Comprehensive Annual Financial Report

For The Fiscal Years Ended September 30, 2014 and 2013

PORT FREEPORT

THE COAST IS CLEAR

200 W. Second St., 3rd Floor
Freeport, TX 77541
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www.portfreeport.com

Port Freeport
Freeport, Texas

Comprehensive Annual Financial Report
For the Fiscal Years Ended
September 30, 2014 and 2013

Prepared by:

Jeffrey L. Strader, CPA
Chief Financial Officer

Mary Campus,
Controller

PORT FREEPORT
Freeport, Texas

Comprehensive Annual Financial Report
Fiscal Years Ended September 30, 2014 and 2013

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Freeport, Texas

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Fiscal Years Ended September 30, 2014 and 2013

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port Freeport

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO

PORT FREEPORT
Mission Statement

Port Freeport serves its customers and stakeholders through the development and marketing of competitive world class navigational capabilities, technically advanced marine and multimodal terminal services and port-related industrial facilities while achieving profits and creating jobs as a leading economic catalyst for the Port and the Texas Gulf Coast.

200 W. SECOND ST., 3RD FL., FREEPORT, TX 77541
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STATE OF THE PORT 2015

Port Freeport enhances infrastructure and adds world-leading services to meet burgeoning demands while increasing vital role in area's economy

From advancement of a deeper wide channel and arrival of two post-Panamax cranes to new services by the world's leading container line and No. 1 roll-on/roll-off carrier, Port Freeport continues to move forward as a vital economic force in Brazoria County and beyond.

With more than $30 billion in capital investments taking place in and around Brazoria County, Port Freeport is ideally positioned to continue its dynamic growth, meeting demands of today's extensive petrochemical facility construction activities, as well as enhancing its capabilities as a gateway for cargo activity associated with sustained operations for generations to come.

By becoming an authorized project under the Water Resources Reform and Development Act of 2014, signed into law in June, the endeavor to bring the depth of Port Freeport's channel from its current 45 feet to as many as 55 feet moves a big step closer to realization following completion the previous year of a favorable chief's report from the U.S. Army Corps of Engineers. The present focus on ensuring the channel's approved width of 400 feet throughout its length is critical to facilitating the arrival and departure of many of the industry's largest oceangoing vessels.

When the two 100-gauge ship-to-shore container cranes arrived in July at its new Berth 7, Port Freeport embarked upon a vanguard era of furnishing greater cost savings to the area's burgeoning industry. Savings were realized by the port as well, as it shaved millions of dollars per-unit costs and significantly cut delivery time by assuming assignment of cranes already under construction at Shanghai Zhenhua Heavy Industries Co. Ltd., the world's largest manufacturer of cranes and steel structures.

With the cranes in place, Port Freeport quickly attracted new services from global leaders. In October, Mediterranean Shipping Co. S.A., the world's largest containership carrier, under an agreement with Chiquita Brands International Inc., began weekly service to and from Port Freeport throughout Central America, with worldwide relay links. And, as 2015 dawned, the world's top operator of roll-on/roll-off vessels, Höegh Autoliners, inked a 10-year pact to serve Port Freeport.

Another major partnership for Port Freeport is the one recently forged with Mammoet USA South Inc., a unit of the world's leading industrial lifting expert. Mammoet is moving project cargo units weighing as many as 675 tons for the region's new and expanding petrochemical plants, which also are creating high demand for aggregate used in building the facilities, providing laydown areas and furnishing parking lots for thousands of construction workers. More than one million tons of aggregate moved through Port Freeport in 2014, and there is no sign of these volumes letting up.

Port Freeport's recently completed master plan establishes a firm foundation for the port's further expansion over the course of the next two decades, including building of additional berths, warehouse facilities proximate to the main terminal, a state-of-the-industry gate complex and other key enhancements that already are under way.

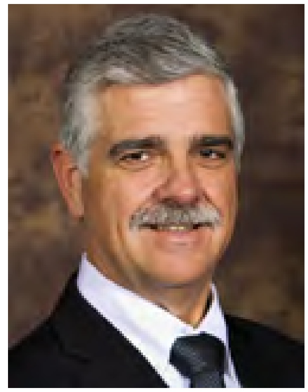
As Port Freeport continues its longstanding tradition of being a dedicated contributor to the community, conscientious steward of the environment and steadfast promoter of a safe and secure workplace, it's time to hold onto your hardhats and, with our other partners in progress, reap the benefits that are ours to share with Brazoria County for decades to come.

Sincerely,

Glenn A. Carlson
Executive Port Director/CEO

Port Commission


John Hoss
Chairman


Paul Kresta
Vice Chairman


Shane Pirtle
Secretary


Ravi K. Singhania
Assistant Secretary


Bill Terry
Commissioner


Thomas Perryman
Commissioner

PORT FREEPORT

Directory of Officials

Executive Staff

Glenn A. Carlson
Executive Port Director/CEO

Jeff Strader
Chief Financial Officer

Al Durel
Director of Operations

Mary Campus
Controller

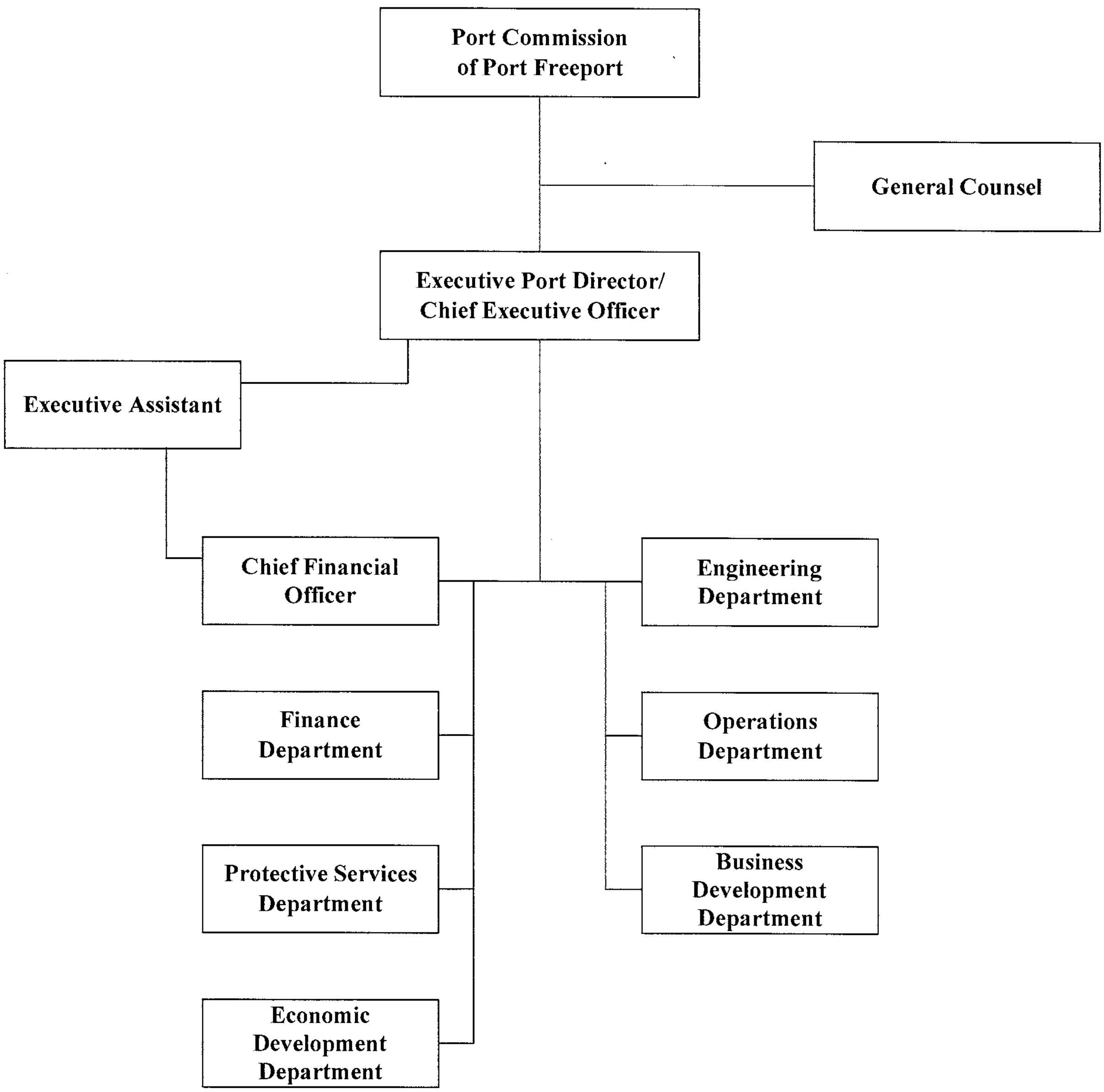
Mike Wilson
Director of Economic Development

Jason Hull
Director of Engineering

Chris Hogan
Director of Protective Services

PORT FREEPORT

Organizational Chart
September 30, 2014



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LETTER OF TRANSMITTAL

January 30, 2015

MEMBERS OF THE PORT COMMISSION
PORT FREEPORT
FREEPORT, TEXAS

Gentlemen:

The Comprehensive Annual Financial Report for Port Freeport (Port) for the year ended September 30, 2014 is hereby submitted for your review. Responsibility for both the accuracy of the information contained herein and the completeness and fairness of the presentation, including all disclosures, rests with the administration of the Port. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner designed to fairly present the financial position and results of operations of the Port. All disclosures necessary to enable the reader to gain an understanding of the Port's financial activities have been included.

The Port has prepared the Comprehensive Annual Financial Report following the guidelines recommended by the Government Accounting Standards Board (GASB). The report is presented in three sections:

> Introductory Section – includes the title page, table of contents, letter of transmittal and Certificate of Achievement. It is designed to introduce the reader to the report and present basic background information about the Port as a whole, as well as highlights of the year's operations.
>
> Financial Section - includes the auditor's report, management's discussion and analysis, the Port's basic financial statements and notes and required supplementary information.
>
> Statistical Section - includes tables that cover periods of ten years relating to the operational and fiscal activity of the Port as well as historical growth trends of the Port. This section also includes a brief history of the Port as well as geographical information.

GENERAL

Brazoria County is one of Texas' most fertile agricultural areas, one of the nation's most successful commercial fishing ports, one of the region's more prolific fuel and mineral areas, and in recent decades, the location of one of the world's largest chemical manufacturing complexes. The primary economic bases of the county include chemical manufacturing, petroleum processing, offshore production maintenance services, diversified manufacturing, biochemical and electronic industries, commercial fishing and agriculture. In addition, the area's deep-water channel and port facilities, sports fishing services and tourism are major components of the county's economic base. Since 2004 the northern portion of the county has seen extensive residential, retail and healthcare development with no evidence of slowing in the near term. The Brazoria County Index of Leading Economic indicators increased 13.43 percent from August 2013 to August 2014. The Leading Economic Index, which is designed to forecast the economic performance of the county over the next three to six-months, has been above the moving average for the last twelve months. This indicates that the county is likely entering into or is currently experiencing a period of economic growth. (Brazosport College Economic Forecasting Center, 2014).

Port Freeport is a political subdivision of the State of Texas encompassing approximately 85 percent of Brazoria County, Texas. The Port exists under the provisions of Article XVI, Section 59 of the Texas State Constitution and related sections of the Revised Civil Statutes of the State of Texas and all amendments thereto. In 2007, the State of Texas passed House Bill 542, which changed the legal name of the Brazos River Harbor Navigation District to “Port Freeport” and the name of the governing body of the Brazos River Harbor Navigation District to “Port Commission” and the name of each member of the Port Commission to “Port Commissioner.” The Port, being a political subdivision of the State of Texas, is a separate and distinct entity and operates independently with its own Port Commission as its governing body.

The Port Commission is comprised of six members. Five positions represent a specific geographic area, and one position is at-large. Each Port Commissioner serves a term of six years. The six-year terms are staggered with an election held each uneven numbered year for two commissioner positions.

The Executive Port Director and staff manage the operations of the Port under the auspices of the Port’s Commission.

FINANCIAL

The financial statements are prepared using the single enterprise fund model in accordance with GASB 34. The financial reporting entity includes the enterprise fund of the primary government, Port Freeport, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The Brazos Harbor Industrial Development Corporation (IDC) is a component unit of the Port; however, it is discretely presented and has no assets, liabilities, equities or financial transactions. Financial information for the IDC is limited to the disclosure of revenue bonds issued on behalf of others in the notes to the financial statements.

Discussion and analysis of the financial statements and the Port’s financial performance may be found in Management Discussion and Analysis at the beginning of the Financial Section.

Internal Controls. The administration of the Port is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Port are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformance with generally accepted governmental accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of costs and benefits requires estimates and judgments by administration. The Port has adopted practices and procedures measures related to fraud prevention and reporting.

The Port Commission adopts an annual budget in August for the next fiscal year beginning October 1. Management periodically presents statements comparing actual with budget, explaining significant variances.

OTHER FINANCIAL INFORMATION

The Port has financial policies which are designed to provide parameters for managing the financial performance of the Port. Two of the Port’s more significant financial policies are the cash management and risk management policies.

