

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

ANNUAL FINANCIAL REPORT

For the year ended December 31, 2020

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas
ANNUAL FINANCIAL REPORT
December 31, 2020

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	14
Notes to Financial Statements.....	15
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund.....	24
Notes to Required Supplementary Information.....	25
OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

To the Commissioners
Victoria County Navigation District
Victoria, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Victoria County Navigation District (the "District") a component unit of the County of Victoria, Texas, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 organization'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 opinions.

To the Commissioners
Victoria County Navigation District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2020 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2021, on our consideration of the District'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 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 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 District's internal control over financial reporting and compliance.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

May 25, 2021

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2020

In this section of the Annual Financial Report, we, the Directors of Victoria County Navigation District (the "District"), discuss and analyze the District's financial performance for the year ended December 31, 2020. Please read it in conjunction with the independent auditors' report on page 1 and the District's basic financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities and deferred inflows at the close of the fiscal year ended December 31, 2020, by \$30,938,657. Of this amount \$8,071,220 is available to meet the District's ongoing obligations.
- At December 31, 2020, the District's governmental funds reported combined ending fund balances of \$8,631,897, which is an increase of \$748,777 in comparison with the prior year.
- At December 31, 2020, the unassigned fund balance for General Fund was \$7,952,632 or 185% of total expenditures of \$4,300,328.
- The District's total debt decreased by \$1,385,698 which were the scheduled debt payments for 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 3 to 7

Government-wide Financial Statements

Provides information on governmental activities of the District.

Pages 8 to 10

Fund Financial Statements

Provides information on the financial position of specific funds of the District.

Pages 11 to 14

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 15 to 23

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 8. Its primary purpose is to show whether the District's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or declining. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the District's one type of activity:

Governmental activities - All of the District's basic services are reported here. Property taxes, user charges and leases, and unrestricted investment earnings finance most of these activities.

Fund Financial Statements

The fund financial statements begin on page 11 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds. The District's administration establishes other funds to help it control and manage money for particular purposes such as debt service and capital projects. The District's funds are all governmental.

Governmental funds - All of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities and deferred outflows by \$30,938,657 at the close of the year ended December 31, 2020.

The largest portion of the District's net position (73.9%) reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment), less a related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of net position is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current year, the District is able to report positive balances in all categories of net position and for the government as a whole.

Victoria County Navigation District		
Net Position		
	Governmental Activities	
	2020	2019
ASSETS		
Current assets	\$ 11,207,502	\$ 10,397,076
Capital assets (net)	41,109,644	42,428,570
Total assets	<u>52,317,146</u>	<u>52,825,646</u>
LIABILITIES		
Current liabilities	1,562,161	1,526,339
Noncurrent liabilities	17,493,664	18,921,472
Total liabilities	<u>19,055,825</u>	<u>20,447,811</u>
DEFERRED INFLOWS		
Unearned and unavailable	2,323,956	2,277,279
NET POSITION		
Net investment in capital assets	22,867,437	22,838,189
Unrestricted	8,071,220	7,262,368
Total net position	<u>\$ 30,938,657</u>	<u>\$ 30,100,557</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Victoria County Navigation District		
Changes in Net Position		
	Governmental Activities	
	2020	2019
REVENUES		
Program revenues:		
Charges for services	\$ 2,663,477	\$ 3,300,457
Operating grants and contributions	229,785	174,856
General revenues:		
Property taxes	2,332,465	2,109,060
Investment earnings	55,037	233,469
Miscellaneous	41,937	78,126
Total revenues	<u>5,322,701</u>	<u>5,895,968</u>
EXPENSES		
Port operations	3,901,525	3,651,148
Interest and fiscal charges on debt	583,076	623,914
Total expenses	<u>4,484,601</u>	<u>4,275,062</u>
Change in net position	838,100	1,620,906
Net position - beginning	<u>30,100,557</u>	<u>28,479,651</u>
Net position - ending	<u>\$ 30,938,657</u>	<u>\$ 30,100,557</u>

The District's net position increased by \$838,100 from prior year. The decrease in revenues was primarily due to the decreased demand for the services at the District (\$636,980) and a decrease in investment earnings (\$178,432). Both declines are attributed to the impact of Coronavirus on the economic environment.

The cost of all governmental activities this year was \$4,484,601, compared to \$4,275,062 last year. The increase was primarily due to a canal maintenance dredging project in the amount of \$247,220.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$8,631,897, which is higher than last year's total of \$7,883,120.

