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

July 31, 2023 and 2022

Table of Contents **Page**

FORVIS

2700 Post Oak Boulevard, Suite 1500 / Houston, TX 77056
P 713.499.4600 / F 713.499.4699
forvis.com

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited 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, 2023 and 2022, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements,

In our opinion, the accompanying 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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audit 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 Plan, 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.

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 Plan'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.

Management is also responsible for maintaining a current plan instrument, including all plan amendments, administering the plan, and determining that the plan's transactions that are presented and disclosed in the financial statements are in conformity with the plan's provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants

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 Plan'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 Plan'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, 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 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 Information

Management is responsible for the other information, as listed in the table of contents. The other information comprises the schedule of direct and indirect fees, commission and investment managers but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2024, 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.

FORVIS, LLP

Houston, Texas
January 23, 2024

Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis
July 31, 2023 and 2022
(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, 2023 and 2022.

Financial highlights

The net position restricted for pensions (the "net position") of the Plan on July 31, 2023, 2022,and 2021, was $201,357,241, $199,153,704 ,and $225,894,734, 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, 2023.

The Plan's net position increased by $2,203,537 between fiscal years 2023 and 2022 ("FY2023", "FY2022"). The increase in net position for FY 2023 was primarily attributed to increased market performance, an increase in the actuarial determined contribution, partially offset by a one-time voluntary lump sum buyout of certain participants. The decrease in fair value of $26,715,702 for FY2022 and increase in fair value of $35,830,124 for FY2021 was primarily due to market depreciation and appreciation, respectively.

Additions to the Plan are made primarily through contributions from the Authority. These contributions totaled $8,887,125, $4,050,500, and $5,834,000, for the years ended July 31, 2023, 2022, and 2021, respectively.

Investment income/loss consists of interest earnings, dividend income, net appreciation, and net depreciation 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, 2023, 2022, and 2021:

	2023	2022	2021
Asset allocation:			
Domestic and international equities	54 %	49 %	50 %
Fixed income investments	40	44	43
Mutual Funds	5	5	5
Cash and cash equivalents	1	2	2

Benefit payments are the primary expense of the Plan. Such payments totaled $19,930,751, $11,413,993,and $11,131,851, for the years ended July 31, 2023, 2022, and 2021, respectively. Benefit payments increased in 2023 due to a one-time lump sum payout of $8.3 million to eligible participants. Other expenses of the Plan include administrative expenses, which totaled $316,160, $331,442, and $268,881 for the years ended July 31, 2023, 2022, and 2021, respectively. The fluctuations in administrative expenses across the periods presented result from the use of various service providers for consulting, actuarial and other services on an as-needed basis.

Statements of Fiduciary Net Position

	2023	2022	2021
Assets:			
Cash and cash equivalents	$ 1,955,435	$ 3,997,347	$ 4,776,912
Investments	199,091,241	194,711,951	220,869,882
Accrued investment income	348,133	518,813	304,515
Total assets	201,394,809	199,228,111	225,951,309
Liabilities:			
Accrued administrative and investment expenses	37,568	74,407	56,575
Total liabilities	37,568	74,407	56,575
Net position restricted for pensions	$ 201,357,241	$ 199,153,704	$ 225,894,734

Net position restricted for pensions, generally 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, 2023 and 2022
(Unaudited)

Condensed Statements of Changes in Fiduciary Net Position

	2023	2022	2021
Additions:			
Contributions	$ 8,887,125	$ 4,050,500	$ 5,834,000
Net investment income (loss)	13,563,323	(19,046,095)	40,210,196
Total additions	22,450,448	(14,995,595)	46,044,196
Deductions:			
Benefit payments	19,930,751	11,413,993	11,131,851
Administrative expenses	316,160	331,442	268,881
Total deductions	20,246,911	11,745,435	11,400,732
Net increase (decrease) in net position	2,203,537	(26,741,030)	34,643,464
Net position restricted for pensions			
Beginning of year	199,153,704	225,894,734	191,251,270
End of year	$ 201,357,241	$ 199,153,704	$ 225,894,734

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,

	2023	2022
Assets:		
Cash and cash equivalents	$ 1,955,435	$ 3,997,347
Investments	199,091,241	194,711,951
Accrued investment income	348,133	518,813
Total assets	201,394,809	199,228,111
Liabilities:		
Accrued administrative and investment expenses	37,568	74,407
Total liabilities	37,568	74,407
Net position restricted for pensions	$ 201,357,241	$ 199,153,704

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,

,

	2023	2022
Additions:		
Employer contributions	$ 8,887,125	$ 4,050,500
Investment income (loss):		
Net appreciation (depreciation) in fair value	9,580,939	(26,715,702)
Interest	2,894,718	5,738,211
Dividends	1,827,085	2,423,715
Other	(292,471)	93,546
Total investment income (loss)	14,010,271	(18,460,230)
Investment expenses	(446,948)	(585,865)
Net investment income (loss)	13,563,323	(19,046,095)
Total additions	22,450,448	(14,995,595)
Deductions:		
Retirement benefits	19,930,751	11,413,993
Administrative expenses	316,160	331,442
Total deductions	20,246,911	11,745,435
Net increase (decrease) in net position	2,203,537	(26,741,030)
Net position restricted for pensions		
Beginning of year	199,153,704	225,894,734
End of year	$ 201,357,241	$ 199,153,704

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. 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.

