HOUSTON SHIP CHANNEL SECURITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Houston Ship Channel Security District
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of the Houston Ship Channel Security District (the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of December 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 District's ability to continue as a going concern for twelve 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 opinions. 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 generally accepted 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 generally accepted 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 District'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 District'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 and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund 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 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.

Board of Directors
Houston Ship Channel Security District

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

August 13, 2024

HOUSTON SHIP CHANNEL SECURITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2023

Management's discussion and analysis of Houston Ship Channel Security District's (the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Fund Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. This report also includes required and other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, assessment and contract revenues, costs and general expenditures.

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the fiscal year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by $7,658,815 as of December 31, 2023.

The following is a comparative analysis of the Statement of Net Position as December 31, 2023 and December 31, 2022:

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2023	2022	Change Positive (Negative)
Cash and Investments	$ 7,945,057	$ 7,805,751	$ 139,306
Accounts Receivable	2,102,255	1,418,330	683,925
Total Assets	$ 10,047,312	$ 9,224,081	$ 823,231
Accounts Payable	$ 34,047	$ 84,016	$ 49,969
Deferred Inflows of Resources	$ 2,354,450	$ 2,344,525	$ (9,925)
Net Position:			
Unrestricted	$ 7,658,815	$ 6,795,540	$ 863,275
Total Net Position	$ 7,658,815	$ 6,795,540	$ 863,275

The following table provides a summary of the District's operations for the years ended December 31, 2023, and December 31, 2022. The District's net position increased by $863,275 during the current fiscal year.

	Summary of Changes in the Statement of Activities		
	2023	2022	Change Positive (Negative)
Revenues:			
Assessment Revenues	$ 2,342,925	$ 2,325,597	$ 17,328
Other Revenues	651,003	303,221	347,782
Total Revenues	$ 2,993,928	$ 2,628,818	$ 365,110
Expenses for Services	2,130,653	2,058,810	(71,843)
Change in Net Position	$ 863,275	$ 570,008	$ 293,267
Net Position, Beginning of Year	6,795,540	6,225,532	570,008
Net Position, End of Year	$ 7,658,815	$ 6,795,540	$ 863,275

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's General Fund fund balance was $7,496,485, as of December 31, 2023, an increase of $793,325 from the previous year, which was primarily due to assessment, penalty and interest, contract and investment revenues exceeding operating expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did amend the budget during the current fiscal year. The amended budget for the fiscal year was approved on January 10, 2023. Actual revenue was $405,853 more than budgeted revenue. Total expenditures were $2,336,276 less than budgeted expenditures. This resulted in a positive budget variance of $2,742,129. See the budget to actual comparison on page 22 for further information.

CAPITAL ASSETS

The District has not acquired capital assets as of December 31, 2023.

LONG-TERM DEBT ACTIVITY

The District does not have long-term debt as of December 31, 2023.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for anyone with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Houston Ship Channel Security District, 4400 Highway 225, Suite 200, Deer Park, TX 77536.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2023

	General Fund	Adjustments	Statement of Net Position
ASSETS			
Cash	$ 457,315	$	$ 457,315
Investments	7,487,742		7,487,742
Accounts Receivable:			
Assessments	1,965,525		1,965,525
Penalty and Interest on Delinquent Assessments	136,730		136,730
TOTAL ASSETS	$ 10,047,312	$ -0-	$ 10,047,312
LIABILITIES			
Accounts Payable	$ 34,047	$ -0-	$ 34,047
DEFERRED INFLOWS OF RESOURCES			
Assessments	$ 2,380,050	$ (25,600)	$ 2,354,450
Penalty and Interest on Assessments	136,730	(136,730)	
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 2,516,780	$ (162,330)	$ 2,354,450
FUND BALANCE			
Unassigned	7,496,485	(7,496,485)	
TOTAL FUND BALANCE	$ 7,496,485	$ (7,496,485)	$ -0-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 10,047,312		
NET POSITION			
Unrestricted		$ 7,658,815	$ 7,658,815
TOTAL NET POSITION		$ 7,658,815	$ 7,658,815

The accompanying notes to the financial statements are an integral part of this report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023

Total Fund Balance – Governmental Fund	$ 7,496,485
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Deferred assessment revenues for the 2022 and prior assessments became part of recognized revenue in the governmental activities of the District.	25,600
Deferred penalty and interest revenues for the 2023 and prior assessments became part of recognized revenues in the governmental activities of the District.	136,730
Total Net Position – Governmental Activities	$ 7,658,815