Included in this year's total change in fund balance is an increase of \$786,301 in the General Fund, compared to an increase of \$1,586,253 in the prior year. The District's primary source of revenue, charges for services, decreased \$662,026 due to the impact of Coronavirus on customer demand. The General Fund fund balance is unassigned and contains funds that are available for spending, subject to regulatory, statutory, and budgetary restrictions.

The fund balance in the 2015 Capital Project Fund decreased \$37,524 as a result of the canal maintenance dredging project, which was primarily funded through a grant from the Texas Department of Emergency Management.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District's Directors amended various revenue budget line items to account for utilization of the District. The total decrease in budgeted revenues was \$157,679, primarily due to a decrease in expected wharfage income. The expenditure budget was decreased in various general government categories by \$1,037,170, mainly due to the elimination of various budgeted special projects. The actual revenues were less than budgeted amounts by \$54,923, primarily due to less tax revenues received than expected. Actual expenditures exceeded budgeted amounts by \$56,613, mainly due to more engineering fees incurred than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The District had \$41,109,644, net of depreciation, invested in a range of capital assets, most of which is land and improvements. This amount represents a net decrease of \$1,318,926 from 2019. More detailed information about the District's capital assets is presented in Note 5 to the financial statements.

At the end of 2020, the District had bonded debt outstanding of \$17,530,000 and a note payable of \$1,391,472. The District's debt decreased by \$1,385,698 due to current year payments. More detailed information can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's Directors, appointed by the Victoria County Commissioner's Court, considered many factors when setting the fiscal year 2021 budget and tax rates. Factors taken into account were the economy and various ongoing projects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Victoria County Navigation District, 1934 FM 1432, Victoria, Texas 77905.

Basic Financial Statements

VICTORIA COUNTY NAVIGATION DISTRICT*A Component Unit of the County of Victoria, Texas***STATEMENT OF NET POSITION***December 31, 2020*

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 9,518,598
Receivables (net)	1,672,612
Due from other governments	16,292
Total current assets	<u>11,207,502</u>
Noncurrent assets	
Capital assets	
Land and other assets not being depreciated	16,899,307
Buildings, improvements, and equipment (net)	24,210,337
Total noncurrent assets	<u>41,109,644</u>
Total assets	<u>52,317,146</u>
LIABILITIES	
Current liabilities	
Accounts payable	106,638
Accrued interest payable	27,715
Current portion of long-term obligations	1,427,808
Total current liabilities	<u>1,562,161</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	17,493,664
Total noncurrent liabilities	<u>17,493,664</u>
Total liabilities	<u>19,055,825</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to unavailable property taxes	2,308,394
Deferred inflows related to unearned fees	15,562
Total deferred inflows	<u>2,323,956</u>
NET POSITION	
Net investment in capital assets	22,867,437
Unrestricted net position	8,071,220
Total net position	<u>\$ 30,938,657</u>

The accompanying notes are an integral part of this statement.

VICTORIA COUNTY NAVIGATION DISTRICT*A Component Unit of the County of Victoria, Texas***STATEMENT OF ACTIVITIES***For the year ended December 31, 2020*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Port operations	\$ 3,901,525	\$ 2,663,477	\$ 229,785	\$ -
Interest on long-term debt	583,076	-	-	-
Total governmental activities	\$ 4,484,601	\$ 2,663,477	\$ 229,785	\$ -

General revenues:

Taxes:

Property taxes, levied for general purposes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental
Activities

\$ (1,008,263)
(583,076)
(1,591,339)

2,332,465
55,037
41,937
2,429,439

838,100

30,100,557

\$ 30,938,657

VICTORIA COUNTY NAVIGATION DISTRICT*A Component Unit of the County of Victoria, Texas***BALANCE SHEET****GOVERNMENTAL FUNDS***December 31, 2020*

	General Fund	2015 Capital Project Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 8,853,578	\$ 665,020	\$ 9,518,598
Receivables (net)	1,672,612	-	1,672,612
Due from other governments	-	16,292	16,292
Total assets	<u>\$ 10,526,190</u>	<u>\$ 681,312</u>	<u>\$ 11,207,502</u>
LIABILITIES			
Accounts payable	\$ 104,591	\$ 2,047	\$ 106,638
Total liabilities	<u>104,591</u>	<u>2,047</u>	<u>106,638</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue - leases and fees	15,562	-	15,562
Unavailable revenue - property taxes	2,453,405	-	2,453,405
Total deferred inflows of resources	<u>2,468,967</u>	<u>-</u>	<u>2,468,967</u>
FUND BALANCES			
Restricted			
Capital expenditures	-	679,265	679,265
Unassigned	7,952,632	-	7,952,632
Total fund balances	<u>7,952,632</u>	<u>679,265</u>	<u>8,631,897</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 10,526,190</u>	<u>\$ 681,312</u>	<u>\$ 11,207,502</u>

The accompanying notes are an integral part of this statement.