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, U.S. 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

In fiscal 2023, the Port Commission resolved to amend the Plan to provide for a voluntary one-time lump-sum payment to each participant who has vested and is no longer employed, but who has not yet begun to receive benefit payments, to clarify the Plan's definition of "Disability Termination Date," and increase the value of the optional single lump sum distribution to $100,000, upon the participant's retirement and election.

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 $8,887,125 and $4,050,500 for FY2023 and FY2022, 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 on August 1, 2022 and 2021, the date of the two latest actuarial valuations:

	2023	2022
Retirees and beneficiaries receiving payments	555	561
Terminated vested participants not yet receiving benefits	56	160
Disabled participants	3	3
Active participants	251	272
Total	865	996

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. In fiscal 2023, the Plan's investment policy was amended to increase the asset allocation in equity securities and update the associated overall investment objectives for equities and fixed income benchmarks, an increase and decrease, respectively. 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	20.0%	**25.0%**	30.0%
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	25.0%	**30.0%**	35.0%
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, 2023 and 2022 are as follows:

	2023	2022
Fixed income investments	$ 79,863,410	$ 88,052,916
Money market funds	1,955,435	3,997,347
Balanced Fund	10,425,899	10,057,943
Equity investments:		
Domestic	85,059,842	76,267,076
International	23,742,090	20,334,016
Total equity investments	108,801,932	96,601,092
Total	$ 201,046,676	$ 198,709,298

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 PNC 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, 2023 and 2022 included net realized gains/(losses) and net unrealized gains/(losses) on investments in total value are as follows:

	2023	2022
Fixed income investments	$ (4,709,175)	$ (14,529,482)
Equity investments	14,290,114	(12,186,220)
Total	$ 9,580,939	$ (26,715,702)

During the fiscal years ended July 31, 2023 and 2022, interest and dividends earned and other income on the Plan's investments amounted to $4,429,332 and $8,255,472, respectively.

As of July 31, 2023 and 2022, the Plan had the following investments in its fixed income accounts:

	2023		2022	
Investment Type	Fair value	Percentage of total	Fair value	Percentage of total
U.S. treasuries	$ 7,794,041	9.76 %	$ 17,697,613	20.10 %
U.S. government agencies	2,183,225	2.73	5,589,563	6.35
U.S. corporate obligations	18,061,526	22.62	41,366,843	46.98
Mutual fund	51,717,690	64.76	20,944,082	23.78
International fixed income	24,033	0.03	1,481,499	1.68
Municipal obligations	82,895	0.10	973,315	1.11
	$ 79,863,410	100.00 %	$ 88,052,916	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, 2023 and 2022, the Plan had the following investments in excess of 5% of total investments:

	2023	2022
Dodge & Cos Income Fund (Cusip 256210105)	$ 30,400,573	$ -
Vanguard Inst Index (Cusip 922040100)	27,220,554	20,291,923
Causew ay International Value-Institutional (Cusip 14949P208)	15,951,804	14,803,590
Aristotle Floating Rate Income Fund (Cusip 04045f592)	11,089,548	-
Pacific Fund Floating Rate Income (Cusip 694471771)	-	11,020,065
Blackrock Multi-Asset Income Fund CL K (Cusip 09257E662)	10,425,899	10,057,943
Cohen & Steers Institutional Realty Shares (Cusip 19247U106)	-	10,362,616
Loomis Sayes Institutional High Income Fune (Cusip 54395600)	10,227,569	-
Total	$ 105,315,947	$ 66,536,137

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, 2023 and 2022. In fiscal 2023, Smith Graham discontinued providing services.

