVA Bancshares' wholly-owned banking subsidiary, BBVA USA, from Banco Bilbao Vizcaya Argentaria, S.A. On October 8, 2021, BBVA USA merged with and into PNC Bank, National Association ("**PNC Bank**"), an indirect, wholly-owned banking subsidiary of PNCFSG, with PNC Bank as the surviving entity and continues as trustee of the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

Port of Houston Authority Restated Retirement Plan

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Eight Fiscal Years

	July 31, 2021	July 31, 2020	July 31, 2019	July 31, 2018	July 31, 2017	July 31, 2016	July 31, 2015	July 31, 2014
Total pension liability:								
Service cost	$ 3,427,960	$ 3,423,713	$ 3,320,773	$ 3,402,422	$ 3,198,269	$ 3,228,805	$ 3,186,018	3,425,775
Interest on total pension liability	12,664,535	12,781,702	12,591,994	12,454,101	12,251,337	11,883,003	10,939,999	10,724,158
Effect of economic/demographic gains or (losses)	909,252	999,702	(1,325,175)	(1,207,309)	(116,722)	(694,543)	(1,277,703)	-
Effect of assumption changes or inputs	(908,811)	(289,074)	3,516,641	(2,203,375)	5,012,275	-	9,568,882	-
Benefit payments	(11,131,851)	(10,548,501)	(10,326,046)	(10,084,820)	(9,858,352)	(9,552,117)	(9,590,546)	(9,508,901)
Net change in total pension liability	4,961,085	6,367,542	7,778,187	2,361,019	10,486,807	4,865,148	12,826,647	4,641,033
Total pension liability, beginning	203,776,913	197,409,371	189,631,184	187,270,165	176,783,358	171,918,210	159,091,563	154,450,530
Total pension liability, ending (a)	208,737,998	203,776,913	197,409,371	189,631,184	187,270,165	176,783,358	171,918,210	159,091,563
Fiduciary net position:								
Employer contributions	5,834,000	10,625,000	4,658,000	5,256,900	9,600,000	4,500,000	4,093,996	8,281,695
Investment income, net of investment expenses	40,210,196	7,024,168	6,031,094	12,377,573	14,220,462	1,740,670	7,786,180	14,825,222
Benefit payments	(11,131,851)	(10,548,501)	(10,326,046)	(10,084,820)	(9,858,352)	(9,552,117)	(9,590,546)	(9,508,901)
Administrative expenses	(268,881)	(257,083)	(243,143)	(255,300)	(279,696)	(234,464)	(248,932)	(236,560)
Net change in fiduciary net position	34,643,464	6,843,584	119,905	7,294,353	13,682,414	(3,545,911)	2,040,698	13,361,456
Fiduciary net position, beginning	191,251,270	184,407,686	184,287,781	176,993,428	163,311,014	166,856,925	164,816,227	151,454,771
Fiduciary net position, ending (b)	225,894,734	191,251,270	184,407,686	184,287,781	176,993,428	163,311,014	166,856,925	164,816,227
Net pension (asset) liability ending = (a) - (b)	(17,156,736)	12,525,643	13,001,685	5,343,403	10,276,737	13,472,344	5,061,285	(5,724,664)
Fiduciary net position as a % of total pension liability	108.22%	93.85%	93.41%	97.18%	94.51%	92.38%	97.06%	103.60%
Covered payroll	28,395,351	29,924,796	29,889,386	29,960,300	30,210,365	30,412,207	31,376,937	33,689,999
Net pension (asset) liability as a % of covered payroll	60.42%	41.86%	43.50%	17.83%	34.02%	44.30%	16.13%	16.99%

Per GASB 67, until a 10-year trend is compiled, pension plans may present information for those years for which information is available; information is not available under the GASB 67 methodologies for the fiscal years prior to 2014.

SCHEDULE OF PORT AUTHORITY CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 5,833,536	$ 5,373,772	$ 4,436,764	$ 5,006,628	$ 5,152,984	$ 4,480,580	$ 4,093,996	$ 5,278,440	$ 9,870,470	$ 8,132,756
Contributions in relation to the actuarially determined contribution	5,834,000	10,625,000	4,658,000	5,256,900	9,600,000	4,500,000	4,093,996	8,281,695	9,870,470	8,132,756
Contribution deficiency (excess)	$ (464)	$ (5,251,228)	$ (221,236)	$ (250,272)	$ (4,447,016)	$ (19,420)	$ -	$ (3,003,255)	$ -	$ -
Covered payroll	$ 28,395,351	$ 29,924,796	$ 29,889,386	$ 29,960,300	$ 30,210,365	$ 30,412,207	$ 31,376,937	$ 33,689,999	$ 35,081,902	$ 35,570,719
Contributions as a percentage of covered employee payroll	20.55%	35.51%	15.58%	17.55%	31.78%	14.80%	13.05%	24.58%	28.14%	22.86%