The accompanying notes to the financial statements are an integral part of this report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Adjustments	Statement of Activities
REVENUES			
Assessment Revenue	$ 2,369,297	$ (26,372)	$ 2,342,925
Penalty and Interest	65,190	96,322	161,512
Contract Revenue	61,675		61,675
Investment Revenues	427,816		427,816
TOTAL REVENUES	$ 2,923,978	$ 69,950	$ 2,993,928
EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	$ 144,954	$	$ 144,954
Contracted Services	188,184		188,184
Grant Matching Funds	795,122		795,122
Operations and Maintenance	713,932		713,932
Administrative	288,461		288,461
TOTAL EXPENDITURES/EXPENSES	$ 2,130,653	$ -0-	$ 2,130,653
NET CHANGE IN FUND BALANCE	$ 793,325	$ (793,325)	$ -0-
CHANGE IN NET POSITION		863,275	863,275
FUND BALANCE/NET POSITION – JANUARY 1, 2023	6,703,160	92,380	6,795,540
FUND BALANCE/NET POSITION – DECEMBER 31, 2023	$ 7,496,485	$ 162,330	$ 7,658,815

The accompanying notes to the financial statements are an integral part of this report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2023

Net Change in Fund Balance - Governmental Fund	$ 793,325
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report assessment revenue when it is collected. However, in the Statement of Activities, revenue is recorded when the assessments are assessed.	(26,372)
Governmental funds report penalties and interest revenue on assessments when it is collected. However, in the Statement of Activities, revenue for the current year is recorded when the penalties are assessed.	96,322
Change in Net Position - Governmental Activities	$ 863,275

The accompanying notes to the financial statements are an integral part of this report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1. CREATION OF DISTRICT

Houston Ship Channel Security District (the "District") was created by an order dated June 9, 2009, of the Commissioners Court of Harris County, Texas, in accordance with Chapter 68 of the Texas Water Code. This action was authorized by the Texas Legislature under provision of House Bill No. 3011, Chapter 913, of the 80th Legislature, effective June 15, 2007. The District is empowered to provide (or contract with others to provide) security projects and security services which encompass an integrated security strategy and an increased level of security on both the waterside and landside exposures of sites within the District boundaries. The projects and services are intended to increase preparedness and responses needed to address potential threats. The District is located wholly within Harris County and includes more than 100 refinery, chemical, manufacturing, marine and other facilities. The Board of Directors held its first meeting on January 27, 2010.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The District is a political subdivision of the State of Texas governed by an appointed board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately appointed governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting ("GASB Codification").

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net assets into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the governmental-wide Statement of Activities.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has one major governmental fund.

General Fund - To account for resources not required to be accounted for in another fund, assessment and contract revenues, costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Annual assessments considered available by the District and included in fund revenue include 2022 assessments collected during the period October 18, 2022 to December 31, 2023, and 2021 and prior assessments collected in the 2023 fiscal year. The 2023 assessment has been deferred to the 2024 fiscal year.

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year. The amended budget for the fiscal year was approved on January 10, 2023.

Pensions

A pension plan has not been established. The District does not have employees.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District does not have any restricted fund balances.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances and does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting 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 amount 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 expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was $457,315 and the bank balance was $804,727. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2023, as listed below:

	Cash
GENERAL FUND	$ 457,315

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool Prime, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool Prime. Federated Hermes, Inc. manages the daily operations of TexPool Prime under a contract with the Comptroller. TexPool Prime meets the criteria established in GASB No. 79 and measures all of their portfolio assets at amortized cost. As a result the District also measures its investments in TexPool Prime at amortized costs for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of December 31, 2023, the District had the following investments and maturities:

Funds and Investment Type	Fair Value	Maturities of Less than 1 year
GENERAL FUND		
TexPool Prime	$ 7,487,742	$ 7,487,742

NOTE 4. ASSESSMENTS

In accordance with Chapter 68, Texas Water Code (the "Code"), the District may impose an assessment against facilities (as that term is defined in the Code) within its boundaries for any District purpose. On November 14, 2023, the District adopted a plan of assessment. The plan allows facilities to pay their respective assessments on or before January 31, 2024. All assessments not paid by this date shall become delinquent and there shall be added thereto such penalties, interest, expenses of collection, attorneys' fees and other costs and expenses as are permitted by law. Per the Code, a delinquent assessment incurs penalties, interest and attorney's fees in the same manner as a delinquent ad valorem tax, and the District may place a lien against the facility for which the delinquent assessment is due.