	Smith Graham		MacKay Shields, LLC	
	Fair value	Duration in years	Fair value	Duration in years
2023				
U.S. treasuries	$ -		$ 7,794,041	10.14
U.S. government agencies	-		2,183,225	4.38
U.S. corporate obligations	-		18,061,526	5.32
Municipal obligations	-		82,895	16.00
International fixed income	-		24,033	2.31
Total fair value	$ -		$ 28,145,720	
Portfolio average duration				6.61
2022				
U.S. treasuries	$ 10,683,305	8.14	$ 7,014,308	13.49
U.S. government agencies	2,438,605	4.44	3,150,958	4.66
U.S. corporate obligations	17,186,761	6.90	24,180,082	5.09
Municipal obligations	880,372	5.55	92,944	17.20
International fixed income	1,281,473	2.96	200,026	6.87
Total fair value	$ 32,470,516		$ 34,638,318	
Portfolio average duration		6.93		6.80

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 had indirect exposure to foreign currency risk of $23,766,124 and $21,815,515 through its investments in international mutual funds, international equities, and international fixed income securities as of July 31, 2023 and 2022, respectively.

Annual Money-Weighted Rate of Return

For the year ended July 31, 2023 the annual money-weighted rate of return on Plan investments, net of investment expense, was 7.04%. For the year ended July 31, 2022 the annual money-weighted rate of return on Plan investments, net of investment expense, was -10.52%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

NOTE C – INVESTMENTS – Continued

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 Statement No.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, 2023 and 2022 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

2023	Level 1	Level 2	Total
Domestic equity	$ 48,859,641		$ 48,859,641
International equity	7,790,286		7,790,286
International fixed income		24,033	24,033
Municipal obligations		82,895	82,895
Mutual fund	114,295,594		114,295,594
U.S. corporate obligations		18,061,526	18,061,526
U.S. government agencies		2,183,225	2,183,225
U.S. treasuries	7,794,041		7,794,041
Total	$ 178,739,562	$ 20,351,679	$ 199,091,241

NOTE C – INVESTMENTS – Continued

2022	Level 1	Level 2	Total
Domestic equity	$ 45,612,538		$ 45,612,538
International equity	5,530,426		5,530,426
International fixed income		1,481,499	1,481,499
Municipal obligations		973,315	973,315
Mutual fund	76,460,154		76,460,154
U.S. corporate obligations		41,366,843	41,366,843
U.S. government agencies		5,589,563	5,589,563
U.S. treasuries	17,697,613		17,697,613
Total	$ 145,300,731	$ 49,411,220	$ 194,711,951

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, 2023	July 31, 2022
Total pension liability	$ 219,254,496	$ 221,091,186
Fiduciary net position	201,357,241	199,153,704
Net pension liability	17,897,255	21,937,482
Fiduciary net position as a % of total pension liability	91.84%	90.08%
Covered payroll	28,159,670	28,850,515
Net pension liability as a % of covered payroll	63.56%	76.04%

NOTE D – NET PENSION LIABILITY – Continued

1. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of August 1, 2022 and rolled forward to the measurement date of July 31, 2023, 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, 2014 through August 1, 2019.

	2023	2022
Valuation date	August 1, 2022	August 1, 2021
Measurement date	July 31, 2023	July 31, 2022
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	6.00%	6.00%
Projected salary increases	2.5% to 10.0%	2.5% to 10.0%
Inflation	2.33%	2.40%
Cost-of-living adjustment	None	None
Mortality	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per MP-2021	Pri-2012 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per MP-2021

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, 2023 and 2022 are summarized in the following table:

2023

Asset class	Index	Target Allocation	Long-term expected rate of return*
Large Cap U.S. Equity	S&P 500	25.0%	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 Equity	MSCI EAFE	7.5%	8.5%
Fixed Income	Bloomberg Barclays U.S. Aggregate	30.0%	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:		5.30%
Actuarial assumed long-term investment rate of return or discount rate:			6.00%

2022

Asset class	Index	Target Allocation	Long-term expected rate of return*
Large Cap U.S. Equity	S&P 500	25.0%	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	30.0%	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:		5.30%
Actuarial assumed long-term investment rate of return or discount rate:			6.00%

*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 6.00 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 6.00 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	July 31, 2023	July 31, 2022
Discount rate	6.00%	6.00%
Long-term expected rate of return, net of investment expense	6.00%	6.00%

4. <u>Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate</u>

The following presents the net pension liability (asset) of the Authority, calculated using the discount rates of 6.00% and 6.00%, respectively, as well as what the Authority's net pension liability (asset) 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:

<u>July 31, 2023</u>

	1% decrease 5.00%	Current discount rate 6.00%	1% increase 7.00%
Net pension liability (asset)	44,222,895	17,897,255	(4,490,145)

<u>July 31, 2022</u>

	1% decrease 5.00%	Current discount rate 6.00%	1% increase 7.00%
Net pension liability	47,592,252	21,937,482	145,016

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

The investment policy is reviewed at least annually by the Port Commission. It was last amended on September 26, 2023 to include an update to the name of the fixed income benchmark and remove the NCREF Fund Index Open End Diversified Core index under the Real Estate Portfolio investment objectives.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