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

December 31, 2020

Total governmental fund balances		\$ 8,631,897
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as "unavailable" in the funds.		146,303
Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 60,870,697	
Accumulated depreciation of governmental capital assets	<u>(19,761,053)</u>	41,109,644
Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and note payable	(18,921,472)	
Accrued interest payable	<u>(27,715)</u>	<u>(18,949,187)</u>
Net position of governmental activities		<u>\$ 30,938,657</u>

The accompanying notes are an integral part of this statement.

VICTORIA COUNTY NAVIGATION DISTRICT*A Component Unit of the County of Victoria, Texas***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended December 31, 2020*

	General Fund	2015 Capital Project Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 2,332,758	\$ -	\$ 2,332,758
Charges for services	2,663,477	-	2,663,477
Intergovernmental	17,995	211,790	229,785
Investment income	51,434	3,603	55,037
Miscellaneous	20,965	-	20,965
Total revenues	<u>5,086,629</u>	<u>215,393</u>	<u>5,302,022</u>
EXPENDITURES			
Current			
Personnel expenditures	553,548	-	553,548
Operating expenditures	584,024	247,220	831,244
Other services and charges	955,959	-	955,959
Capital outlay	236,151	5,697	241,848
Debt service			
Principal retirement	1,385,698	-	1,385,698
Interest and fiscal charges	584,948	-	584,948
Total expenditures	<u>4,300,328</u>	<u>252,917</u>	<u>4,553,245</u>
Net change in fund balances	786,301	(37,524)	748,777
Fund balances - January 1	<u>7,166,331</u>	<u>716,789</u>	<u>7,883,120</u>
Fund balances - December 31	<u>\$ 7,952,632</u>	<u>\$ 679,265</u>	<u>\$ 8,631,897</u>

The accompanying notes are an integral part of this statement.

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended December 31, 2020*

Total net change in fund balances - governmental funds \$ 748,777

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 523,063	
Depreciation expense	<u>(1,841,989)</u>	(1,318,926)

Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Note principal retirement	70,698	
Bond principal retirement	<u>1,315,000</u>	1,385,698

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.

Property taxes		20,679
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest		<u>1,872</u>
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Change in net position of governmental activities \$ 838,100

The accompanying notes are an integral part of this statement.

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Victoria County Navigation District (the "District") was created by a vote of the electorate of Victoria County, Texas, at an election held on February 4, 1947, under provisions of Article 8263(h) V.A.T.S. (now codified into Chapter 62, Texas Water Code). The Board of Navigation and the Canal Commissioners (the "Directors") is the level of government which has oversight responsibility and control over all activities related to the District's activities in the County of Victoria.

The Directors are appointed by the Commissioners' Court of the County of Victoria and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters including taxing authority. The District is a component unit of the County of Victoria in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governments.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the District's Directors have considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines the reporting entity consists of the primary government (all funds of the District), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of the relationship with the primary government is such that exclusion could cause the District's financial statements to be misleading or incomplete.

There are no component units included in the accompanying financial statements:

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The 2020 tax levy is dedicated to pay for expenditures of the 2021 budget. The entire 2020 levy is recorded as unearned revenue or unavailable revenue as of December 31, 2020.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2015 Capital Project Fund accounts for financial resources to be used for the construction of projects relating to the channel of the District.

D. Budgets and Budgetary Accounting

The budget for the General Fund is adopted on a GAAP basis. The budget is amended by a quorum of the Commissioners. A budget comparison is presented for the General Fund in the accompanying financial statements. The functional level is the legal level of budgetary control. The District does not employ the use of encumbrances in its budgetary accounting. There were several amendments made to the original budget.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

F. Other Accounting Policies

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include land, structures, and equipment, are reported in the applicable governmental activities column in the government-wide statement of net position. The District defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The District's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements other than buildings	20
Bridges	20
Machinery and equipment	5

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

The statement of net position may report a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position can also report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year, the District has the following items that qualify for reporting in this category.

- Current property tax levy, including taxes collected and receivable – These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Delinquent property taxes receivable (only in fund financial statements) – These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The District did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2020. This Statement did not have an impact on the District's functions, financial position or results of operations.