Cash Management. The Port's investment policy complies with the Public Funds Investment Act and is designed to minimize any risk of loss of principal, while maintaining a competitive yield on the funds it has available for investment. Accordingly, Port cash temporarily idle during the year was invested in money market funds, certificates of deposit and guaranteed governmental securities as authorized by the policy. In addition, all deposits were and continue to be either insured by federal depository insurance or otherwise collateralized. All collateral on deposits in excess of federal depository insurance amounts are held by the Port or by the financial institution's trust department or a Federal Reserve Bank in the Port's name.

Risk Management. The Port's schedule of insurance provides for comprehensive coverage of all areas of risk. The Port has engaged a consultant to assist with risk management issues.

Independent Auditor. The state statutes require an annual audit by independent certified public accountants. Kennemer, Masters & Lunsford, LLC, the independent certified public accountants selected by the Port Commission, audited the basic financial statements for the year ended September 30, 2014.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for excellence in financial reporting to the Port for its Comprehensive Annual Financial Report for the Fiscal Year ended September 30, 2013. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such comprehensive annual financial reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Port has received this prestigious award for the last twenty-three consecutive fiscal years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

MAJOR INITIATIVES

2014. Following the completion of the first phase of the Velasco Terminal Development project, the current year saw further improvements to that infrastructure in the form of two (2) 100% electric quayside ship to shore gantry cranes and supporting berth improvements plus the commencement of concrete paving on the 20 acres of backland stabilized during phase 1 of the project. As a result of these further improvements, the Port was able to attract a major steamship line as well as retain a long standing customer both of which required improved terminal operating capabilities and increased terminal capacity. With the addition of this steamship line, the Port now has complete global access for customers utilizing a containerized form of shipment.

Initiated during 2013, the Port continued with its master plan development effort producing and presenting a draft plan to the Board of Commissioners late in the fiscal year. This draft plan outlines, in a phased approach, the long-term development and reconfiguration of the Port's facilities which had been deemed necessary to capture identified addressable market opportunities as well as maintain and grow existing lines of business. Included in the plan is the full build out of Velasco Terminal as well as development of laydown, warehousing and rail facilities on currently undeveloped tracks of land owned by the Port.

The Port continues in a role acting as the applicant and fiduciary agent for two Port Security Grants totaling $ 1 million funded by the Department of Homeland Security. These funds will be applied to security improvements. Security grant funding to Port Freeport since 2001 has totaled $ 20 million.

Future. With a favorable outcome for both the initial reconnaissance and subsequent feasibility studies, the United State Army Corp of Engineers (USCOE) issued its Chief's Report early in 2013 to the United States Congress recommending the deepening of the Freeport Harbor Channel. Acting on this recommendation, Congress included in the Water Resources Reform and Development Act (WRRDA) of 2014 authorization to move forward with the proposed project funding initial construction planning and design work. During 2014 it was determined that additional improvements, beyond those proposed and authorized in WRRDA, were necessary in order to accommodate the safe navigation of the feasibility study's design vessel. Based on these findings, the Port is actively engaged with the USCOE to develop a multi stage process to adjust for these additional requirements which include bend easing and channel width increases. It is anticipated that the initial phase which will address safe navigation at the current channel depth will cost approximately $ 130 million and will be shared 75%/25% between the Federal Government and Port. Additional phases will provide for the ultimate deepening of the channel to 2014 WRRDA authorized depths.

Permitting and detailed design work is currently underway for the further build out of Velasco Terminal, as recommended in the draft Master Plan, including the extension of Berth 7, construction of Berth 8, construction of a RoRo ramp at the end of Berth 8, purchase of additional ship to shore gantry cranes and development of backland to support berth operations. The permit request submission is scheduled for the spring of 2015 with an anticipated approval the following year at about the same time. Costs associated with this further build out are $ 180 million and are scheduled out over the next 5 years.

As a result of securing additional lines of business during 2014, the Port is undertaking certain improvements to existing facilities and development of new facilities including the creation of paved open storage and rail sidings to accommodate the import and export for passenger vehicles and large dimensional construction equipment. Costs associated with these efforts are anticipated to run approximately $ 15 million.

These initiatives as well as others are outlined further in Management's Discussion and Analysis in the Financial Section.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Report could not have been accomplished without the aid of the Controller and other Finance Department staff members. These individuals have my sincere appreciation for their efficient and dedicated support in the preparation of this report. Thanks and appreciation also is extended to the Executive Port Director and the Commissioners for their guidance, insight and support throughout the year.

Respectfully Submitted,

Jeffrey L. Strader, CPA
Chief Financial Officer
Port Freeport

PORT FREEPORT
Safety Statement

At Port Freeport, Safety and Health is priority #1.

Our commitment is to ensure a positive safety culture by providing our employees with necessary procedures and tools to work safely each day AND to ensure valid safety concerns are immediately addressed.

Every person working at Port Freeport is responsible for following safety procedures and ensuring a safe work environment exists. Nothing less is acceptable.

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
979-297-4075

El Campo Office:
201 W. Webb
El Campo, Texas 77437
979-543-6836

Houston Office:
10850 Richmond Ave., Suite 135
Houston, Texas 77042
281-974-3416

Independent Auditor's Report

To the Port Commissioners
Port Freeport
Freeport, Texas 77541

Report on the Financial Statements

We have audited the accompanying statements of net position of Port Freeport (the "Port") as of and for the year ended September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows and the related notes to the financial statements, which collectively comprise the Port'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Port Freeport, as of September 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for years 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 on pages 18 through 28 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port's basic financial statements. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of expenditures of federal awards, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, on our consideration of the Port'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 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 Port's internal control over financial reporting and compliance.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas
January 30, 2015

PORT FREEPORT

Management Discussion and Analysis

The management of Port Freeport (Port) offers readers this narrative overview and analysis of the financial activities of the fiscal years ended September 30, 2014, 2013 and 2012. This section is intended to enhance the clarity and usefulness of the financial statements for citizens, oversight bodies, investors and creditors. The Port's financial activities are being reported under the requirements of Governmental Accounting Standards Board (GASB) Statement 34 as a single enterprise fund.

Financial Highlights

September 30, 2014

- Total Net Position increased by $ 5.8 million.
- Total Assets increased by $ 5.7 million primarily due to an increase in property, plant and equipment of $ 15.2 million as a result of purchase of two ship to shore container cranes and other equipment and an increase in cash and cash equivalents of $ 5.3 million offset by a decrease in investments of $ 14.5 million.
- Total Liabilities were consistent with the previous year.
- Change in Net Position was lower than the previous year primarily due to the receipt of fewer federal grant funds.

September 30, 2013

- Total Net Position increased by $ 9.4 million.
- Total Assets increased by $ 24.4 million primarily due to an increase in cash and cash equivalents of $ 9.8 million and an increase in investments of $ 6.9 million both primarily as a result of the receipt of bond proceeds and a settlement related to the Velasco Terminal, Berth 7. Property, plant and equipment increased by $ 6.9 million, net of depreciation due to the addition of land improvements at Velasco Terminal.
- Total Liabilities increased by $ 14.9 million due to an increase in net revenue bonds outstanding.
- Change in Net Position was improved over the previous year primarily due to the receipt of a settlement related to Velasco Terminal.

September 30, 2012

- Total Net Position increased by $ 2.0 million.
- Total Assets increased by $ 1.5 million primarily due to an increase in investments of $ 7.3 million as a result of the receipt of insurance claims related to a construction project which was offset by a decrease in other receivables of $ 3.7 million. The remaining decrease relates to net decreases in other assets during the year.
- Total Liabilities decreased by $ 500 thousand primarily due to a decrease in bonds payable.
- Change in Net Position was lower than the previous year due to costs incurred on the Berth 7 dock repair.

Overview of Financial Statements

This discussion and analysis serves as an introduction to the Port's basic financial statements. These statements include a statement of net position that is a statement of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position; a statement of revenues, expenses and changes in net position that reports all revenues and expenses during the year and their net; a statement of cash flows that reports sources and uses of cash; and notes to the financial statements that explain some of the information in the financial statements and provide more detail. The basic financial statements are prepared on the accrual basis, whereby revenues are recognized when earned, and expenses are recognized when incurred, regardless of when cash is received or paid.

PORT FREEPORT

Management Discussion and Analysis

Financial Analysis

Over time, increases or decreases in the Port's net position may serve as a useful indicator of whether the Port's financial position is improving or deteriorating. For the years ended September 30, 2014, 2013 and 2012, the Port's net position increased by 3 percent, 5 percent and 1 percent to $ 195 million, $ 189 million and $ 180 million, respectively.

Net investment in capital assets that includes land, buildings, machinery and equipment at September 30, 2014, 2013 and 2012, was $ 149.4 million, $ 132.4 million and $ 142.1 million, or 77 percent, 70 percent and 79 percent of total net position, respectively. These net capital assets are recorded at historical cost and are net of depreciation and related debt. The remaining net position, at September 30, 2014, 2013 and 2012, are divided into three categories: restricted for debt service, $ 2.8 million, $ 2.8 million and $ 2.5 million; restricted for capital projects, $ 16 thousand, $ 16 thousand and $ 17 thousand; and unrestricted net position, $ 42.7 million, $ 53.9 million and $ 35.1 million, respectively. Restrictions do not significantly affect the availability of resources for future use.

The Port's total net position increased by $ 5.8 million in 2014, $ 9.4 million in 2013 and $ 2.0 million in 2012. These increases were provided by operating income (including depreciation) of $ 2.5 million, $ 1.1 million and $ 2.5 million; $ 2.3 million, $ 1.8 million and $ 3.2 million in non-operating net revenues including ad valorem taxes of $ 4.7 million, $ 5.2 million and $ 5.0 million and capital contributions of $ 1.0 million, $ 4.7 million and $ 2.3 million, respectively. In addition there were net extraordinary revenues (expenses) of $ 1.8 million in 2013, $ (5.9) million in 2012.

Condensed Statements of Net Position
(in thousands)

	2014	2013	2012 (Restated)
Current and other assets	$ 57,518	$ 67,073	$ 49,599
Capital assets, net of depreciation	206,598	191,377	184,494
Total assets	264,116	258,450	234,093
Deferred outflows of resources – refunding costs	16	17	
Total deferred outflows of resources	16	17	-0-
Current liabilities	16,002	26,210	14,658
Non-current liabilities	53,225	43,167	39,763
Total liabilities	69,227	69,377	54,421
Deferred inflows of resources			
Total deferred inflows of resources	-0-	-0-	-0-
Net investment in capital assets	149,397	132,424	142,113
Restricted for debt service	2,763	2,768	2,471
Restricted for capital projects	16	16	17
Unrestricted	42,729	53,882	35,071
Total net position	$ 194,905	$ 189,090	$ 179,672

PORT FREEPORT

Management Discussion and Analysis

Comparative Statement of Revenues, Expenses and
Changes in Net Position
(in thousands)

	2014	2013	2012 (Restated)
Operating revenues:			
Harbor operations	$ 9,852	$ 8,615	$ 8,598
Lease income	6,955	6,344	5,945
Miscellaneous	189	35	228
Total operating revenues	16,996	14,994	14,771
Operating expenses:			
Payroll and related	4,006	3,858	3,607
Professional services	1,433	1,634	1,536
Supplies and other	2,489	2,317	2,056
Utilities, maintenance and repairs	1,255	1,553	1,119
Depreciation	5,310	4,502	3,998
Total operating expenses	14,493	13,864	12,316
Operating income	2,503	1,130	2,455
Non-operating revenues (expenses):			
Ad valorem tax, net of collection expenses	$ 4,672	$ 5,246	$ 5,017
Investment income	265	(59)	114
Gain on sale of capital assets and other		18	
Debt interest and fees	(1,285)	(2,164)	(2,034)
Other	(1,382)	(1,189)	122
Total non-operating revenues (expenses)	2,270	1,852	3,219
Income before capital contributions and extraordinary revenues (expenses)	4,773	2,982	5,674
Capital contributions	1,042	4,683	2,290
Extraordinary revenues (expenses)		1,753	(5,925)
Change in net position	5,815	9,418	2,039
Total net position – beginning (restated)	189,090	179,672	177,633
Total net position – ending	$ 194,905	$ 189,090	$ 179,672

Total revenues, including capital contributions, have been relatively consistent over the past three years at $ 23.0 million in 2014, $ 24.9 million in 2013 and $ 21.9 million in 2012. Operating revenues increased by $ 2.0 million in 2014 to $ 17.0 million, increased $ 223 thousand in 2013 to $ 15.0 million and decreased $ 815 thousand to $ 14.8 million in 2012. Tonnage overall increased 30 percent to 2.6 million tons in 2014 while ship calls increased 34 percent and barge calls decreased 59 percent. Tonnage overall increased 18 percent to 2.0 million tons in 2013 while ship calls increased 7 percent and barge calls decreased 24 percent. Tonnage overall decreased 18 percent to 1.7 million tons in 2012 while ship calls decreased 6 percent and barge calls increased 3 percent. Green fruit imports decreased 18 percent or 80 thousand tons, increased 9 percent or 39 thousand tons, and increased 5 percent or 21 thousand tons, in 2014, 2013 and 2012, respectively. Rice exports decreased 29 percent to 58 thousand tons in 2014, increased 19 percent to 82 thousand tons in 2013, and increased 13 percent to 68 thousand tons in 2012. Domestic rice activity decreased 82 percent to 14 thousand tons in 2014, decreased 16 percent to 77 thousand tons in 2013, and increased 19 percent to 92 thousand tons in 2012. This was also directly related to the 59 percent decrease in barge calls for 2014, 24 percent decrease in barge calls for 2013, and 3 percent increase in barge calls for 2012. Import liquefied natural gas tonnages decreased to 130 thousand tons, increased to 197 thousand tons, and decreased to 187 thousand tons 2014, 2013 and 2012, respectively.