NOTE 4. ASSESSMENTS (Continued)

For the 2023 fiscal year, $2,354,450 of assessment installment payments were due. As of May 31, 2024, delinquent 2015 assessments of $2,250, 2014 assessments of $12,850, and 2013 assessments of $10,500 remained outstanding.

NOTE 5. AGREEMENT FOR ADMINISTRATIVE SERVICES

On August 17, 2010, the District executed a contract with the Greater Houston Port Bureau, Inc. (the "Bureau"). The contract was amended and restated on September 10, 2013, October 13, 2020, and February 14, 2023. The contract provides for administrative services to be performed by the Bureau on behalf of the District. The Bureau is also to provide office space and necessary amenities. The contract will remain in effect until terminated by either party.

Per the contract, the District compensates the Bureau monthly at an hourly rate of $163.80 per hour for senior management personnel, $136.50 per hour for program and project staff, and $81.90 per hour for administrative staff; provided, however, the Bureau may not bill the District more than 300 hours per year of senior management personnel time and 1,500 hours per year of program and administrative management time. Office costs are reimbursed by the District to the Bureau with no single cost exceeding $5,000 nor any aggregation of costs exceeding $20,000 in one month. During the current fiscal year, the District paid the Bureau $188,184 for administrative services and related costs.

NOTE 6. AGREEMENT TO PROVIDE FINANCIAL ASSISTANCE

On March 8, 2011, the District entered into an agreement with Harris County, Texas (the "County"). The District is to provide financial assistance through assessments received from facilities to defray local matching requirements for federal grants received by the County, and a portion of operations and maintenance costs related to security projects and security services. The agreement was supplemented by addendums on February 28, 2012, June 24, 2014, March 8, 2016, and July 11, 2017. It was further amended on October 23, 2012, September 24, 2013, December 16, 2014, December 15, 2015, December 13, 2016, December 12, 2017, December 11, 2018, November 5, 2019, November 10, 2020, December 14, 2021, and January 10, 2023.

Pursuant to the agreement, the County will own, staff, operate and maintain the security project and provide the security services. Payments will be made to the County by the District as requested by the County and in accordance with the agreement. During the current fiscal year, the District paid the County $1,267,154.

The amended agreement extends the term of agreement through December 31, 2023. The agreement may be terminated by either party upon default by the other party or for convenience, and without cause or default by the other party.

NOTE 7. AGREEMENTS WITH PORT OF HOUSTON AUTHORITY OF HARRIS COUNTY, TEXAS

On November 8, 2022, the District executed an agreement with the Port of Houston Authority of Harris County, Texas (the "Authority"). The agreement is for the period November 1, 2022 to October 1, 2023 and calls for a payment to the District by the Authority of $61,675. On November 14, 2023, the District executed a subsequent agreement with the Authority. The agreement is for the period November 1, 2023 to October 1, 2024 and calls for a payment to the District by the Authority of $61,675. As a governmental agency, the Authority is excluded from the District by the Texas Water Code and thus exempt from any assessments imposed by the District. In support of the District and in lieu of an assessment, the Authority voluntarily contributes funds for authorized and approved costs of the District. This agreement may be terminated upon default by either party.

NOTE 8. INTERLOCAL AGREEMENT WITH THE CITY OF HOUSTON, TEXAS

On April 24, 2012, the District executed an agreement with the City of Houston, Texas ("Houston"). The agreement was amended on April 24, 2013. On June 27, 2014, a new agreement was executed. It was amended on December 8, 2015, December 13, 2016, December 12, 2017, November 5, 2019, October 13, 2020, November 10, 2020, January 12, 2021, January 10, 2023 and November 14, 2023, includes provisions for acquisition and funding of various security projects and provision of security services. The contract term is through December 31, 2024. The contract may be terminated by either party upon default or for convenience, and without cause or default by the other party. During the current fiscal year, the District paid the City $54,438 in grant matching funds for various projects and $100,595 for security service costs related to this agreement.

NOTE 9. INTERLOCAL AGREEMENT WITH THE CITY OF BAYTOWN, TEXAS

On September 12, 2015, the District executed an agreement with the City of Baytown, Texas ("Baytown"). The agreement was amended on February 17, 2016. A Second Amended and Restated Agreement was executed on January 24, 2018. A Third Amended and Restated Agreement was executed on January 11, 2019. A Fourth Amended and Restated Agreement was executed on November 7, 2019. A Fifth Amended and Restated Agreement was executed on October 13, 2020. A Sixth Amended and Restated Agreement was executed on November 9, 2021. A Seventh Amended and Restated Agreement was executed on November 8, 2022. An Eight Amended and Restated Agreement was executed on November 14, 2023. It expires two years after the effective date of the amendment, unless sooner terminated; however, Baytown's obligations to deploy security and response teams and assets to respond to incidents within the District extends for the useful life of the assets for which the District has provided funding assistance. The District is to provide financial assistance through assessments received from facilities to defray local matching requirements for federal grants received by Baytown for security services. During the current fiscal year, the District paid Baytown $88,983 for costs related to this agreement.