For the classification of Governmental fund balances the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations

For the year ended December 31, 2020, the District complied with budgetary restrictions at all function levels except the following. The following table details these variances:

<u>Fund/Function</u>	<u>Expenditure Variance</u>
General Fund	
Other services and charges	\$ 57,831

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

The District's funds are deposited and invested under the terms of the Victoria County's depository contract. The depository bank, Prosperity Bank, deposits for safekeeping and trust with Victoria County's agent bank, approved pledged securities in an amount sufficient to protect the District's funds on a day-to-day basis during the period of the contract. The pledge-approved securities are waived only to the extent of the depository bank's dollar amount of FDIC insurance.

Interest Rate Risk

In accordance with the District's investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

Concentration of Credit Risk

The District's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the District was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. During the fiscal year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the District was not exposed to custodial credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2020, the District had no investments.

NOTE 4: RECEIVABLES

Receivables at December 31, 2020, consist of the following:

	<u>General Fund</u>
Gross receivables:	
Accounts	\$ 229,456
Ad valorem taxes	<u>1,519,111</u>
Total gross receivables	1,748,567
Less: Allowances	<u>75,955</u>
Total net receivables	<u>\$ 1,672,612</u>

The District's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unavailable and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes receivable	\$ 2,453,405	\$ -	\$ 2,453,405
Lease revenue	<u>-</u>	<u>15,562</u>	<u>15,562</u>
	<u>\$ 2,453,405</u>	<u>\$ 15,562</u>	<u>\$ 2,468,967</u>

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Taxes are delinquent by February 1 following the October 1 levy date. A statutory lien becomes effective on all property with unpaid taxes as of January 1 of the year following the assessment.

NOTE 5: CAPITAL ASSETS

The District's capital asset activity for the year ended December 31, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 16,269,637	\$ 202,472	\$ -	\$ 16,472,109
Construction in progress	116,645	310,553	-	427,198
Total capital assets not being depreciated	<u>16,386,282</u>	<u>513,025</u>	<u>-</u>	<u>16,899,307</u>
Capital assets, being depreciated				
Improvements	39,495,090	3,650	-	39,498,740
M.P.R.R. Main Line Bridge	4,029,273	-	-	4,029,273
Equipment	436,989	6,388	-	443,377
Total capital assets being depreciated	<u>43,961,352</u>	<u>10,038</u>	<u>-</u>	<u>43,971,390</u>
Less accumulated depreciation for				
Improvements	15,996,052	1,702,087	-	17,698,139
M.P.R.R. Main Line Bridge	1,785,740	88,195	-	1,873,935
Equipment	137,272	51,707	-	188,979
Total accumulated depreciation	<u>17,919,064</u>	<u>1,841,989</u>	<u>-</u>	<u>19,761,053</u>
Total capital assets being depreciated, net	<u>26,042,288</u>	<u>(1,831,951)</u>	<u>-</u>	<u>24,210,337</u>
Governmental activities capital assets, net	<u>\$ 42,428,570</u>	<u>\$ (1,318,926)</u>	<u>\$ -</u>	<u>\$ 41,109,644</u>

Depreciation expense of \$1,841,989 was charged to the general government function/program in 2020.

NOTE 6: LESSOR AGREEMENTS

The District owns various properties which are available for lease, primarily land, docks, and wharves. The property available for lease includes land with total cost of \$16,472,110, as well as docks and wharves with total cost of \$11,822,386 and carrying value of \$7,801,891. Minimum future lease payments to be received under noncancelable lease agreements as of December 31, 2020 are as follows:

<u>Year Ending December 31</u>	
2021	\$ 739,562
2022	617,448
2023	603,736
2024	415,268
2025	85,458
	<u>2,461,472</u>
Thereafter	314,559
	<u>\$ 2,776,031</u>

NOTE 7: LONG-TERM DEBT

A. Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 18,845,000	\$ -	\$ 1,315,000	\$ 17,530,000	\$ 1,355,000
Notes payable - direct borrowings	<u>1,462,170</u>	<u>-</u>	<u>70,698</u>	<u>1,391,472</u>	<u>72,808</u>
Total governmental activity long-term liabilities	<u>\$ 20,307,170</u>	<u>\$ -</u>	<u>\$ 1,385,698</u>	<u>\$ 18,921,472</u>	<u>\$ 1,427,808</u>

B. General Obligation Bonds

Bonds payable at December 31, 2020, are comprised of the following issues:

2012 Revenue Refunding Bonds due in annual installments of various amounts beginning in 2013 through June 1, 2028; interest rate of 3.05%.	\$ 3,015,000
2012A Port Improvement Revenue Bonds due in annual installments of various amounts beginning in 2013 through June 1, 2032; interest rate of 2.99%.	7,365,000
2015 Port Improvement Revenue Bonds due in annual installments of various amounts beginning in 2016 through June 1, 2030; interest rate of 2.98%.	<u>7,150,000</u>
Total	<u>\$ 17,530,000</u>

