

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

Financial Statements as of and for the
Years Ended December 31, 2017 and 2016
Report of Independent Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

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, 2017 and 2016, and the related notes to the financial statements.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Fund’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Promotion and Development Fund and do not purport to, and do not, present fairly the financial position of the Port of Houston Authority of Harris County, Texas as of December 31, 2017 and 2016, the changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

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

Houston, Texas
April 10, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2017

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 years ended December 31, 2017 and 2016. All amounts, unless otherwise indicated, are expressed in rounded dollars.

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

FINANCIAL HIGHLIGHTS

Net position in 2017 decreased by \$135,890 or 4% primarily as a result of increased expenses as compared to 2016. For 2016, net position decreased by \$4,891, less than 1% versus the prior year.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total assets	\$ 3,680,218	\$ 3,871,904	\$ 3,791,759
Total liabilities	<u>88,162</u>	<u>143,958</u>	<u>58,922</u>
Net position — unrestricted	<u>\$ 3,592,056</u>	<u>\$ 3,727,946</u>	<u>\$ 3,732,837</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>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Current fund contributions	\$ 5,150,735	\$ 5,160,774	\$ 4,513,290
Nonoperating revenue, net	<u>29,759</u>	<u>12,020</u>	<u>15,002</u>
Total revenue	5,180,494	5,172,794	4,528,292
Total operating expenses	<u>5,316,384</u>	<u>5,177,685</u>	<u>5,544,294</u>
Change in net position	(135,890)	(4,891)	(1,016,002)
Net position – January 1	<u>\$ 3,727,946</u>	<u>\$ 3,732,837</u>	<u>\$ 4,748,839</u>
Net position – December 31	<u>\$ 3,592,056</u>	<u>\$ 3,727,946</u>	<u>\$ 3,732,837</u>

Revenues, reflecting primarily contributions from the Current fund of the Authority, increased \$7,700 or less than 1% in 2017 to \$5,180,494. These contributions provide the cash funding necessary to support the expenditures of the Fund and to maintain an “uncommitted” Fund balance of at least \$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 decrease in contributions in 2017 results from decreased funding received from the Authority tied to decrease in the value of open purchase orders and other commitments as compared to 2016.

Revenue in 2016 increased \$644,502 or 14% from 2015; the increase was due to increased funding received from the Authority primarily associated with a rise in the value of open purchase orders in 2016.

Contribution amounts from the Authority, representing funds “set aside” for the purposes authorized in Section 60.202 of the Texas Water Code, represented 1.6%, 1.8%, and 1.9% of gross income from operations (operating revenues) of the Authority for the years ended December 31, 2017, 2016 and 2015, respectively.

Expenses increased \$138,699 or 3% in 2017 to \$5,316,384 resulting primarily from higher expenses associated with fees and services, \$263,626; and advertising and promotion, \$82,219, partially offset by a decrease in printing and production of \$171,892. Expenses decreased \$366,609 or 7% in 2016 to \$5,177,685 resulting primarily from lower expenses associated with economic development support, \$283,560; Marine Vessel (MV) Sam Houston maintenance, \$198,608; and travel, \$144,683, partially offset by an increase in the Authority’s sponsored events, \$365,910.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements comprise the following: (1) statements of net position; (2) statements of revenues, expenses, and changes in net position; (3) statements of cash flows; and (4) notes to the financial statements. The basic financial statements can be found on pages 6 through 8 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 Section 60.202 of the Texas Water Code. These funds are held as cash, net of liabilities, in interest earning bank deposits.

REQUESTS FOR INFORMATION

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

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

**STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash	\$ 3,680,218	\$ 3,871,824
Accounts Receivable	<u>-</u>	<u>80</u>
Total Assets	<u>\$ 3,680,218</u>	<u>\$ 3,871,904</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>\$ 88,162</u>	<u>\$ 143,958</u>
Total Liabilities	88,162	143,958
NET POSITION – Unrestricted	<u>3,592,056</u>	<u>3,727,946</u>
Total Liabilities and Net Position	<u>\$ 3,680,218</u>	<u>\$ 3,871,904</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES:		
Current fund contributions	\$ 5,150,735	\$ 5,160,774
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Total Revenues	5,150,735	5,160,774
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EXPENSES:		
Fees and services	1,826,344	1,562,718
Sponsored events	823,496	887,305
MV Sam Houston	643,497	599,620
Economic development support	537,039	546,440
Advertising and promotion	398,790	316,571
Travel	270,280	273,881
Printing and production	262,077	433,969
Dues and subscriptions	203,873	155,596
Table purchases	120,339	109,890
Educational sponsorship	108,350	104,000
Maintenance	12,827	16,568
Materials	6,775	5,093
Other	102,697	166,034
	<hr/>	<hr/>
Total Expenses	5,316,384	5,177,685
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OPERATING LOSS	(165,649)	(16,911)
NONOPERATING REVENUE, NET	29,759	12,020
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CHANGE IN NET POSITION	(135,890)	(4,891)
NET POSITION – January 1	3,727,946	3,732,837
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NET POSITION – December 31	\$ 3,592,056	\$ 3,727,946
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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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Authority	\$ 5,150,735	\$ 5,160,774
Cash paid for other services	(657,260)	(616,091)
Cash paid to suppliers	(4,714,840)	(4,411,638)
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Net cash (used in) provided by operating activities	(221,365)	133,045
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CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest on bank deposits	29,759	12,020
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Net cash provided by financing activities	29,759	12,020
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH	(191,606)	145,065
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CASH – January 1	3,871,824	3,726,759
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CASH – December 31	<u>\$ 3,680,218</u>	<u>\$ 3,871,824</u>
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RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	(165,649)	(16,911)
	<hr/>	<hr/>
Changes in current assets and liabilities:		
Decrease (Increase) in accounts receivable	80	(80)
Decrease in prepaid expenses	-	65,000
(Decrease) Increase in accounts payable and accrued liabilities	(55,796)	85,036
	<hr/>	<hr/>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (221,365)</u>	<u>\$ 133,045</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, 2017 AND 2016

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 GASB pronouncements.

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

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

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

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

3. CASH

The Fund’s cash of \$3,680,218 and \$3,871,824 of December 31, 2017 and 2016, 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.