

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

Financial Statements as of and for the
Years Ended December 31, 2020 and 2019
Independent Auditor's Report

Independent Auditor's Report

Port Commission
Port of Houston Authority of Harris County, Texas
Houston, 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 year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial position of the Port of Houston Authority of Harris County, Texas – Promotion and Development Fund, as of December 31, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a 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, 2020, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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.

Prior Year Audited by Other Auditors

The 2019 financial statements were audited by other auditors, and their report thereon, dated April 21, 2020, expressed an unmodified opinion.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated May 5, 2021, 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.

BKD, LLP

Houston, Texas
May 5, 2021

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEAR ENDED DECEMBER 31, 2020

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, 2020, 2019 and 2018. 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 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 7 through 9 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 2020 increased by \$273,609 or 7% primarily as a result of decreased expenses as compared to 2019. Net position in 2019 decreased by \$403,595 or 10% versus the prior year due to decreased revenues.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total assets	\$ 4,303,896	\$ 3,868,976	\$ 4,272,892
Total liabilities	271,989	110,678	110,999
Net position — unrestricted	<u>\$ 4,031,907</u>	<u>\$ 3,758,298</u>	<u>\$ 4,161,893</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>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:			
Current fund contributions	\$ 4,086,004	\$ 4,386,773	\$ 5,453,271
Nonoperating revenue, net	13,691	55,032	66,122
Total revenue	4,099,695	4,441,805	5,519,393
Total operating expenses	<u>3,826,086</u>	<u>4,845,400</u>	<u>4,949,556</u>
Change in net position	273,609	(403,595)	569,837
Net position – January 1	<u>\$ 3,758,298</u>	<u>\$ 4,161,893</u>	<u>\$ 3,592,056</u>
Net position – December 31	<u>\$ 4,031,907</u>	<u>\$ 3,758,298</u>	<u>\$ 4,161,893</u>

Revenues, primarily reflecting contributions from the Current fund of the Authority, decreased \$342,110 or (8%) in 2020 to \$4,099,695. 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 decrease in contributions in 2020 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 2019.

Revenue in 2019 decreased \$1,077,588 or 20% from 2018. The decrease was due to decrease in current fund contributions.

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%, 1.2% and 1.5%, of gross income from operations (operating revenues) of the Authority for the years ended December 31, 2020, 2019 and 2018, respectively.

Expenses decreased \$1,019,314 or 21% as compared to 2019 due to decrease in several expense categories including trade trips, sponsored events, advertising and travel due to cancellations related to the COVID-19 pandemic. Expenses decreased \$104,156 or 2% in 2019 as compared to 2018 due to decrease in fees and services costs relating to graphic and creative design services.

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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS:		
Cash	\$ 4,303,896	\$ 3,826,903
Prepaid Expenses	<u>-</u>	<u>42,073</u>
Total Assets	<u>\$ 4,303,896</u>	<u>\$ 3,868,976</u>
LIABILITIES AND NET POSITION:		
LIABILITIES:		
Accounts payable and accrued liabilities	<u>271,989</u>	<u>110,678</u>
Total Liabilities	271,989	110,678
NET POSITION – Unrestricted	<u>4,031,907</u>	<u>3,758,298</u>
Total Liabilities and Net Position	<u>\$ 4,303,896</u>	<u>\$ 3,868,976</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
REVENUES:		
Current fund contributions	\$ 4,086,004	\$ 4,386,773
Advertising -Port Magazine	<u>1,500</u>	<u>4,500</u>
Total Revenues	<u>4,087,504</u>	<u>4,391,273</u>
EXPENSES:		
Fees and services	1,391,448	1,270,836
Sponsored events	269,942	579,399
MV Sam Houston	640,396	639,688
Economic development support	756,360	574,150
Trade trips	85,332	436,938
Advertising and promotion	56,981	282,323
Travel	23,280	215,165
Printing and production	164,279	156,551
Dues and subscriptions	206,738	265,387
Table purchases	52,670	127,445
Educational sponsorship	115,935	120,350
Maintenance	2,268	18,608
Materials	930	9,154
Other	<u>59,527</u>	<u>149,406</u>
Total Expenses	<u>3,826,086</u>	<u>4,845,400</u>
OPERATING GAIN (LOSS)	261,418	(454,127)
NONOPERATING REVENUE	<u>12,191</u>	<u>50,532</u>
CHANGE IN NET POSITION	273,609	(403,595)
NET POSITION – January 1	<u>3,758,298</u>	<u>4,161,893</u>
NET POSITION – December 31	<u>\$ 4,031,907</u>	<u>\$ 3,758,298</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from the Authority	\$ 4,086,004	\$ 4,386,773
Cash paid for other services	(642,663)	(661,527)
Cash paid to suppliers	<u>(2,978,539)</u>	<u>(4,180,550)</u>
Net cash provided by (used in) operating activities	<u>464,802</u>	<u>(455,304)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on bank deposits	<u>12,191</u>	<u>50,532</u>
Net cash provided by investing activities	<u>12,191</u>	<u>50,532</u>
NET INCREASE (DECREASE) IN CASH	476,993	(404,772)
CASH – January 1	<u>3,826,903</u>	<u>4,231,675</u>
CASH – December 31	<u>\$ 4,303,896</u>	<u>\$ 3,826,903</u>
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating Gain (Loss)	261,418	(454,127)
Changes in assets and liabilities:		
Decrease (Increase) in prepaid expenses	42,073	(856)
Increase (Decrease) in accounts payable and accrued liabilities	<u>161,311</u>	<u>(321)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 464,802</u>	<u>\$ (455,304)</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, 2020 AND 2019

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 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 \$4,303,896 and \$3,826,903 as of December 31, 2020 and 2019, 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.