Annual debt service requirements to maturity for the bonds are as follows:

Maturities	Principal	Interest	Total
2021	\$ 1,355,000	\$ 504,914	\$ 1,859,914
2022	1,390,000	463,733	1,853,733
2023	1,435,000	421,353	1,856,353
2024	1,475,000	377,696	1,852,696
2025	1,520,000	332,765	1,852,765
2026 - 2030	8,355,000	938,317	9,293,317
2031 - 2032	<u>2,000,000</u>	<u>60,248</u>	<u>2,060,248</u>
Total	<u>\$ 17,530,000</u>	<u>\$ 3,099,026</u>	<u>\$ 20,629,026</u>

NOTE 7: LONG-TERM DEBT - (Continued)**C. Notes Payable**

Notes payable at December 31, 2020, is comprised of the following direct borrowing:

Smith property note due in monthly installments of various amounts beginning in 2016 through June 15, 2036; interest rate of 2.75%. \$ 1,391,472

Total \$ 1,391,472

Annual debt service requirements to maturity for the note are as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 72,808	\$ 37,869	\$ 110,677
2022	74,864	35,813	110,677
2023	76,978	33,699	110,677
2024	79,062	31,615	110,677
2025	81,385	29,292	110,677
2026 - 2030	442,660	110,728	553,388
2031 - 2035	508,827	44,560	553,387
2036	<u>54,888</u>	<u>449</u>	<u>55,337</u>
Total	<u>\$ 1,391,472</u>	<u>\$ 324,025</u>	<u>\$ 1,715,497</u>

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchased commercial insurance to cover risks associated with potential claims during fiscal year 2020. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 9: RETIREMENT PLAN

The District sponsors a defined contribution pension plan established under Section 457(b) of the Internal Revenue Code that covers all of its employees. The plan is administered by Prosperity Bank Trust Department. Employees are able to select their contribution as a percentage of their eligible earnings, which amounted to approximately \$26,562 for the year ended December 31, 2020. The District matches employee contributions up to 7%. Total contributions made by the District for the year totaled \$25,274.

Required Supplementary Information

VICTORIA COUNTY NAVIGATION DISTRICT

A Component Unit of the County of Victoria, Texas

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the year ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Taxes				
Ad valorem taxes	\$ 2,342,230	\$ 2,375,954	\$ 2,332,758	\$ (43,196)
Charges for services				
Wharfage	1,500,000	1,185,456	1,189,332	3,876
Annual leases	820,000	850,000	834,451	(15,549)
Usage fees	498,000	639,745	639,694	(51)
Intergovernmental	-	17,995	17,995	-
Investment income	124,000	51,433	51,434	1
Miscellaneous	15,000	20,968	20,965	(3)
Total revenues	<u>5,299,230</u>	<u>5,141,551</u>	<u>5,086,629</u>	<u>(54,922)</u>
EXPENDITURES				
Current				
General government				
Personnel expenditures	612,400	553,724	553,548	176
Operating expenditures	1,106,600	585,035	584,024	1,011
Other services and charges	1,556,000	898,128	955,959	(57,831)
Capital outlay	26,000	236,165	236,151	14
Debt service	1,979,885	1,970,663	1,970,646	17
Total expenditures	<u>5,280,885</u>	<u>4,243,715</u>	<u>4,300,328</u>	<u>(56,613)</u>
Net change in fund balance	18,345	897,836	786,301	(111,535)
Fund balance - January 1	<u>7,166,331</u>	<u>7,166,331</u>	<u>7,166,331</u>	<u>-</u>
Fund balance - December 31	<u>\$ 7,184,676</u>	<u>\$ 8,064,167</u>	<u>\$ 7,952,632</u>	<u>\$ (111,535)</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

VICTORIA COUNTY NAVIGATION DISTRICT
A Component Unit of the County of Victoria, Texas
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2020

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The District annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended December 31, 2020, the District complied with budgetary restrictions at all function levels except the following. The following table details these variances:

<u>Fund/Function</u>	<u>Expenditure Variance</u>
General Fund	
Other services and charges	\$ 57,831

These over expenditures were funded by available fund balance in the General Fund.

**OVERALL COMPLIANCE AND INTERNAL CONTROL
SECTION**



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**INDEPENDENT AUDITORS' 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***

To the Commissioners
Victoria County Navigation District
Victoria, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, of the Victoria County Navigation District (the "District") as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 consolidated 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 may exist that have not been identified.

To the Commissioners
Victoria County Navigation District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. 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 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

May 25, 2021