NOTE 10. INTERLOCAL AGREEMENT WITH THE TEXAS DEPARTMENT OF PUBLIC SERVICE

On January 26, 2018, the District executed an agreement with the Texas Department of Public Service ("DPS"). The agreement was amended on August 11, 2020. The agreement calls for the District to fund two maritime sector analyst positions housed within the DPS that will be devoted exclusively to crime and security analysis of maritime critical infrastructure, with an emphasis on the Port of Houston. The initial term of this agreement expires on August 31, 2023, with an additional 12-month term after the initial term. Either party may terminate the agreement upon providing 120 days written notice of its intent to do so. During the current fiscal year, the District paid $190,295 for costs related to this agreement.

NOTE 11. RISK MANAGEMENT

The District's Board of Directors is exposed to risks of claims under its errors and omissions policy. The District carries commercial insurance to provide public officials and general liability. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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HOUSTON SHIP CHANNEL SECURITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

HOUSTON SHIP CHANNEL SECURITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2023

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Assessment Revenue	$ 2,356,450	$ 2,356,450	$ 2,369,297	$ 12,847
Penalty and Interest			65,190	65,190
Contract Revenue	61,675	61,675	61,675	
Investment Revenues	100,000	100,000	427,816	327,816
TOTAL REVENUES	$ 2,518,125	$2,518,125	$2,923,978	405,853
EXPENDITURES				
Professional Fees	$ 90,000	$ 132,500	$ 144,954	$ (12,454)
Contracted Services	180,000	180,000	188,184	(8,184)
Grant Matching Funds	2,832,997	2,832,997	795,122	2,037,875
Operations and Maintenance	848,802	840,432	713,932	126,500
Administrative	481,000	481,000	288,461	192,539
TOTAL EXPENDITURES	$ 4,432,799	$ 4,466,929	$ 2,130,653	$ 2,336,276
NET CHANGE IN FUND BALANCE	$ (1,914,674)	$ (1,948,804)	$ 793,325	$ 2,742,129
FUND BALANCE - JANUARY 1, 2023	6,703,160	6,703,160	6,703,160	- 0 -
FUND BALANCE - DECEMBER 31, 2023	$ 4,788,486	$ 4,754,356	$ 7,496,485	$ 2,742,129

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HOUSTON SHIP CHANNEL SECURITY DISTRICT

OTHER SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

HOUSTON SHIP CHANNEL SECURITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2023

PROFESSIONAL FEES:	
Auditing	$ 13,850
Legal	91,056
Advocacy	40,048
TOTAL PROFESSIONAL FEES	$ 144,954
CONTRACTED SERVICES	
Administrator	$ 188,184
GRANT MATCHING FUNDS	$ 795,122
OPERATIONS AND MAINTENANCE	$ 713,932
ADMINISTRATIVE EXPENDITURES:	
DPS Security Analysis	$ 190,295
Telephone	402
Insurance	9,060
ISAC/Slack License	15,000
Board Meetings	10,877
Office Supplies	1,153
Postage	1,952
Training	52,103
Travel and Entertainment	1,373
Other	6,246
TOTAL ADMINISTRATIVE EXPENDITURES	$ 288,461
TOTAL EXPENDITURES	$ 2,130,653

See accompanying independent auditor's report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
INVESTMENTS
DECEMBER 31, 2023

	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
GENERAL FUND					
TexPool Prime	XXXX0001	Varies	Daily	$ 7,487,742	$ -0-

See accompanying independent auditor's report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
CHANGES IN ASSESSMENTS RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2023

	Assessments	
ASSESSMENTS RECEIVABLE –		
JANUARY 1, 2023	$ 1,377,922	
Adjustments to Beginning Balance		$ 1,377,922
Original 2023 Assessment Levy	$ 2,354,450	
Adjustment to 2023 Assessment Levy		
Tax Roll		2,354,450
TOTAL TO BE ACCOUNTED FOR		$ 3,732,372
ASSESSMENT COLLECTIONS:		
Prior Years	$ 1,352,322	
Current Year	414,525	1,766,847
ASSESSMENTS RECEIVABLE – DECEMBER 31, 2023		$ 1,965,525
ASSESSMENTS RECEIVABLE BY YEAR:		
2023		$ 1,939,925
2015		2,250
2014		12,850
2013		10,500
		$ 1,965,525