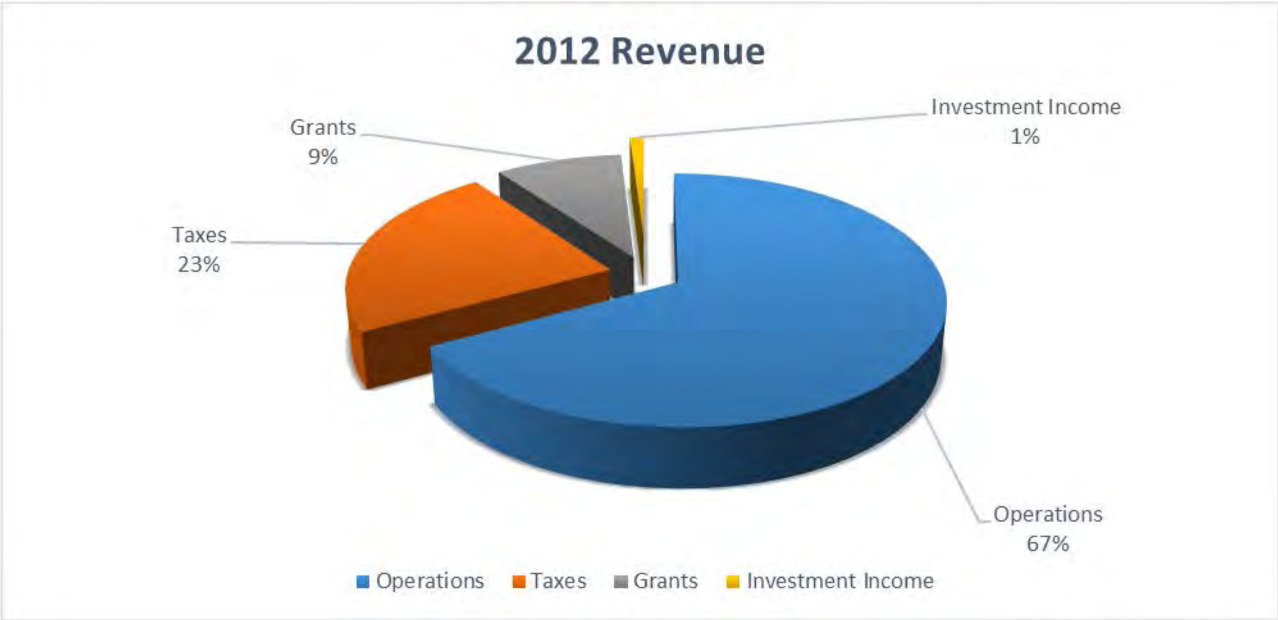
PORT FREEPORT

Management Discussion and Analysis

Exported liquefied natural gas remained at 124 thousand tons in 2014, decreased to 124 thousand tons in 2013, and increased to 194 thousand tons in 2012. Bulk limestone increased 162 percent to 1.2 million tons in 2014, increased 131 percent to 455 thousand tons in 2013, and increased 26 percent to 196 thousand tons in 2012. General export cargo increased 10 percent to 495 thousand tons in 2014, increased 19 percent to 447 thousand tons in 2013, and increased 36 percent to 376 thousand tons in 2012. Wind power projects imported and exported through the Port for the fiscal years 2014, 2013 and 2012 totaled 0 tons, 0 tons, and 14 thousand tons, respectively. Total lease revenue increased 9 percent in 2014, increased 7 percent in 2013 and increased by 4 percent in 2012; ground lease revenue increased $ 279 thousand in 2014, increased $ 355 thousand in 2013, and increased $ 249 thousand in 2012 primarily due to contractual rate adjustments. Other leases remained relatively the same in 2014, 2013 and 2012.

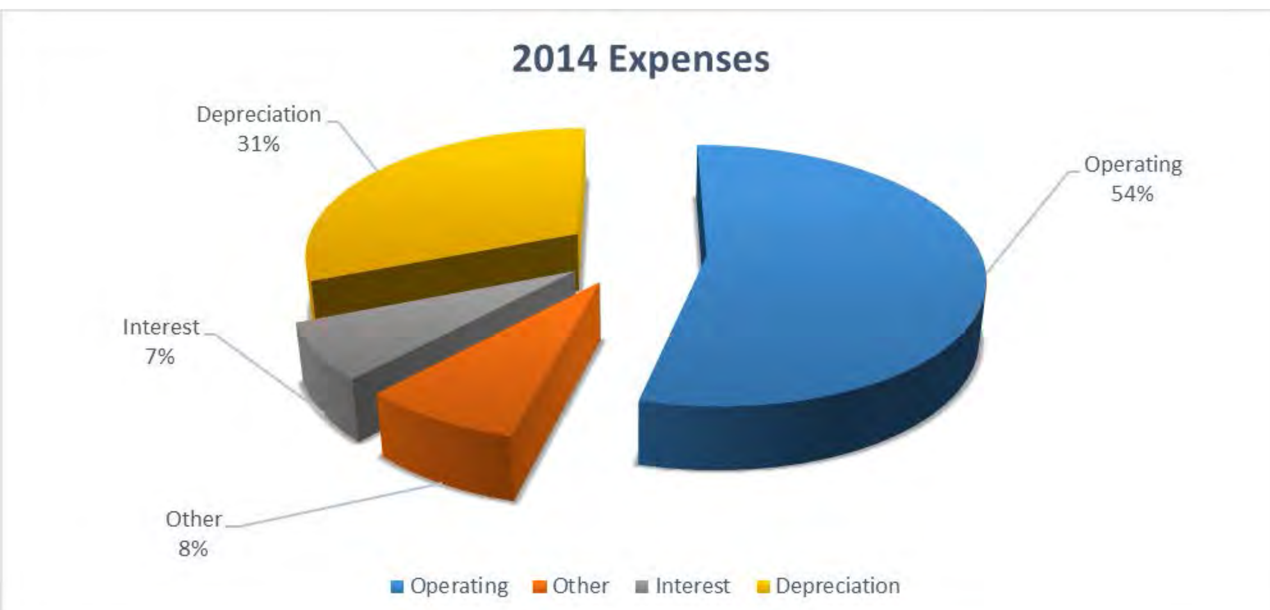
Ad valorem tax revenue decreased by 11.0 percent to $ 4.7 million in 2014 and was $ 5.2 million and $ 5.0 million in 2013 and 2012, respectively. The decrease in the current year ad valorem revenues is a result of decreases in the tax rate. The tax rate was reduced from 5.15 to 4.5 cents per hundred dollars valuation in 2014, reduced from 5.35 to 5.15 cents per hundred dollars valuation in 2013 and remained the same in total for 2012. Investment income increased by $ 325 thousand in 2014 as compared to 2013 and decreased by $ 174 thousand in 2013 as compared to 2012 both as a result of a net change in investment market values of investments. Investment income decreased by $ 28 thousand in 2012 as compared to 2011 as a result of a reduction in investments coupled with continued low but stable interest rates. Grant revenues in 2014 were lower than 2013 by $ 3.6 million due to a decrease in Port Security grant expenditures and related revenue, in 2013 were higher than 2012 by $ 2.4 million due to an increase in Port Security grant expenditures and related revenue and in 2012 there was also an increase over 2011 due to an increase in Port Security Grant expenditures and related revenues. Capital contributions in 2014, 2013 and 2012 were directly related to contributions to others made by the Port for grant and capital related projects.

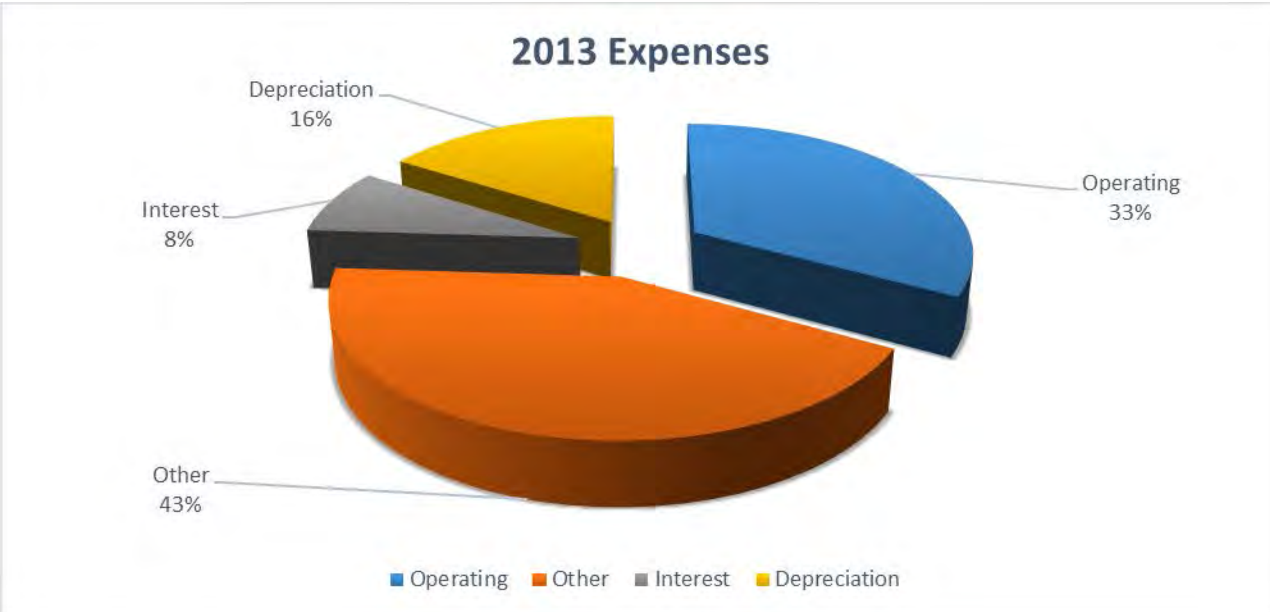

2013 Revenue
Other 35%
Operations 39%
Investment 0%
Taxes 14%
Grants 12%
Operations
Taxes
Grants
Investment
Other


2012 Revenue
Investment Income 1%
Grants 9%
Taxes 23%
Operations 67%
Operations
Taxes
Grants
Investment Income

Total expenses decreased 40 percent to $ 17.2 million from $ 28.6 million in 2014, increased 34 percent to $ 28.6 million in 2013, and increased 26 percent to $ 21.0 million in 2012. Operating expenses, including depreciation, were $ 14.5 million in 2014 increasing $ 685 thousand or 5 percent, $ 13.9 million in 2013 increasing $ 1.5 million or 12.5 percent, and increasing 145 thousand or 1.2 percent to $ 12.3 million in 2012. Payroll and related expenses increased by 4 percent in 2014 primarily due to the regular salary increases, increased by 7 percent in 2013 primarily due to the filling of vacant positions and regular salary increases, and decreased by 3 percent in 2012 primarily related to vacant positions for a major portion of the year. Professional services expenses decreased by $ 201 thousand in 2014 due to decreased legal fees associated with construction issues, increased by $ 98 thousand in 2013 and $ 149 thousand in 2012. Supplies and other expenses increased in 2014 by $ 172 thousand over 2013, in 2013 by $ 260 thousand over 2012 due to increased equipment supplies whereas supplies and other expenses were relatively consistent in 2012 as compared to 2011 with no significant changes in port operations and with prices for supplies and fuel relatively consistent during this period. Utilities and maintenance expenses were consistent in 2014 as compared to 2013, increased by $ 434 thousand in 2013 over 2012 due to maintenance of the crane and other cargo equipment whereas utilities and maintenance expenses were consistent in 2012 as compared to 2011. Depreciation expense in 2014 increased by 18% due to the addition of new equipment and fixed assets , in 2013 increased by 13% due to the addition of new assets for the Velasco Terminal Berth 7, in 2012 increased by 8% also due to placement in service of Velasco Terminal related assets which were previously being held in construction in progress.

The Port had no gain or loss on sale of capital assets in 2014 and also in 2012, a small gain on the sale of capital assets occurred in 2013. Debt interest and fees decreased to $ 1.3 million in 2014 due to decreases in interest rates, and were consistent between 2013 and 2012 at $ 2.2 million and $ 2.0 million, respectively. Other expenses have decreased significantly in 2014 due to no additional repair expenses related to the Velasco Terminal issue as the issue was settled in the prior year. Other expenses increased significantly in 2013 and 2012 due to costs incurred for the Velasco terminal repairs.




