

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

Financial Statements as of and for the
Years Ended December 31, 2022 and 2021
Independent Auditor's Report

PROMOTION AND DEVELOPMENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2022

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, 2022, 2021, and 2020. All amounts, unless otherwise indicated, are expressed in rounded dollars.

Governance of the activities of the Authority is the responsibility of the Port Commission (Port Commission) composed of seven commissioners. 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.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are 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 the financial statements. The basic financial statements can be found on pages 8 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

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.

FINANCIAL HIGHLIGHTS

Net position in 2022 increased by \$377,103 or 13% as a result of increase in revenue as compared to 2021. Net position in 2021 decreased by \$1,160,657 or 29% versus the prior year due to a decrease in revenues.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Total assets	\$ 3,541,939	\$ 3,395,708	\$ 4,303,896
Total liabilities	<u>293,586</u>	<u>524,458</u>	<u>271,989</u>
Net position — unrestricted	<u>\$ 3,248,353</u>	<u>\$ 2,871,250</u>	<u>\$ 4,031,907</u>

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues:			
Current fund contributions	\$ 5,343,894	\$ 2,953,006	\$ 4,086,004
Nonoperating revenue, net	<u>135,970</u>	<u>5,491</u>	<u>13,691</u>
Total revenue	5,479,864	2,958,497	4,099,695
Total operating expenses	<u>5,102,761</u>	<u>4,119,154</u>	<u>3,826,086</u> <input type="checkbox"/>
Change in net position	377,103	(1,160,657)	273,609
Net position – January 1	<u>\$ 2,871,250</u>	<u>\$ 4,031,907</u>	<u>\$ 3,758,298</u>
Net position – December 31	<u>\$ 3,248,353</u>	<u>\$ 2,871,250</u>	<u>\$ 4,031,907</u>

Revenues, primarily reflecting contributions from the current fund of the Authority, increased \$2,521,367 or (85%) in 2022 to \$5,479,864. These contributions provide the cash funding necessary to support the expenditures of the Fund and to maintain an “uncommitted” Fund balance with a minimum of \$2,000,000. Uncommitted fund balance represents the current bank balance less open purchase orders and other commitments made by the Authority for future expenditures.

The increase in contributions in 2022 resulted from increased funding received from the Authority tied to an increase in the value of open purchase orders and other commitments as compared to 2021.

Revenue in 2021 decreased \$1,141,198 or 28% from 2020. The decrease in contributions in 2021 resulted from decreased funding received from the Authority tied to a decrease in the value of open purchase orders and other commitments as compared to 2020.

Contribution amounts from the Authority, representing funds “set aside” for the purposes authorized in Section 60.202 of the Texas Water Code, represented 1.0%, 0.8%, and 1.0%, of gross income from operations (operating revenues) of the Authority for the years ended December 31, 2022, 2021 and 2020, respectively.

Expenses increased \$983,607 or 24% as compared to 2021 due to increases in economic development support and advertising. Expenses increased \$293,068 or 8% as compared to 2020 primarily due to an increase in economic development support project for neighborhood improvements.

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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
ASSETS:		
Cash	\$ 3,413,774	\$ 3,395,708
Due from Port Authority	<u>128,165</u>	<u>-</u>
Total Assets	<u>\$ 3,541,939</u>	<u>\$ 3,395,708</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>293,586</u>	<u>524,458</u>
Total Liabilities	293,586	524,458
NET POSITION – Unrestricted	<u>3,248,353</u>	<u>2,871,250</u>
Total Liabilities and Net Position	<u>\$ 3,541,939</u>	<u>\$ 3,395,708</u>

See accompanying notes to the 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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
REVENUES:		
Current fund contributions	\$ 5,343,894	\$ 2,953,006
Advertising -Port Magazine	-	3,000
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Total Revenues	5,343,894	2,956,006
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EXPENSES:		
Fees and services	909,231	1,002,021
Sponsored events	438,274	266,905
MV Sam Houston	702,528	642,902
Economic development support	1,646,132	1,190,888
Trade trips	142,354	16,895
Advertising and promotion	413,672	237,262
Travel	97,383	21,582
Printing and production	210,309	229,870
Dues and subscriptions	238,217	210,889
Table purchases	80,230	31,830
Educational sponsorship	139,221	123,613
Maintenance	24,294	95,917
Materials	2,428	10,355
Other	58,488	38,225
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Total Expenses	5,102,761	4,119,154
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OPERATING INCOME (LOSS)	241,133	(1,163,148)
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NONOPERATING REVENUE	135,970	2,491
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CHANGE IN NET POSITION	377,103	(1,160,657)
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NET POSITION – January 1	2,871,250	4,031,907
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NET POSITION – December 31	<u>\$ 3,248,353</u>	<u>\$ 2,871,250</u>

See accompanying notes to the financial statements.

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Authority	\$ 5,343,894	\$ 2,953,006
Cash paid for other services	(726,912)	(642,270)
Cash paid to suppliers	<u>(4,626,972)</u>	<u>(3,221,415)</u>
Net cash used in operating activities	<u>(9,990)</u>	<u>(910,679)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on bank deposits	<u>27,966</u>	<u>2,491</u>
Net cash provided by investing activities	<u>27,966</u>	<u>2,491</u>
NET INCREASE (DECREASE) IN CASH	18,066	(908,188)
CASH – January 1	<u>3,395,708</u>	<u>4,303,896</u>
CASH – December 31	<u>\$ 3,413,774</u>	<u>\$ 3,395,708</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating Income (Loss)	241,333	(1,163,148)
Changes in assets and liabilities:		
Increase in intercompany receivable	(20,450)	-
Increase in accounts payable and accrued liabilities	<u>(230,873)</u>	<u>252,469</u>
NET CASH DECREASE USED IN OPERATING ACTIVITIES	<u>\$ (9,990)</u>	<u>\$ (910,679)</u>

See accompanying notes to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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 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 Government Accounting Standard Board 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, consists of contributions from the Authority’s Current Fund in amounts not to exceed 5% of the annual gross operating revenues of the Authority.

Expenses – Expenses of the Fund reflect those items which comply with the statutes as described above.

Operating and Non-operating Revenues and Expenses – Operating revenues and expenses consist of revenues and expenses that result from the ongoing activities of the Fund. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing and 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 \$3,413,774 and \$3,3395,708 as of December 31, 2022, and 2021, respectively, is held in a demand deposit bank account in the Authority’s name. In accordance with Section 2257 of the Texas Government Code (“Public Funds Collateral Act”) and the Authority’s investment policy, the Authority’s depository institution is required to maintain sufficient collateral at the Federal Reserve Bank in the Authority’s name to cover the cash balance in the bank account less any amount covered by the Federal Depository Insurance Corporation. The demand deposit balance is fully insured or collateralized.



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Independent Auditor's Report

Port Commission
Port of Houston Authority of Harris County, Texas
Houston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Port of Houston Authority of Harris County, Texas - Promotion and Development Fund (the Fund), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port of Houston Authority of Harris County, Texas – Promotional and Development Fund, as of and for the years ended December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 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, Texas as of December 31, 2022 and 2021, 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.

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 Fund's ability to continue as a going concern for 12 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Fund'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 Fund'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 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 GAAS, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2023, on our consideration of the Fund'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 Fund'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 Fund's internal control over financial reporting and compliance.

FORVIS,LLP

Houston, Texas
May 4, 2023