See accompanying independent auditor's report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts			
	2023	2022	2021	2020
REVENUES				
Assessment Revenue	$ 2,369,297	$ 2,317,672	$ 2,049,000	$ 1,654,250
Penalty and Interest	65,190	102,219	51,652	31,404
Contract Revenue	61,675	61,675	53,625	42,900
Investment Revenues			6,208	33,773
Miscellaneous Revenues	427,816	129,068		
TOTAL REVENUES	$ 2,923,978	$ 2,610,634	$ 2,160,485	$ 1,762,327
EXPENDITURES				
Professional Fees	$ 144,954	$ 78,101	$ 85,913	$ 93,261
Contracted Services	188,184	146,310	168,313	187,886
Grant Matching Funds	795,122	394,154	752,482	862,490
Operations and Maintenance	713,932	1,163,427	1,568,418	1,076,003
Administrative	288,461	276,818	292,492	54,791
TOTAL EXPENDITURES	$ 2,130,653	$ 2,058,810	$ 2,867,618	$ 2,274,431
NET CHANGE IN FUND BALANCE	$ 793,325	$ 551,824	$ (707,133)	$ (512,104)
PRIOR PERIOD ADJUSTMENT				53,916
BEGINNING FUND BALANCE	6,703,160	6,151,336	6,858,469	7,316,657
ENDING FUND BALANCE	$ 7,496,485	$ 6,703,160	$ 6,151,336	$ 6,858,469

See accompanying independent auditor's report.

2019	Percentage of Total Revenues 2023	2022	2021	2020	2019
$ 1,647,342	81.1%	88.8%	94.8%	93.9%	89.2%
32,142	2.2	3.9	2.4	1.8	1.7
42,900	2.1	2.4	2.5	2.4	2.3
125,755			0.3	1.9	6.8
20	14.6	4.9			
$ 1,848,159	100.0%	100.0%	100.0%	100.0%	100.0%
$ 98,228	5.0%	3.0%	4.0%	5.3%	5.3%
174,600	6.4	5.6	7.8	10.7	9.4
838,560	27.2	15.1	34.8	48.9	45.4
1,924,860	24.4	44.6	72.6	61.1	104.2
369,398	9.9	10.6	13.5	3.1	20.0
$ 3,405,646	72.9%	78.9%	132.7%	129.1%	184.3%
$(1,557,487)	27.1%	21.1%	(32.7)%	(29.1)%	(84.3)%
8,874,144					
$ 7,316,657					

See accompanying independent auditor's report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2023

District Mailing Address - Houston Ship Channel Security District
4400 Highway 225, Suite 200
Deer Park, TX 77536

District Telephone Number - (713) 671-0947

Board Members	Term of Office (All are Appointed)	Fees of Office for the year ended December 31, 2023	Expense Reimbursements for the year ended December 31, 2023	Title
Gary Scheibe	01/2023 - 01/2025	$ -0-	$ -0-	Chairperson
Eric Bass	01/2022 - 01/2024	$ -0-	$ -0-	Secretary
Buck Tadlock	08/2023 - 01/2025	$ -0-	$ -0-	Director
Clayton Pace	01/2023 - 01/2025	$ -0-	$ -0-	Treasurer
Mark Griffin	01/2023 - 01/2025	$ -0-	$ -0-	Director
Tim Krietemeyer	01/2022 - 01/2024	$ -0-	$ -0-	Vice-Chair
Raymond Espinosa	06/2022 - 01/2024	$ -0-	$ -0-	Director
LaKeyna Wilson	01/2023 - 01/2025	$ -0-	$ -0-	Director
Jimmy Burke	01/2022 - 01/2024	$ -0-	$ -0-	Director
Eric Finck	01/2022 – 01/2024	$ -0-	$ -0-	Director
Jessica Thomas	01/2023 – 01/2025	$ -0-	$ -0-	Ex Officio Director/Assistant Secretary

See accompanying independent auditor's report.

HOUSTON SHIP CHANNEL SECURITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2023

Consultants:	Date Hired	Fees for the year ended December 31, 2023	Title
Schwartz, Page & Harding, L.L.P	06/25/10	$ 91,056	Attorney
McCall Gibson Swedlund Barfoot PLLC	09/13/11	$ 13,850	Auditor
Perdue, Brandon, Fielder, Collins & Mott, LLP	05/13/14	$ -0-	Delinquent Assessment Attorney

See accompanying independent auditor's report.