2013 Expenses
Depreciation
16%
Operating
33%
Interest
8%
Other
43%
Operating
Other
Interest
Depreciation


2012 Expenses
Depreciation
14%
Interest
7%
Other
20%
Operating
59%
Operating
Other
Interest
Depreciation

Capital Assets and Long Term Debt

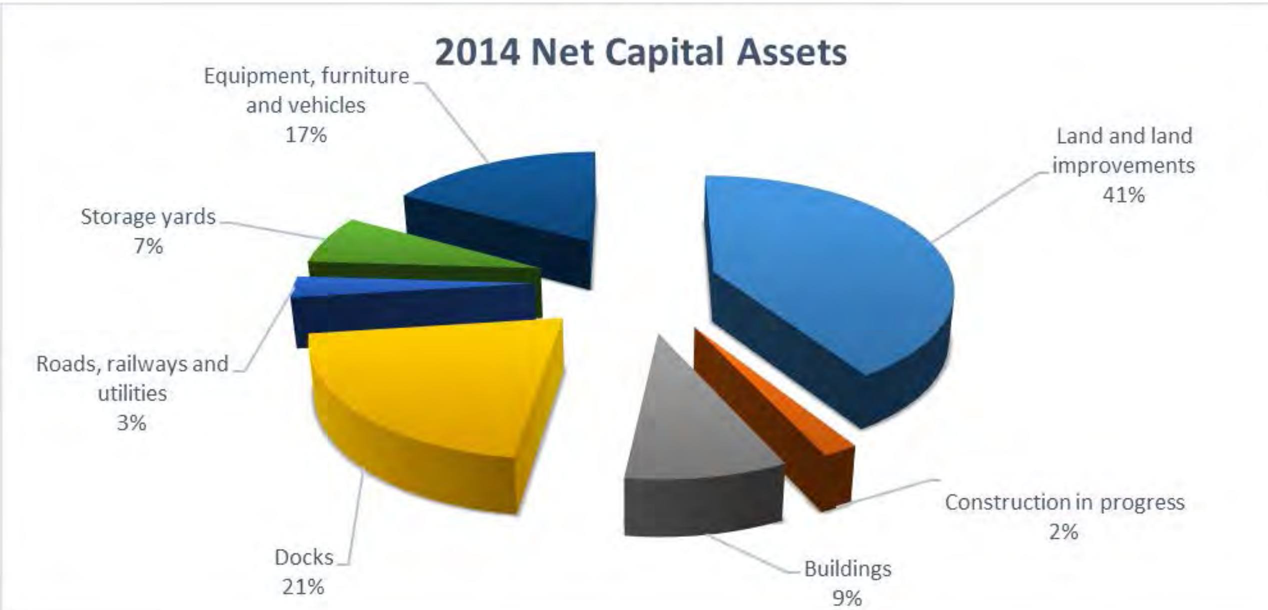
The Port's investment in capital assets is $ 206.6 million, $ 191.4 million, and $ 184.5 million, net of depreciation, as of September 30, 2014, 2013 and 2012, respectively. The investment includes land and land improvements, docks and appurtenances, buildings, storage yards, equipment, roads and railways, utilities and construction in progress. In 2014, 2013 and 2012 there were additions of $ 20.5 million, $ 11.7 million, and $ 2.7 million (net of construction in progress placed in service) with depreciation of $ 5.3 million, $ 4.5 million and $ 4.0 million, respectively.

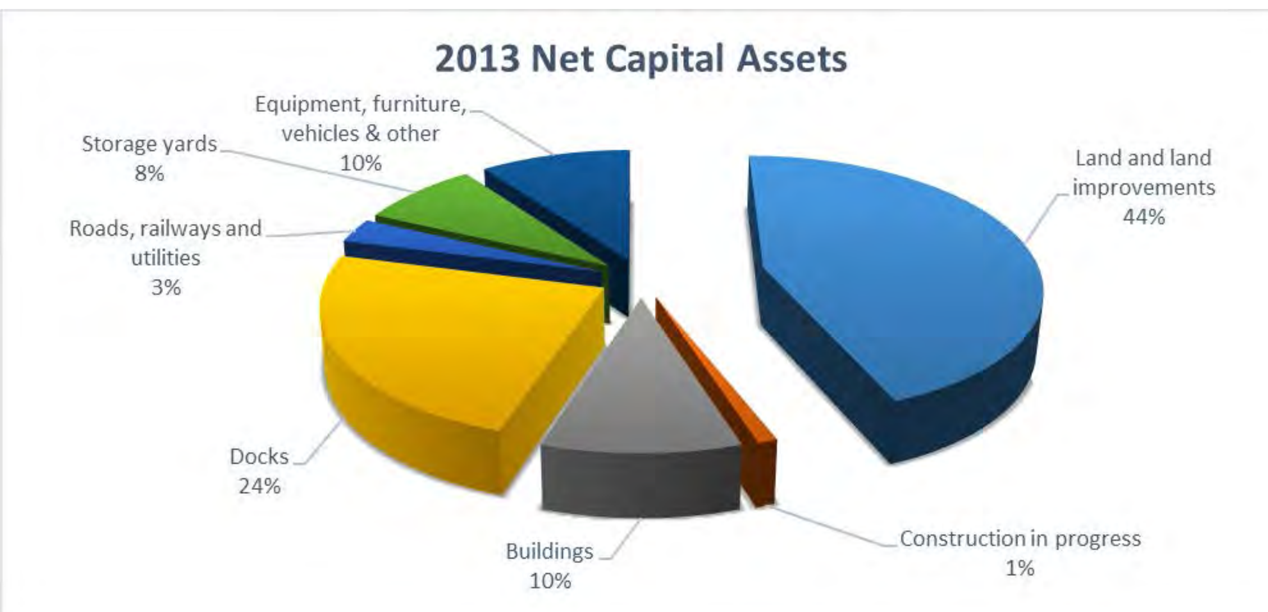
Regarding additions, administration office renovations added $ 116 thousand to buildings in 2014, the emergency operations center and related infrastructure added $3.8 million to buildings in 2013, and the security gate improvements added $ 1.2 million to buildings in 2012. Land and improvements additions were $ 799 thousand, $ 12.5 million, and $ 253 thousand, in 2014, 2013 and 2012, respectively, primarily related to the Velasco Terminal civil site work, and land acquisitions of properties adjacent to the Port. Completion of Velasco Terminal Berth 7 added $ 30 million to docks in 2013. Completion of security lighting improvements added $ 1.5 million to utilities in 2012. Equipment, furniture, vehicles and other additions totaled $ 17.7 million in 2014 with the purchase of two ship to shore container cranes, $ 520 thousand in 2013 with the purchase of equipment and security equipment, $ 1.2 million in 2012 with the purchase of security equipment and security upgrades. Gross additions to construction in progress were $ 2.2 million in 2014, $ 480 thousand in 2013, and $ 674 thousand in 2012, including the emergency operations center, Gate 4 entrance facilities, additional security systems, and Velasco Terminal improvements. Construction in progress placed in service totaled $ 362 thousand in 2014, $ 38.0 million in 2013, and $ 3.3 million in 2012, respectively. Additional information on capital assets can be found in Note 4 on pages 46-48 of this report.

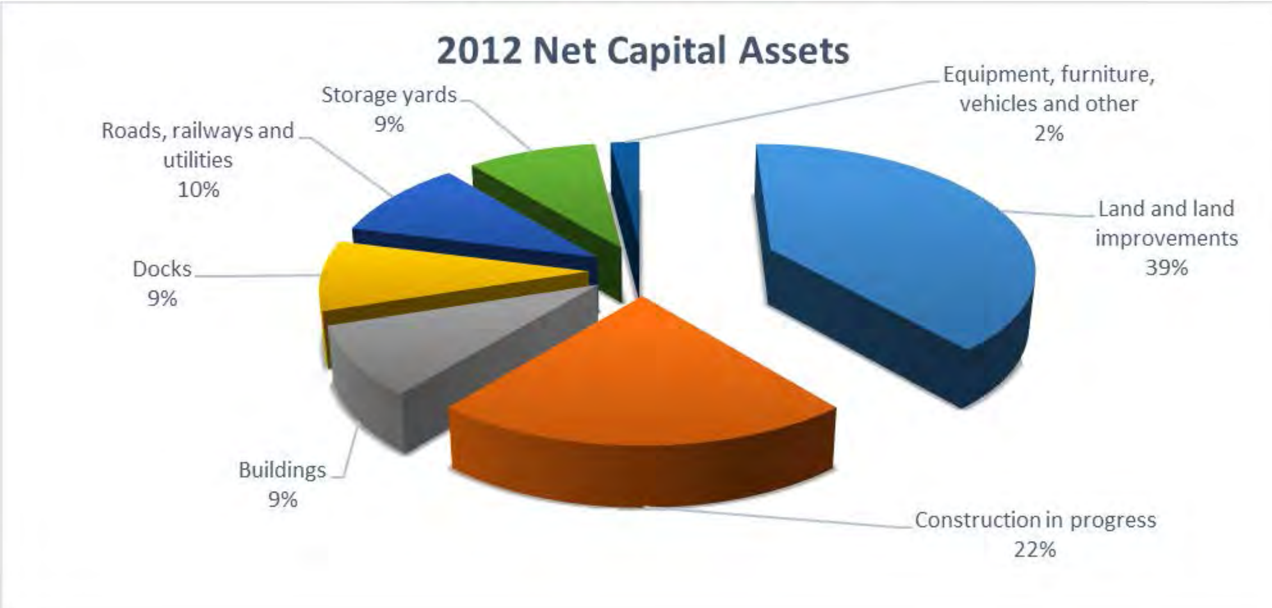
Total bonds payable are $ 43.0 million at September 30, 2014, $ 58.8 million at September 30, 2013 and $ 41.9 million at September 30, 2012. Senior Lien Revenue Bonds, Series 2013A, 2013B and 2013C were issued in June of 2013. The 2013A series bonds were issued to refund the 2008 Series bonds which were set to mature in 2028. As of September 30, 2014 the amount outstanding on these revenue bonds was $ 37.7 million and was $ 52.6 million at September 30, 2013. The debt service for these bonds is paid from the Port's operating revenues. In 2007 the Unlimited Tax Bonds, Series 1998 were partially refunded with Unlimited Tax Refunding Bonds, Series 2006 and in November 2009, were further refunded with the Unlimited Tax Refunding Bonds, Series 2009. As of September 30, 2014 the Port had general obligation bonds payable of $ 5.3 million, $ 6.2 million at September 30, 2013 and $ 7.1 million at September 30, 2012. The final maturity for these general obligation bonds is 2019. The debt service for these bonds is paid from ad valorem tax revenue. On September 30, 2014, the Port entered into a note payable ("Master Lease-Purchase Financing Agreement") with Chase Bank in the amount of $ 14.1 million. The note calls for annual principal and interest payments beginning on September 30, 2015 and ending on September 30, 2024. The note payable represents a refinancing of the two cranes purchased during the year ended September 30, 2014, including $ 1.4 million placed in escrow account until the final payment for the crane purchase. The remaining $ 12.7 million represents a reimbursement of prior payments, based on a Reimbursement Agreement (Resolution Expressing Intent to Finance Expenditures Incurred) adopted by the Board of Commissioners' on August 8, 2013. Additional information on long-term debt activity can be found in Note 5 on pages 49-52 of this report.

PORT FREEPORT

Management Discussion and Analysis







Outlook

There are a number of significant developments known at this time which will affect the future financial performance of the Port both in the long as well as mid-term time periods. With the opening of Velasco Terminal Berth 7 and the purchase of two ship-to-shore container cranes, Port Freeport is positioned to continue in growth. The capability of handling cargo resulted in two new major clients. Mediterranean Shipping Co. S.A., the world's largest containership carrier and Höegh Autolines, the world's top roll-on/roll-off vessel operator. Port Freeport now has global access for its customers. The finalization of the masterplan will provide guidance for the future development plans for the Port for the near future as well as long term.

Included in the masterplan is the full build out of Velasco Terminal. Design of the extension of Berth 7, Berth 8 and a RoRo ramp have begun. Full build out will also include the development of backland to support the berths as well as purchase of additional equipment. Costs associated with this plan are $ 180 million and are schedules over the next five years. A combination of public and private funding is being explored to fund the projects. Any resulting partnership with the private sector will provide revenue streams in the form of fixed annual facility payments and throughput on cargos handled across the terminals berths. The masterplan also presents guidance for future development of Port facilities on undeveloped land for laydown, warehousing, and rail facilities. These initiatives are estimated to cost $ 70 million and will further enhance the capabilities of the Port. Development planning is underway and will be funded largely through a public and private source.

In 2004 Freeport LNG Development, L.P. (FLNP) received approval from the Federal Energy Regulatory Commission (FERC) for construction of a re-gas facility to receive and store imported liquefied natural gas (LNG), convert the product back to a gas form and transport it to commercial and industrial users via pipeline. This facility was completed and placed in operation in the second quarter of 2008. With the announcement of shale oil and gas plays in north Texas and other regions of the United States, FLNG refocused its operations on the exportation of LNG and began the permitting process with FERC in 2010. To date they have received all of the necessary permits. In addition to the permits they have closed on all of their funding for construction. Construction of these liquefaction facilities are estimated to cost $11 billion and with an anticipated completion date in 2016. Further, in order to provide expanded storage for the facility, FLNG reached agreement with a third party for salt dome storage capacity of approximately 7.5 billion cubic feet. A contract has been awarded for mining of the salt and de-brining of the caverns with the facility becoming available concurrent with the liquefaction facilities. This operation has and will continue to provide significant increases to the Port's lease revenues as operations ramp up.