Notes to Schedule

Valuation timing	Actuarially determined contribution rates are calculated as of July 31 of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	1 year at July 31, 2021, resulting from a net pension asset of $17,156,736
Asset valuation method	Market value
Inflation	2.20%
Salary increases	2.5% to 10%
Investment rate of return	6.25%
Cost of living adjustments	None
Retirement age	Ranging from 5% at age 55 to 100% at age 70
Turnover	Rates from most recent assumption study performed in 2020
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants and Disabled Annuitants with generational projection per Scale MP–2020

SCHEDULE OF INVESTMENT RETURNS
Last Eight Fiscal Years

	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return net of investment expenses	19.71%	1.66%	1.30%	5.60%	8.40%	-0.65%	3.04%	9.51%

Per GASB 67, until a 10-year trend is compiled, pension plans may present information for those years for which information is available; information is not available under the GASB 67 methodologies for the fiscal years prior to 2014.

OTHER INFORMATION

(Unaudited)

Schedule of Direct and Indirect Fees, Commissions and Investment Managers

Information for management fees paid from the trust is provided using data from the Plan's custodian, BBVA USA. Management fees netted from returns are provided by the Plan's investment consultant, AndCo Consulting LLC, using an average of each manager's month-end market value and the manager's respective net expense ratio. Per Texas Government Code, Chapter 802, as amended by Texas Senate Bill 332, the below table outlines investment and administrative expenses for the fiscal year ended July 31 ,2021

Shown below are the investment and administrative expenses for the fiscal year ended July 31 ,2021:"

Direct and Indirect Fees and Commissions

ASSET CLASS	MANAGEMENT FEES PAID FROM TRUST	MANAGEMENT FEES NETTED FROM RETURNS	TOTAL INVESTMENT MANAGEMENT FEES (Management Fees Netted from Returns + Management Fees Paid From Trust)	BROKERAGE FEES/COMMISSIONS	PROFIT SHARE/CARRIED INTEREST	TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS (Management Fees + Brokerage Fees/Commissions + Profit Share)
Cash	0	0	0	0	0	**0**
Public Equity	404,668	258,653	663,322	23,143	0	**686,464**
Fixed Income	260,156	69,613	329,769	2,740	0	**332,509**
Real Assets	0	0	0	0	0	**0**
Alternative/Other	0	0	0	0	0	**0**
TOTAL	**664,824**	**328,266**	**993,090**	**25,883**	**0**	**1,018,973**

Alternative/Other Investment Managers

List of Alternative/Other Investments	List of Investment Manager Names
	Stacey Braun Associates, Inc.
	Smith, Graham & Co Asset Mgmt
	Barrow Hanley, Mewhinney & Strauss
	Fiduciary Management, Inc.
	Loomis Sayles High Income Fund
	Cohen & Steers Realty Shares
	Stephens Investment Management Group
	POHA-Causeway International Value Fund
	MacKay Shields LLC
	Vanguard Institutional Index Fd
	BlackRock Multi-Asset Income Fund

Total Investment Expenses

Total Direct and Indirect Fees and Commissions	**1,018,973**
Investment Services	
Custodial	118,266
Actuarial	52,023
Audit	28,000
Advisory	70,500
Total	**268,789**
Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)	**1,287,762**

BKD
CPAs & Advisors

2700 Post Oak Boulevard, Suite 1500 | Houston, TX 77056-5829
713.499.4600 | Fax 713.499.4699 | bkd.com

Independent Auditor's Report

Pension and Benefits Committee
Port of Houston Authority Restated Retirement Plan
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Houston Authority Restated Retirement Plan (the Plan), which comprise the statements of fiduciary net position as of July 31, 2021 and 2020, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity'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 fiduciary net position of the Port of Houston Authority Restated Retirement Plan, as of July 31, 2021 and 2020, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of investment returns as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's financial statements. The schedule of direct and indirect fees, commission, and investment managers as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of direct and indirect fees, commission, and investment managers has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 25, 2022, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

BKD, LLP

Houston, Texas
January 25, 2022

BKD
CPAs & Advisors

2700 Post Oak Boulevard, Suite 1500 | Houston, TX 77056-5829
713.499.4600 | Fax 713.499.4699 | bkd.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Pension and Benefits Committee
Port of Houston Authority Restated Retirement Plan
Houston, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Houston Authority Restated Retirement Plan (the Plan), which comprise the statements of fiduciary net position as of July 31, 2021 and 2020, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Houston, Texas
January 25, 2022