Port of Houston Authority Restated Retirement Plan

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

	July 31, 2023	July 31, 2022	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	$ 3,405,582	$ 3,224,131	$ 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	12,983,905	12,975,179	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)	1,721,855	1,261,254	909,252	999,702	(1,325,175)	(1,207,309)	(116,722)	(694,543)	(1,277,703)	-
Effect of assumption changes or inputs	(17,281)	6,306,617	(908,811)	(289,074)	3,516,641	(2,203,375)	5,012,275	-	9,568,882	-
Benefit payments	(19,930,751)	(11,413,993)	(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	(1,836,690)	12,353,188	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	221,091,186	208,737,998	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)	219,254,496	221,091,186	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	8,887,125	4,050,500	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 (loss), net of investment expenses	13,563,323	(19,046,095)	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	(19,930,751)	(11,413,993)	(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	(316,160)	(331,442)	(268,881)	(257,083)	(243,143)	(255,300)	(279,696)	(234,464)	(248,932)	(236,560)
Net change in fiduciary net position	2,203,537	(26,741,030)	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	199,153,704	225,894,734	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)	201,357,241	199,153,704	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)	17,897,255	21,937,482	(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	91.84%	90.08%	108.22%	93.85%	93.41%	97.18%	94.51%	92.38%	97.06%	103.60%
Covered payroll	28,159,670	28,850,515	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	63.56%	76.04%	(60.42%)	41.86%	43.50%	17.83%	34.02%	44.30%	16.13%	(16.99%)

SCHEDULE OF PORT AUTHORITY CONTRIBUTIONS
LAST TEN FISCAL YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 8,887,032	$ 3,857,832	$ 5,833,536	$ 5,373,772	$ 4,436,764	$ 5,006,628	$ 5,152,984	$ 4,480,580	$ 4,093,996	$ 5,278,440
Contributions in relation to the actuarially determined contribution	8,887,125	4,050,500	5,834,000	10,625,000	4,658,000	5,256,900	9,600,000	4,500,000	4,093,996	8,281,695
Contribution deficiency (excess)	$ (93)	$ (192,668)	$ (464)	$ (5,251,228)	$ (221,236)	$ (250,272)	$ (4,447,016)	$ (19,420)	$ -	$ (3,003,255)
Covered payroll	$ 28,159,670	$ 28,850,515	$ 28,395,351	$ 29,924,796	$ 29,889,386	$ 29,960,300	$ 30,210,365	$ 30,412,207	$ 31,376,937	$ 33,689,999
Contributions as a percentage of covered employee payroll	31.56%	14.04%	20.55%	35.51%	15.58%	17.55%	31.78%	14.80%	13.05%	24.58%

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, 2022, resulting from a net pension liability of $17,897,255
Asset valuation method	Market value
Inflation	2.33%
Salary increases	2.5% to 10%
Investment rate of return	6.00%
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–2021

Port of Houston Authority Restated Retirement Plan

SCHEDULE OF INVESTMENT RETURNS
Last Nine Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return net of investment expenses	7.04%	-10.52%	19.71%	1.66%	1.30%	5.60%	8.40%	-0.65%	3.04%	9.51%

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, PNC. Management fees netted from returns are provided by the Plan's investment consultant, AndCo Consulting 72LLC, 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, 2023.

Shown below are the investment and administrative expenses for the fiscal year ended July 31, 2023:

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	$ -	$ -	$ -	$ -	$ -	$ -
Public Equity	$ 355,833	$ 234,283	$ 590,116	$ 16,017	$ -	$ 606,132
Fixed Income	$ 127,954	$ 260,126	$ 388,080	$ 12,125	$ -	$ 400,205
Real Assets	$ -	$ -	$ -	$ -	$ -	$ -
Alternative/Othe	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ 483,787**	**$ 494,408**	**$ 978,196**	**$ 28,142**	**$ -**	**$ 1,006,337**

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
	Causeway International Value Fund
	MacKay Shields LLC
	Vanguard Institutional Index Fd
	BlackRock Multi-Asset Income Fund
	Aristotle Floating Rate Income Fund Cl I

Total Investment Expenses

Total Direct and Indirect Fees and Commissions	**$ 1,006,337**
Investment Services	
Custodial	$ 108,878
Actuarial	$ 87,502
Audit	$ 33,280
Advisory	$ 86,500
Total	**$ 316,160**

Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)	**$ 1,322,497**

FORVIS
2700 Post Oak Boulevard, Suite 1500 / Houston, TX 77056
P 713.499.4600 / **F** 713.499.4699
forvis.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 the 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, 2023 and 2022, 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 23, 2024

Report on Internal Control Over Financial Reporting

In planning and performing our audits 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 or significant deficiencies may exist that were not identified.

Report on 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.

FORVIS, LLP

Houston, Texas
January 23, 2024