PORT FREEPORT

Management Discussion and Analysis

In response to the fore mentioned oil and gas shale plays, Maverick Tube Corporation a wholly owned subsidiary of Tenaris, S.A. has begun construction of seamless pipe fabrication facility located in Bay City, Texas. It is estimated that construction will take approximately two years to complete with manufacturing operations commencing in 2015. Once operational, the Port expects to receive raw materials in the form of steel billet to be transported to the production facility as well as a portion of the plant's finished product for short-term storage and export shipment. This operation is projected to provide substantial revenue flows from both cargo handling as well as leasing activities.

With the completion of the initial reconnaissance and subsequent feasibility study, The U.S. Army Corps of Engineers (USCOE) issued a Chiefs report in January of 2013 indicating a Federal interest, supported by favorable project economics, to widen the Port Freeport Navigational channel to a width up to 600 feet from the current 400 feet and deepen it to a depth of up to 55 feet from the current 45 feet. The next project phase will include formal project authorization and funding to allow for the development of the preliminary engineering and design (PED) as well as the project management plan (PMP). At present, the project is authorized in the Water Resources Development Act of 2014. Initial funding for the PED and PMP is included in the approved 2014 Federal budget. It is estimated that following congressional authorization the project will be completed in 7 to 10 years at estimated total project cost of $300 million which will be cost shared on a 50-50 basis between the Federal government and the Port. Completion of the proposed improvements will allow the Port and other harbor users to bring not only larger vessel to berth but additionally in greater numbers providing for a fuller utilization of existing and planned port facilities. In addition, the Port is actively engaged with the USCOE in the first phase to address safe navigation and the current channel depth at a cost of approximately $ 130 million which would be shared 75%/25% between the Federal government and the Port.

Lastly, spurred by the general U.S. and Texas state economic recoveries as well as expansion of domestic oil and gas production the Freeport based polymer manufactures and other petrochemical companies have resumed planned development and expansion of production facilities. This has created opportunities to handle both bulk as well as project cargo construction materials which utilized the Port's berths, warehouse spaces and cargo lay down areas. These activities are expected to increase operating revenues for the next 5-7 years.

Requests for Information

This financial report is designed to provide a general overview of Port Freeport's finances and the Port's accountability for the money it receives. If you have questions about this report or need additional information, contact Jeff Strader, Chief Financial Officer, at Port Freeport, 200 West 2nd Street, 3rd Floor, Freeport, Texas 77541.

PORT FREEPORT℠

THE COAST IS CLEAR

PORT FREEPORT

Statements of Net Position

September 30, 2014 and 2013

Assets and Deferred Outflows of Resources

	2014	2013
Current Assets:		
Cash and cash equivalents	$ 30,589,036	$ 26,147,687
Investments	20,267,218	33,911,536
Receivables:		
Trade accounts (less allowance for uncollectible accounts - 2014, $ 26,316; 2013, $ 48,557)	1,530,851	1,705,794
Property taxes (less allowance for uncollectible accounts - 2014, $ 51,235; 2013, $ 56,399)	96,808	118,875
Other	39,766	51,407
Other governments	768,464	954,183
Accrued interest	104,625	126,636
Prepaids	714,673	770,747
Inventory	218,609	78,547
Total unrestricted current assets	54,330,050	63,865,412
Restricted Current Assets:		
Cash and cash equivalents	1,833,692	1,011,775
Investments	1,257,646	2,073,595
Receivables:		
Property taxes (less allowance for uncollectible accounts - 2014, $ 15,241; 2013, $ 17,156)	32,092	34,776
Accrued interest receivable	3,745	15,265
Other	333	1,270
Total restricted current assets	3,127,508	3,136,681
Total current assets	57,457,558	67,002,093
Property, plant and equipment (less accumulated depreciation - 2014, $ 50,417,552; 2013, $ 45,107,143)	206,598,421	191,377,093
Other assets	60,446	70,959
Total non-current assets	206,658,867	191,448,052
Total assets	264,116,425	258,450,145
Deferred Outflows of Resources:		
Deferred outflows of resources – Refunding costs	15,907	17,070
Total deferred outflows of resources	15,907	17,070

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

Liabilities, Deferred Inflows of Resources and Net Position

	2014	2013
Current Liabilities:		
Accounts payable and accrued expenses	$ 8,945,279	$ 7,607,866
Unearned lease income	2,522,209	2,294,591
Accrued compensated absences	80,158	100,000
Total current liabilities	11,547,646	10,002,457
Current Liabilities Payable from Restricted Assets:		
Accrued bond interest payable	348,880	352,669
Note payable	1,269,794	
Bonds payable	2,820,000	15,840,000
Premium on bonds	15,518	15,518
Total current liabilities payable from restricted assets	4,454,192	16,208,187
Total current liabilities	16,001,838	26,210,644
Non-current Liabilities:		
Note payable	12,830,206	
Bonds payable	40,205,000	43,007,930
Bond premium	60,242	75,760
Accrued compensated absences	129,647	83,030
Total non-current liabilities	53,225,095	43,166,720
Total liabilities	69,226,933	69,377,364
Deferred Inflows of Resources:		
Deferred inflows of resources		
Total deferred inflows of resources	-0-	-0-
Net Position:		
Net investment in capital assets	149,397,661	132,423,882
Restricted:		
Debt service	2,762,928	2,767,814
Capital projects	15,700	16,199
Unrestricted	42,729,110	53,881,956
Total net position	$ 194,905,399	$ 189,089,851

PORT FREEPORT

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating Revenues:		
Harbor Operations:		
Wharfage	$ 3,896,689	$ 3,149,424
Dockage	1,763,042	1,353,107
Service, facility use and other fees	4,191,757	4,112,112
Lease income	6,955,488	6,344,343
Miscellaneous	188,619	35,402
Total operating revenues	16,995,595	14,994,388
Operating Expenses:		
Payroll and related	4,005,446	3,858,186
Professional services	1,432,875	1,634,189
Supplies and other	2,489,337	2,316,959
Utilities	494,540	553,874
Maintenance and repairs	760,060	998,932
Depreciation	5,310,409	4,502,480
Total operating expenses	14,492,667	13,864,620
Operating income	2,502,928	1,129,768
Non-Operating Revenues (Expenses):		
Ad valorem tax, net of collection expenses	4,672,390	5,246,302
Investment income	265,046	(59,682)
Gain on sale of capital assets		17,965
Debt interest and fees	(1,285,213)	(2,163,797)
Other	(1,381,819)	(1,188,604)
Total non-operating revenues	2,270,404	1,852,184
Income before capital contributions	4,773,332	2,981,952
Capital contributions - grants	1,042,216	4,682,926
Total capital contributions	1,042,216	4,682,926
Extraordinary Revenues (Expenses):		
Insurance and other proceeds – Berth 7		13,095,000
Construction costs – Berth 7		(9,236,010)
Legal and expert fees – Berth 7		(2,106,388)
Total extraordinary revenues (expenses)	-0-	1,752,602
Change in net position	5,815,548	9,417,480
Total net position – beginning	189,089,851	179,672,371
Total net position – ending	$ 194,905,399	$ 189,089,851

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

PORT FREEPORT

Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash received from customers	$ 17,422,254	$ 14,361,371
Cash paid to suppliers for goods and services	(3,912,874)	(7,210,844)
Cash paid to employees for services and benefits	(3,978,671)	(3,843,945)
Net cash provided by operating activities	9,530,709	3,306,582
Cash Flows from Non-capital Financing Activities:		
Property tax receipts	4,697,141	5,309,421
Property tax collection expenses		(61,160)
Net non-operating expense	(1,049,664)	
Net cash provided by non-capital financing activities	3,647,477	5,248,261
Cash Flows from Capital and Related Financing Activities:		
Issuance of bonds	14,117,070	52,600,000
Principal payments under bond obligations	(15,855,518)	(35,685,000)
Interest and fees paid under debt obligations	(1,287,839)	(2,327,203)
Land & equipment purchases	(20,531,737)	(11,367,928)
Grants received	895,780	4,641,095
Proceeds from the sale of capital assets		17,965
Net cash provided (used) by capital and related financing activities	(22,662,244)	7,878,929
Cash Flows from Investing Activities:		
Purchase of investments	(1,597,567)	(27,189,735)
Proceeds from sale and maturity of investments	15,580,817	20,271,457
Investment earnings	764,074	238,603
Net cash provided (used) by investing activities	14,747,324	(6,679,675)
Increase in cash and cash equivalents	5,263,266	9,754,097
Cash and cash equivalents, October 1,	27,159,462	17,405,365
Cash and cash equivalents, September 30,	$ 32,422,728	$ 27,159,462

(continued)

PORT FREEPORT

Statements of Cash Flows - Continued
For the Years Ended September 30, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 2,502,928	$ 1,129,768
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	5,310,409	4,502,480
Change in assets and liabilities:		
Accounts receivable	174,943	(704,756)
Other receivables	24,098	125,142
Inventory	(140,062)	(1,272)
Prepaid and other	56,074	(92,658)
Other assets	10,513	
Accounts payable and accrued expenses	1,337,413	(1,858,208)
Unearned lease income	227,618	187,007
Accrued compensated absences	26,775	19,079
Net cash provided by operating activities	$ 9,530,709	$ 3,306,582
Non-cash Transactions Affecting Financial Position:		
Change in value of investments – from cost to fair value	$(477,017)	$(398,900)
Gain on the sale of capital assets		17,965
Net effect of non-cash transactions	$(477,017)	$(380,935)

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

PORT FREEPORT

Notes to Financial Statements
For the Years Ended September 30, 2014 and 2013

Index

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Port Freeport (the "Port") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units for enterprise funds. Enterprise fund accounting follows all Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) codification unless the codification conflicts with or contradicts GASB pronouncements, in which case, GASB prevails. The more significant of the Port's accounting policies are described below.

A. REPORTING ENTITY

In evaluating how to define the government for financial reporting purposes, management has 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 GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Port's reporting entity. Individual financial statements for each component unit can be obtained from the office of Port Freeport.

Included within the reporting entity:

Port Freeport: Port Freeport was created by action of the voters of Brazoria County, Texas, on December 4, 1925. The Port operates under an elected commissioner form of government. Currently six commissioners are authorized by the Texas Legislature.

Brazos Harbor Industrial Development Corporation: In November 1979 the Port authorized the filing of a petition to create the Brazos Harbor Industrial Development Corporation (IDC), a nonprofit corporation organized to issue industrial development bonds and pollution control revenue bonds. Vernon's Annotated Texas Civil Statutes authorize the creation and administration of industrial development corporations by specified governmental entities for the use in the promotion and development of commercial, industrial and manufacturing enterprises.

The Port Commission appoints a separate board of directors for the IDC. The IDC acts under the authorization and direction of the appointed Board. The IDC negotiates with the user entity to develop the necessary documents for issuing the bonded debt. The bonds are payable solely from the revenues derived from the project.

Additionally, the user entity indemnifies and agrees to hold harmless the IDC from any and all claims relating to the issuance of the bonded debt. None of the Port's assets or future revenues are pledged to secure these bonds. The Port Commission has the right of refusal on the issuance of bonds by the IDC; therefore, this constitutes financial accountability. The IDC is included in the reporting entity even though the Port does not provide funding to the IDC or have the ability to elect their governing authority or designate their management, and the IDC was incorporated for the benefit of all commercial enterprises in the area. The IDC is a discretely presented component unit, although it has no assets, liabilities, equities or financial transactions. Financial information is limited to the disclosure of revenue bonds issued on behalf of others (Note 14).

B. BASIS OF ACCOUNTING

The Port follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. BASIS OF ACCOUNTING - Continued

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

Operating revenues and expenses generally result from providing services in connection with ongoing operations. The principal revenues of the Port are charges to customers for sales and services. The Port also recognizes revenue in the form of rents. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. RECLASSIFICATIONS

Certain amounts for 2013 have been reclassified to conform to the 2014 presentation.

D. NEW PRONOUNCEMENTS

GASB Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements”, was issued November 2010. The statement was implemented and did not have an impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34”, was issued November 2010. The statement was implemented and did not have an impact on the Port’s financial statements. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”, was issued December 2010. The statement was implemented and did not have an impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”, was issued June 2011. The statement was implemented and did not have an impact on the Port’s financial statements, although it has reclassified items previously recorded as assets and liabilities within the Port’s financial statements as deferred outflows and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions-and amendment of GASB Statements No. 53”, was issued June 2011. The statement was implemented and did not have an impact on the Port’s financial statements.

GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities”, was issued March 2012. The statement was implemented and did have an impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2012 and was adopted in the current fiscal year.

GASB Statement No. 66, “Technical Corrections – 2012; an amendment of GASB Statements No. 10 and No. 62”, was issued March 2012. The statement was implemented and did not have an impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, “Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25”, was issued June 2012. The statement was implemented and did not have an impact on the Port’s financial statements. This statement is effective for periods beginning after June 15, 2013.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. NEW PRONOUNCEMENTS - Continued

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27", was issued June 2012. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plan that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The management of the Port does not believe that the implementation of this statement will have a material effect on the financial statements of the Port. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). This Statement also provides guidance on how to determine the gain or loss on a disposal of government operation. This Statement applies to all state and local governmental entities. The management of the Port does not believe that the implementation of this statement will have a material effect on the financial statements of the Port. This statement is effective for periods beginning after December 15, 2013. However, earlier application of the Statement is encouraged.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The statement was implemented and did not have an impact on the Port's financial statements. This statement is effective for periods beginning after June 15, 2013.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The management of the Port does not believe that the implementation of this statement will have a material effect on the financial statements of the Port. This statement is effective for periods beginning after June 15, 2014.

E. CASH AND INVESTMENTS

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Port. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

F. INVENTORIES

Inventories are valued at the lower of cost or market using the average cost method.

G. CAPITAL ASSETS

Capital assets are defined by the Port as assets with an initial, individual cost of more than $ 5,000 and an estimated useful life of greater than one year. Property constructed or acquired by purchase is stated at cost. Property received as a contribution is stated at estimated fair value on the date received.

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the statements of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. Leased assets are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. When property, plant and equipment is sold or otherwise disposed or becomes obsolete, the asset account and related accumulated depreciation account are relieved, and any gain or loss is charged against income.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. CAPITAL ASSETS - Continued

Capital assets of the Port are depreciated over the following useful lives:

Assets	Years
Buildings	50
Docks & appurtenances	10-50
Utilities	10-50
Roads, lots & railways	40
Storage yards	20-40
Equipment, furniture & vehicles	5-20
Other	10-50

A significant portion of the Port's capital assets are the result of work performed to the Freeport Harbor Entrance Channel (the Channel) to increase depths to 45 feet (see Note 9). The maintenance of the Channel depths are the responsibility of the U.S. Army Corp of Engineers; thus, management has capitalized these costs as land and land improvements with an indefinite useful life; as such no depreciation has been recorded against these assets.

H. INTEREST CAPITALIZATION

Interest costs associated with the construction of the Port's capital assets are capitalized and reflected as a part of the cost of the asset. The amount of interest cost to be capitalized on assets acquired with tax-exempt borrowings is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. Net interest capitalized was $ -0- for the year ended September 30, 2014 and 2013.

I. PROPERTY TAXES

Property taxes are levied by October 1 of each year in conformity with Subtitle E, Texas Property Tax Code. These taxes are due on receipt and are considered delinquent if not paid before February 1 of the year following the year in which imposed. Interest is charged on delinquent property taxes at a rate established by the state property tax code. Collections made on or after July 1 are subject to an additional fifteen percent collection fee. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes. The County Tax Collector bills and collects the property taxes for the Port. Collections made by the County Tax Collector are deposited into an account maintained by the Port.

Property taxes are recognized as revenue in the year they are levied. Property tax receivables and related allowances for uncollectable taxes are split between the unrestricted and the restricted for debt service based on the percent of the levy available for maintenance and operations, and general obligation bond debt service.

The Commission may levy taxes at an unlimited rate for payment of debt service on the Port's General Obligation Bonds. The Commission may also levy taxes, subject to a $ 0.10 per $ 100 assessed valuation limit, for all operation and maintenance expenses of the Port. For the years ended September 30, 2014 and 2013, the Commission levied taxes at a rate of $ 0.013062 and $ 0.011769 for debt service and a rate of $ 0.031938 and $ 0.039731 for operation and maintenance, for a total tax rate of $ 0.0450 and $ 0.0515 per $ 100 assessed valuation for each year, respectively.

J. RESTRICTED ASSETS

Restricted assets consist of capital and debt service restricted assets. Restricted capital assets consist of net bond proceeds in excess of unspent bond proceeds for unlimited tax improvement bonds. Restricted assets for debt service consist of proceeds available from taxes receivable as well as the revenue dedicated to debt service as stated in applicable bond covenants.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

K. COMPENSATED ABSENCES

Vested or accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. The Port's vacation and sick leave policy provides that each employee may carry over unused vacation, not to exceed five days, to subsequent years. Further, unused sick leave may be converted to vacation on a five to one ratio. Benefits payable as of September 30, 2014 and 2013 were $ 209,805 and $ 183,030, respectively.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE 2. DEPOSITS AND INVESTMENTS

The Port classifies deposits and investments for financial statement purposes as cash and temporary investments and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments and investments, as reported on the statements of net position at September 30, 2014 and 2013, are as follows:

September 30, 2014	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 1,320	$	$ 1,320
Financial Institution Deposits:			
Demand deposits	11,759,145	670,708	12,429,853
State Treasury Investment Pool:			
Texpool	18,828,571	1,162,984	19,991,555
Total cash and temporary investments	$ 30,589,036	$ 1,833,692	$ 32,422,728
Investments:			
Investments Held by Broker-Dealers:			
U.S. Agencies	$ 20,267,218	$ 1,257,646	$ 21,524,864
Total investments	$ 20,267,218	$ 1,257,646	$ 21,524,864

September 30, 2013	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 1,321	$	$ 1,321
Financial Institution Deposits:			
Demand deposits	7,993,862	38,005	8,031,867
State Treasury Investment Pool:			
Texpool	18,152,504	973,770	19,126,274
Total cash and temporary investments	$ 26,147,687	$ 1,011,775	$ 27,159,462
Investments:			
Investments Held by Broker-Dealers:			
U.S. Treasuries	$ 33,911,536	$ 2,073,595	$ 35,985,131
Total investments	$ 33,911,536	$ 2,073,595	$ 35,985,131

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Deposits: Custodial Credit Risk – Custodial credit risk is the risk that in the event of a financial institution failure, the Port deposits may not be returned to them. The Port requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

At September 30, 2014, the carrying amount of the Port's deposits was $ 12,429,853 while the financial institution balances totaled $ 12,871,929. Of the financial institution balances, $ 515,701 was covered by federal deposit insurance, $ 9,058,269 was covered by the Securities Investor Protection Corporation insurance, and $ 3,297,959 was covered by collateral held by the Port's agent in the Port's name. At September 30, 2013, the carrying amount of the Port's deposits was $ 8,031,867 while the financial institution balances totaled $ 8,631,234. Of the financial institution balances, $ 266,199 was covered by federal deposit insurance, $ 5,410,169 was covered by the Securities Investor Protection Corporation insurance and $ 2,954,866 was covered by collateral held by the Port's agent in the Port's name.

Investments: Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the Port to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The Port's Investment Policy defines what constitutes the legal list of investments allowed under the policy.

The Port's deposits and investments are invested pursuant to the Investment Policy, which is approved by the Port Commission. The Investment Policy includes a list of authorized investment instruments and allowable stated maturity of individual investments. In addition they include an "Investment Strategy Statement" that specifically addresses investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the Port will deposit funds is addressed. The Port's investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The Port's management believes it complied with the requirements of the PFIA and the Port's investment policies.

The Port's Investment Officer submits an investment report each quarter to the Port Commission. The report details the investment positions of the Port and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The Port is authorized to invest in the following investment instruments provided that they meet the guidelines of the Investment Policy:

1. U.S. Treasury Securities.
2. Short-term obligations of the United States Government agencies and instrumentalities.
3. Texas State, City, County, School and Road District bonds with an investment grade bond rating from Moody's Investors Services (A and above) and Standard and Poor's Corporation (A- and above) or that is insured.
4. Fully insured or collateralized certificates of deposits issued by a state or national bank, savings bank or a federal credit union with a main office or bank in Texas.
5. Public funds investment pools as permitted by Government Code 2256.016 – 2256.019.
6. Other securities or obligations as allowed by the Public Funds Investment Act and approved by the Finance Committee and/or full Port Commission.
7. Money market mutual funds as permitted by Government Code 2256.014 and approved by Commission resolution.

The Port participates in Texpool, a Local Government Investment Pool (LGIP). The State Comptroller oversees TexPool, with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

The Port invests in TexPool to provide its liquidity needs. TexPool was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $ 1.00, although this cannot be fully guaranteed. TexPool is rated AAAm and must maintain a dollar weighted average maturity not to exceed 60 days. At September 30, 2014 and 2013 TexPool had a weighted average maturity of 48 and 60, respectively. Although TexPool portfolios had a weighted average maturity of 48 and 60 days, respectively, the Port considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the Port's investments are insured, registered, or the Port's agent holds the securities in the Port's name; therefore, the Port is not exposed to custodial credit risk.

The following tables include the portfolio balances of all investment types of the Port at September 30, 2014 and 2013.

	September 30, 2014		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 18,828,571	$ 1,162,984	$ 19,991,555
Certificates of deposit	6,225,000	249,000	6,474,000
U.S. Treasuries	546,034	172,218	718,252
Municipal Bonds	13,496,184	836,428	14,332,612
Total investments	$ 39,095,789	$ 2,420,630	$ 41,516,419

	September 30, 2013		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 18,152,504	$ 973,770	$ 19,126,274
Certificates of deposit	11,170,000	249,000	11,419,000
U.S. Treasuries	5,106,394	173,653	5,280,047
U.S. Government Bonds		601,151	601,151
Municipal Bonds	17,635,142	1,049,791	18,684,933
Total investments	$ 52,064,040	$ 3,047,365	$ 55,111,405

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Unrestricted Funds

As of September 30, 2014, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 18,828,571	48
Certificates of deposit	6,225,000	290
U.S. Treasuries	546,034	426
Municipal Bonds	13,496,184	195
	$ 39,095,789	143

As of September 30, 2013, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 18,152,504	60
Certificates of deposit	11,170,000	436
U. S. Treasuries	5,106,394	129
Municipal Bonds	17,635,142	460
	$ 52,064,040	289

Credit Risk – As of September 30, 2014, the LGIP (which represent approximately 48% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The U.S. treasuries (which represent approximately 1% of the unrestricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. The remaining portfolio is made up of Municipal Bonds (which represent approximately 35% of the unrestricted portfolio) and Certificates of Deposit (which represent approximately 16% of the unrestricted portfolio). As of September 30, 2013, the LGIP (which represent approximately 35% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The U.S. treasuries (which represent approximately 10% of the unrestricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. The remaining portfolio is made up of Municipal Bonds (which represent approximately 34% of the unrestricted portfolio) and Certificates of Deposit (which represent approximately 21% of the unrestricted portfolio).

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that individual investments not exceed six years and the overall portfolio maintain a weighted average of less than three years. Quality short-to-medium term securities should be purchased, which compliment each other in a structured manner that minimizes risk and meets the Port's cash flow requirements.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Restricted Funds

As of September 30, 2014, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 1,162,984	48
Certificates of deposit	249,000	617
U.S. Treasuries	172,218	426
Municipal Bonds	836,428	742
	$ 2,420,630	373

As of September 30, 2013, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 973,770	60
Certificates of deposit	249,000	981
U.S. Treasuries	173,653	46
U.S. Government Bonds	601,151	190
Municipal Bonds	1,049,792	1,060
	$ 3,047,366	504

Credit Risk – As of September 30, 2014, the LGIP (which represents approximately 48% of the restricted portfolio) is rated AAAm by Standard and Poor's. The U.S. Treasuries (which represent approximately 7% of the restricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. The remaining portfolio is made up of Municipal Bonds (which represent approximately 35% of the restricted portfolio) and Certificates of Deposit (which represent approximately 10% of the restricted portfolio). As of September 30, 2013, the LGIP (which represents approximately 32% of the restricted portfolio) is rated AAAm by Standard and Poor's. The U.S. Treasuries (which represent approximately 6% of the restricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. The remaining portfolio is made up of Municipal Bonds (which represent approximately 34% of the restricted portfolio), U.S. Government Bonds (which represent approximately 20% of the restricted portfolio), and Certificates of Deposit (which represent approximately 8% of the restricted portfolio).

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that individual investments not exceed six years and the overall portfolio maintain a weighted average of less than three years. Quality short-to-medium term securities should be purchased, which compliment each other in a structured manner that minimizes risk and meets the Port's cash flow requirements.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Calculation of the net increase (decrease) in fair value of investments as of September 30, 2014 and 2013 utilizing the aggregate method is as follows:

	2014		
	Unrestricted	Restricted	Total
Fair value at September 30, 2014	$ 20,267,218	$ 1,257,646	$ 21,524,864
Add: Proceeds of investments sold	14,790,000	790,817	15,580,817
Less: Cost of investments purchased	(1,597,567)		(1,597,567)
Less: Fair value at September 30, 2013	(33,911,535)	(2,073,595)	(35,985,130)
Changes in fair value of investments for the year ended September 30, 2014	$(451,884)	$(25,132)	$(477,016)

	2013		
	Unrestricted	Restricted	Total
Fair value at September 30, 2013	$ 33,911,535	$ 2,073,595	$ 35,985,130
Add: Proceeds of investments sold	18,370,000	1,901,456	20,271,456
Less: Cost of investments purchased	(25,489,284)	(2,099,348)	(27,588,632)
Less: Fair value at September 30, 2012	(27,151,259)	(1,915,595)	(29,066,854)
Changes in fair value of investments for the year ended September 30, 2013	$(359,008)	$(39,892)	$(398,900)

These changes in fair value for the years ended September 30, 2014 and 2013 are reported as investment income.

Derivatives

The Port made no direct investments in derivatives during the years ended September 30, 2014 and 2013, and held no direct investments in derivatives at September 30, 2014 and 2013. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used.

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Notes to Financial Statements
For the Years Ended September 30, 2014 and 2013

NOTE 3. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes: Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The allowance for uncollectable taxes as of September 30, 2014 and 2013 was $ 66,476 and $ 73,555, respectively.

Trade Receivables: The allowance for uncollectable receivables related to Port services is determined based on historical experience and evaluation of collectivity in relation to the aging of customer accounts. The allowance for uncollectable receivables related to Port services at September 30, 2014 and 2013 was $ 26,316 and $ 48,557, respectively.

NOTE 4: CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended September 30, 2014:

	Useful Life in Years	Balance 10-01-13	Additions	Deletions	Balance 9-30-14
Capital assets, not being depreciated:					
Land & improvements		$ 84,626,943	$ 799,417	$	$ 85,426,360
Construction in progress		2,604,422	2,221,892	362,444	4,463,870
Total capital assets, not being depreciated		87,231,365	3,021,309	362,444	89,890,230
Capital assets, being depreciated:					
Buildings	50	30,934,277	115,940		31,050,217
Docks & appurtenances	5 - 50	56,831,758			56,831,758
Utilities	20 - 50	18,965,048	1,607,620		20,572,668
Roads, lots & railways	50	7,681,720	732,413		8,414,133
Storage yards	50	21,036,660			21,036,660
Equipment, furniture & vehicles	5 - 50	12,360,764	15,416,899		27,777,663
Other	10 - 50	1,442,644			1,442,644
Total capital assets, being depreciated		149,252,871	17,872,872	-0-	167,125,743
Accumulated depreciation:					
Buildings		12,527,807	1,030,844		13,558,651
Docks & appurtenances		11,432,802	1,239,704		12,672,506
Utilities		4,574,744	837,911		5,412,655
Roads, lots & railways		2,551,328	236,140		2,787,468
Storage yards		5,212,507	618,581		5,831,088
Equipment, furniture & vehicles		8,369,928	1,199,407		9,569,335
Other		438,027	147,822		585,849
Total accumulated depreciation		45,107,143	5,310,409	-0-	50,417,552
Total capital assets, being depreciated, net		104,145,728	12,562,463	-0-	116,708,191
Total capital assets, net		$191,377,093	$ 15,583,772	$ 362,444	$206,598,421

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Notes to Financial Statements
For the Years Ended September 30, 2014 and 2013

NOTE 4: CAPITAL ASSETS - Continued

The following is a summary of capital asset activity for the year ended September 30, 2013:

	Useful Life in Years	Balance 10-01-12	Additions	Deletions	Balance 9-30-13
Capital assets, not being depreciated:					
Land & improvements		$ 71,932,840	$ 12,694,103	$	$ 84,626,943
Construction in progress		40,270,388	480,448	38,146,414	2,604,422
Total capital assets, not being depreciated		112,203,228	13,174,551	38,146,414	87,231,365
Capital assets, being depreciated:					
Buildings	50	28,808,427	2,439,327	313,477	30,934,277
Docks & appurtenances	5 - 50	26,808,269	30,028,736	5,247	56,831,758
Utilities	20 - 50	17,677,133	1,298,930	11,015	18,965,048
Roads, lots & railways	50	6,436,624	1,289,384	44,288	7,681,720
Storage yards	50	21,149,041		112,381	21,036,660
Equipment, furniture & vehicles	5 - 50	11,175,443	1,185,321		12,360,764
Other	10 - 50	980,811	462,683	850	1,442,644
Total capital assets, being depreciated		113,035,748	36,704,381	487,258	149,252,871
Accumulated depreciation:					
Buildings		11,659,007	939,485	70,685	12,527,807
Docks & appurtenances		10,662,103	775,946	5,247	11,432,802
Utilities		3,779,409	799,063	3,728	4,574,744
Roads, lots & railways		2,377,420	191,188	17,280	2,551,328
Storage yards		4,631,705	623,645	42,843	5,212,507
Equipment, furniture & vehicles		7,311,483	1,058,445		8,369,928
Other		324,169	114,708	850	438,027
Total accumulated depreciation		40,745,296	4,502,480	140,633	45,107,143
Total capital assets, being depreciated, net		72,290,452	32,201,901	346,625	104,145,728
Total capital assets, net		$184,493,680	$ 45,376,452	$ 38,493,039	$191,377,093

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Notes to Financial Statements
For the Years Ended September 30, 2014 and 2013

NOTE 4 CAPITAL ASSETS - Continued

The Port has entered into contracts for construction as of September 30, 2014 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
Consulting	$ 1,792,658	$ 1,406,521	$ 386,137	$
Administration Building	460,725	340,442	120,283	
Truck Transfer Station	290,551	20,780	269,771	
Inner Harbor Berth Repairs	68,450	47,630	20,820	
Velasco Terminal Berth 8	1,897,936	78,857	1,819,079	
Velasco Terminal Berth 9	1,897,936	78,857	1,819,079	
Gate 14 Guard House	338,240	130,638	207,602	
M & R Railroad Track Renovation	911,566	241,953	669,613	
Velasco Terminal Backlands Phase II	21,067,778	1,137,475	19,930,303	
Electrical Distribution	815,469	75,000	740,469	
Total	$ 29,541,309	$ 3,558,153	$ 25,983,156	$ -0-

The Port has entered into contracts for construction as of September 30, 2013 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
Administration Building	$ 99,949	$ 71,808	$ 28,141	$
Crane Rail System	713,450	44,150	669,300	
Velasco Terminal Crane Electrical System	1,598,219	172,350	1,425,869	
Warehouse 51	290,551		290,551	
Maintenance Shop Repairs	16,475	14,004	2,471	
Consulting	784,400	319,874	464,526	
Velasco Terminal Phase 1 – Berth 7	18,945,397	18,356,000	589,397	
Total	$ 22,448,441	$ 18,978,186	$ 3,470,255	$ -0-

NOTE 5. LONG-TERM DEBT AND NON-CURRENT LIABILITIES

Non-current liabilities activity for the year ended September 30, 2014 was as follows:

	Balance 10-01-13	Additions	Reductions	Balance 9-30-14	Due Within One Year
General obligation bonds	$ 6,247,930	$ 17,070	$ 950,000	$ 5,315,000	$ 1,000,000
Revenue bonds	52,600,000		14,890,000	37,710,000	1,820,000
Note payable		14,100,000		14,100,000	1,269,794
Components of Long-Term Debt:					
Premium on bonds	91,278		15,518	75,760	15,518
Accrued bond interest	352,669	348,880	352,669	348,880	348,880
Compensated absences	183,030	129,647	102,872	209,805	80,158
Total non-current liabilities	$ 59,474,907	$ 14,595,597	$ 16,311,059	$ 57,759,445	$ 4,534,350

Non-current liabilities activity for the year ended September 30, 2013 was as follows:

	Balance 10-01-12	Additions	Reductions	Balance 9-30-13	Due Within One Year
General obligation bonds	$ 7,111,513	$ 16,417	$ 880,000	$ 6,247,930	$ 950,000
Revenue bonds	34,805,000	52,600,000	34,805,000	52,600,000	14,890,000
Components of Long-Term Debt:					
Premium on bonds	134,910		43,632	91,278	15,518
Accrued bond interest	631,430	352,669	631,430	352,669	352,669
Compensated absences	163,950	122,095	103,015	183,030	100,000
Total non-current liabilities	$ 42,846,803	$ 53,091,181	$ 36,463,077	$ 59,474,907	$ 16,308,187

General Obligation Bonds Payable:
The Unlimited Tax Refunding Bonds, Series 2006, were issued in November, 2006. The proceeds from the $ 6,330,000 of Unlimited Tax Refunding Bonds, Series 2006, were placed in an escrow account and will be used through August 15, 2017 to completely call the remaining Port Freeport Unlimited Tax Bonds, Series 1998. By this action the Port will have affected the defeasance of the refunded bonds. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was $ 486,452. The economic gain resulting from the transaction was $ 373,018. The remaining bonds were redeemed on August 31, 2008. At September 30, 2014 the balance held in escrow was $ 1,120,091 and the bonds outstanding were $ 1,075,000.

The Series 2006 bonds are dated November 15, 2006 with a final maturity of August 15, 2019 and bear interest ranging from 3.5% to 5.5% per annum, payable semi-annually on February 15 and August 15. The issuance of the Unlimited Tax Refunding Bonds, Series 2006, resulted in an additional cost (difference between the reacquisition price and the new carrying amount of the old debt) of $ 180,836 and bond issuance costs of $ 125,926.

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The bond resolution for the 2006 Series general obligation bonds obligates the Port annually to assess and cause to be collected property taxes sufficient to pay current principal and interest due on the bonds.

NOTE 5. LONG-TERM DEBT AND NON-CURRENT LIABILITIES – Continued

For the years ended September 30, 2014 and 2013, the amount of ad valorem taxes collected for interest and sinking was $ 1,335,739 and $ 1,147,261, while the debt service requirements for principal and interest were $ 1,207,703 and $ 1,155,362 which utilized a portion of existing net position. The bond resolutions provide no express remedies in the event of default and make no provision for acceleration of maturity of the bonds.

Annual debt service requirements to maturity for General Obligations Bonds are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2015	$ 1,000,000	$ 227,676	$ 1,227,676
2016	1,005,000	187,676	1,192,676
2017	1,060,000	132,400	1,192,400
2018	1,105,000	90,000	1,195,000
2019	1,145,000	45,800	1,190,800
Total	$ 5,315,000	$ 683,552	$ 5,998,552

There was $ 17,070 difference between the bonds outstanding at September 30, 2013 of $ 6,247,930 and the bond principal requirements of $ 6,265,000 which represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds. These capital appreciation bonds were paid off during the year ended September 30, 2014

Revenue Bonds Payable:
On June 13, 2013, the Port issued $ 33,065,000 of Senior Lien Revenue Refunding Bonds, Series 2013A, for the advance refunding of previously issued outstanding revenue bonds (Series 2008). The Port placed the proceeds of the refunding issue in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow required to service the new debt and complete the refunding at the date of the refunding was $ 17,516. The economic gain resulting from the transaction was $ 4,372,600. The funds of the escrow account were used to purchase federal securities which will mature at such times and yield interest sufficient to pay the principal and interest on the Refunded Bonds when due. By this action, the Port has affected the defeasance of the Refunded Bonds. Accordingly, the Refunded Bonds are considered to be extinguished and do not appear as a liability in the statement of net position. The proceeds were used to pay $ 33,398,166 into an escrow account and later utilized to pay off the refunded bonds on June 17, 2013.

On June 13, 2013, the Port also issued $ 13,670,000 of Senior Lien Revenue Notes (Bonds), Series 2013B and $ 5,865,000 of Senior Lien Revenue Notes (Bonds), Series 2013C. The proceeds of both issuances were used to complete the construction of the new Velasco Terminal and the resulting expansion of the related business. The Series 2013B notes have a final maturity date of June 1, 2016 and bear interest monthly at 70% of the 1-month BBA LIBOR rate plus 66 basis points. The Series 2013C notes have a final maturity date of June 1, 2014 and bear interest monthly at the 1-month BBA LIBOR rate plus 89 basis points.

NOTE 5. LONG-TERM DEBT AND NON-CURRENT LIABILITIES – Continued

Revenue Bonds Payable - Continued

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

Series 2013A:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2015	$ 1,820,000	$ 963,116	$ 2,783,116
2016	1,880,000	907,060	2,787,060
2017	1,935,000	849,156	2,784,156
2018	1,990,000	789,558	2,779,558
2019	2,055,000	728,266	2,783,266
2020-2024	11,265,000	2,652,342	13,917,342
2025-2028	10,325,000	807,114	11,132,114
	$ 31,270,000	$ 7,696,612	$ 38,966,612

Series 2013B:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2015	$	$ 51,150	$ 51,150
2016		51,150	51,150
2017	4,560,000	32,800	4,592,800
2018	1,880,000	3,702	1,883,702
	$ 6,440,000	$ 138,802	$ 6,578,802

Total Revenue Bonds:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2015	$ 1,820,000	$ 1,014,266	$ 2,834,266
2016	1,880,000	958,210	2,838,210
2017	6,495,000	881,956	7,376,956
2018	3,870,000	793,260	4,663,260
2019	2,055,000	728,266	2,783,266
2020-2024	11,265,000	2,652,342	13,917,342
2025-2028	10,325,000	807,114	11,132,114
	$ 37,710,000	$ 7,835,414	$ 45,545,414

NOTE 5. LONG-TERM DEBT AND NON-CURRENT LIABILITIES – Continued

Note Payable:

On September 30, 2014, the Port entered into a note payable ("Master Lease-Purchase Financing Agreement") with Chase Bank in the amount of $ 14,100,000. The note calls for annual principal and interest payments beginning on September 30, 2015 and ending on September 30, 2024. The note has an interest rate of 2.306%. The note payable represents a refinancing of two cranes purchased during the year ended September 30, 2014, including $ 1,410,000 placed in escrow account until the final payment for the crane purchase. The remaining $ 12,690,000 represents a reimbursement of prior payments, based on a Reimbursement Agreement (Resolution Expressing Intent to Finance Expenditures Incurred) adopted by the Board of Commissioners' on August 8, 2013.

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

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2015	$ 1,269,794	$ 325,146	$ 1,594,940
2016	1,299,076	295,865	1,594,941
2017	1,329,033	265,908	1,594,941
2018	1,359,680	235,260	1,594,940
2019	1,391,034	203,906	1,594,940
2020-2024	7,451,383	523,319	7,974,702
	$ 14,100,000	$ 1,849,404	$ 15,949,404

NOTE 6. EXTRAORDINARY REVENUES (EXPENSES)

During the year ended September 30, 2013 the Port incurred extraordinary costs of $ 9,236,000, as a result of the vertical and horizontal movement of the dock at the newly constructed Velasco Terminal, Berth 7, Port Freeport, Texas which was discovered in the year ended September 30, 2010. These costs were for engineering services to determine the cause of the dock movement and also for engineering and construction costs related to stopping the movement of the dock and for reconstruction of the dock. Legal and expert fees of $ 2,106,388 for the years ended September 30, 2013 have been incurred which are also directly associated with the Velasco terminal issue. Extraordinary revenues of $ 13,095,000 for the year ended September 30, 2013 represent amounts from a settlement and insurance reimbursements of costs which relate to the Velasco Terminal issue. There were no extraordinary revenues or costs for the year ended September 30, 2014.

NOTE 7. CONTINGENT LIABILITIES

The Port is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the Port at September 30, 2014 or 2013.

NOTE 8. LITIGATION

A suit was filed by the Port in the 239th Judicial District Court of Brazoria County, Texas against Goldston Engineering, Inc., CH2M Hill, Inc., Professional Services Industries, Inc., Zurich American Insurance Company and Lexington Insurance Company for damages resulting from the vertical and horizontal movement of the dock at the Velasco Terminal, Berth 7, Port Freeport, Texas, which was discovered in late March or early April, 2010.

NOTE 8. LITIGATION - Continued

During the year ended September 30, 2013 a settlement was reached and a final settlement payment was received by the Port to settle all outstanding matters related to damages incurred by the Port at the Velasco Terminal, Berth 7. The settlement amount was recorded as an extraordinary revenue for the year ended September 30, 2013.

A personal injury claim was filed by an individual who has alleged injuries sustained while acting as an independent contractor at Port Freeport. The individual, by and through his attorney, has demanded damages in the sum of $ 200,000. Port Freeport believes the cost of defense and the alleged damages are covered by insurance, which insurance carriers have been notified of this claim. A suit was filed in the 412^{th} District Court, Brazoria County, Texas. A settlement was reached and approved on October 2014 with no material loss occuring.

NOTE 9. FREEPORT HARBOR IMPROVEMENT PROJECTS

On November 17, 1986, President Reagan signed into law “The Waterway Development Act of 1986”. This Act authorized the funding of the Freeport Harbor, Texas Channel Widening and Deepening project, known as the “45-Foot Project”, at an estimated project cost of $ 88,600,000 of which $ 29,200,000 is to be the Port’s non-federal share.

During 1992 the Port approved a change order, which increased the total cost of the project by $ 2,405,000. Currently the Port is involved in this cost-sharing project with the U.S. Army Corps of Engineers. The Port maintains investments in an escrow account at a financial institution trust department, which is available for draws by the U.S. Army Corps of Engineers as construction progresses. The funds in the escrow account are restricted for use by the U.S. Army Corps of Engineers on the 45-Foot Project. Once deposited, the Port cannot withdraw any funds from the escrow account other than investment earnings, which are remitted to the Port monthly. Once the 45-Foot Project is complete, any funds remaining in the escrow account will be released for unrestricted use only upon the U.S. Army Corps of Engineer’s approval.

The following is a summary of the activity in the Escrow Fund for the years ended September 30, 2014 and 2013:

	2014	2013
Escrow balance, October 1,	$ 14,066	$ 14,566
Investment earnings	2	
Fiduciary fees	(500)	(500)
Escrow balance, September 30,	$ 13,568	$ 14,066

On July 15, 1997, the Port and the Department of the Army approved Modification No. 4 of the agreement referred to above. As part of this modification, the U.S. Army Corps of Engineers agreed to provide specific requirements relating to the construction, operation and maintenance of land-based aquatic dredged material disposal facilities required for the project for which a contract for construction of such facilities was awarded in October 1996. $ 636,051 was reported as accounts receivable as of September 30, 2014 and 2013, respectively.

NOTE 10. LEASING OPERATIONS

Operating Leases: The Port owns various types of property that are held for lease. There are four types of leases: ground leases, grazing leases, warehouse leases and office space leases, all of which are accounted for as operating leases and are included in current operating income. The terms of the leases expire in various years through 2034. The Port has not determined the cost of the specific tracts of land under lease. The cost of the lease facilities as of September 30, 2014 and 2013 was $ 55,866,520 and $ 55,806,146, respectively, and accumulated depreciation was $ 23,766,563 and $22,083,220, respectively. Lease revenue for the years ended September 30, 2014 and 2013 was $ 6,955,488 and $ 6,344,343, respectively.

During the year ended September 30, 2007 the Port paid a $ 155,059 lease incentive to an existing lease customer to make space available for another tenant. The payment has been recorded in accordance with guidance per Financial Accounting Standard Board (“FASB”) Technical Bulletin 88-1. The Port executed a new 15 year agreement. The lease incentive is being amortized over the life of the new agreement and is reflected in the Statement of Revenues, Expenditures and Changes in Net Position as a reduction in service, facility use and other fees revenues. Amortization for the years ended September 30, 2014 and 2013 was $ 10,512 and $ 10,512. As of September 30, 2014, the long-term portion of the lease incentive of $ 60,446 has been recorded as other long-term asset while the current portion of $ 10,512 is included as a prepaid asset on the accompanying Statement of Net Position.

Minimum future rentals to be received on noncancelable leases as of September 30, 2014 are as follows:

	Fiscal Year Ending September 30	
	2015	$ 8,401,415
	2016	8,157,134
	2017	9,453,713
	2018	10,107,232
	2019	9,683,107
	2020-2024	47,888,113
	2025-2029	47,509,557
	2030-2034	44,030,884
	2035-2043	64,920,721
Total minimum future rentals		$ 250,127,876

PORT FREEPORT

Notes to Financial Statements
For the Years Ended September 30, 2014 and 2013

NOTE 11. GRANT REVENUE

The following is a schedule of port grant revenue for the years ended September 30, 2014 and 2013.

Agency	Grant Number	Total Entitlement	Pre-2013 Revenues	Revenue 9-30-13	Revenue 9-30-14	Remaining Project 9-30-14
US Department of Homeland Security:						
Homeland Security	2008-GB-T8-K056	$ 3,451,502	$ 351,212	$ 2,718,812	$	$
Homeland Security	2009-PU-T9-K026	2,504,446	57,077	1,508,757		
Homeland Security	2009-PU-R1-0179	1,940,032	1,887,423			
Homeland Security	2010-PU-T0-K001	1,712,415		200,529		1,511,886
Homeland Security	2011-PU-K0-0058	1,354,831	47,285	254,828	1,016,046	36,672
Homeland Security	2013-PU-00457-S01	308,045			26,170	281,875
Totals		$11,271,271	$ 2,342,997	$ 4,682,926	$ 1,042,216	$ 1,830,433

Accounts receivable related to these grants as of September 30, 2014 and 2013 totaled $ 127,413 and $ 318,133, respectively and are included in the receivables from other governments line item in the accompanying Statements of Net Position.

NOTE 12. RISK MANAGEMENT

The Port 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 Port maintains commercial insurance for these types of risks. There have been no significant changes in insurance coverage, and no settlements have significantly exceeded insurance coverage for the years ending September 30, 2014 and 2013. The Port provides a commercial medical insurance program for its employees.

NOTE 13. RETIREMENT PLANS

Profit Sharing Plan: The Port provides a flexible, nonstandardized safe harbor profit sharing plan (Plan), defined contribution type, for the benefit of its employees that is administered by MassMutual Financial Group. The Plan covers all full-time employees, which have worked a twelve (12) consecutive month period. The Plan functions for the benefit of the employees and their beneficiaries. The Port's contribution to the Plan is to be determined from year to year and is limited to the amount allowable under the Internal Revenue Code. The Port's Commission appoints the Plan trustee. The Plan is not reported in the Port's basic financial statements.

NOTE 13. RETIREMENT PLANS - continued

The Port Freeport Retirement Plan (“Plan”) became effective on December 1, 2000 and maintains a calendar year end. The Port contributed $ 124,297 ($ 29,319 calendar year 2013 and $ 94,978 for calendar 2014) to the plan for the year ended September 30, 2014. The Port contributed $ 105,104 ($ 29,410 calendar year 2012 and $ 75,694 for calendar 2013) to the plan for the year ended September 30, 2013. Participants do not contribute to the plan. The trustees of the plan distribute any benefits provided by the plan from net position available for plan benefits. The participants become fully vested in their account after five years of service (years 1 and 2 at 0%, year 3 at 50%, year 4 at 75%, and year 5 at 100%). All of an employee’s years of vesting service with the Port are counted to determine the vesting percentage in the participant’s individual account.

An employee must maintain 1,000 hours of service to constitute a year of vesting service, and 500 hours of service must be exceeded to avoid a break in vesting service. The contributions made by the Port are allocated to each participant’s account based on the Commission approved percentage. Forfeited invested amounts are allocated first to the payment of the plan’s administrative expenses and any excess applied to reduce the Port profit sharing contributions for any plan year subsequent to the plan year for which the forfeitures arise. The normal retirement age under the plan is sixty-five. When a participant retires, terminates employment or becomes disabled, he/she are entitled to receive all amounts in which he/she has a vested interest in either a lump-sum payment, periodic installments, or an annual annuity contract. Participants are allowed to make hardship withdrawals and loans as defined by the plan. The Plan has met the ERISA minimum funding requirements.

Deferred Compensation Plan: The Port also offers its employees a deferred compensation plan (457 Plan) created in accordance with Internal Revenue Code Section 457. The 457 Plan is administered by MassMutual Financial Group and is available to all full time employees which have worked a twelve (12) consecutive month period. The 457 Plan functions for the benefit of the employees and their beneficiaries. Participants may contribute up to the amount allowable under the provisions of the Internal Revenue Code. The Port matches participant contributions up to 3% of the participant’s base wages as defined in the 457 Plan. The Port’s Commission appoints the Plan trustee. The 457 Plan is not reported in the Port’s basic financial statements.

The 457 Plan became effective October 1, 2002 and maintains a calendar year-end. The Port contributed $ 40,716 and $ 35,944 to the 457 Plan for the years ended September 30, 2014 and 2013, respectively. Participant contributions for the years ended September 30, 2014 and 2013 totaled $ 74,641 and $ 89,491, respectively. The trustee of the plan distributes any benefits provided by the plan from net position available for plan benefits. Contributions made by participants vest immediately in their accounts; however, contributions made by the Port vest in the participants’ accounts fully over five years of service (years 1 and 2 at 0%, year 3 at 50%, year 4 at 75% and year 5 at 100%). All of an employee’s years of vesting service with the Port are counted to determine the vesting percentage in the participant’s individual account. An employee must maintain 1,000 hours of service to constitute a year of vesting service, and 500 hours of service must be exceeded to avoid a break in vesting service. Forfeited invested amounts are allocated first to the payment of the plan’s administrative expenses and any excess applied to reduce the Port’s discretionary contributions for any plan year subsequent to the plan year for which the forfeitures arise. When a participant retires, terminates employment or becomes disabled, he/she is entitled to receive all amounts in which he/she has a vested interest in either a lump-sum payment, periodic installments, or an annual annuity contract. Participants are allowed to make hardship withdrawals and loans as defined by the 457 Plan. The 457 Plan has met the ERISA minimum funding requirements.

NOTE 14. REVENUE BONDS ISSUED ON BEHALF OF OTHERS

Pollution Control Revenue Bonds: In 1973, the Texas legislature enacted the Clean Air Financing Act, and among other provisions, the legislature authorized certain governmental entities, including districts organized under Article 16, Section 59 of the Constitution, to issue on behalf of users, negotiable bonds to pay cost related to the acquisition, construction, or improvement of air control facilities, such bonds to be retired by revenues received by the issuer from the user. Further, in 1977, the Texas Legislature enacted the Regional Waste Disposal Act, setting forth the authority and procedures for certain governmental entities, including districts created under Article 16, Section 59, of the Constitution, to issue revenue bonds to pay the costs to acquire, construct, improve, enlarge, extend, operate and maintain disposal systems and such bonds to be secured by pledge of revenue derived from any contract between issuer and user, entered into under the provisions of the Act for financing such costs.

In accordance with the above authorization, Port Freeport has and continues to act as issuer for and on behalf of local industrial users of pollution control revenue bonds to finance the construction of air pollution control facilities, water quality facilities and solid waste disposal facilities. These bonds do not constitute indebtedness of the Port and are not reported in the Port's financial statements. These bonds are secured solely by the revenues of the commercial enterprise on whose behalf they are issued.

Pollution Control Revenue Bond series issued by Port Freeport on behalf of others with principal still outstanding at September 30, 2014 and 2013 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-14	Balance Outstanding 9-30-13
Dow Chemical Company	2002	2033	$ 466,650,000	$ 466,650,000	$ 466,650,000
Dow Chemical Company	2007	2029	15,000,000	15,000,000	15,000,000
Dow Chemical Company	2008	2038	75,000,000	75,000,000	75,000,000
BASF Corporation	1996	2031	25,000,000	25,000,000	25,000,000
BASF Corporation	1997	2032	25,000,000	25,000,000	25,000,000
BASF Corporation	2001	2036	25,000,000	25,000,000	25,000,000
BASF Corporation	2002	2037	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	1998	2018	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	2000	2020	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	2001	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2001	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2002	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2002	2021	12,500,000	12,500,000	12,500,000
Total			$ 756,650,000	$ 756,650,000	$ 756,650,000

Industrial Development Bonds: In 1979 the Texas Legislature enacted the Development Corporation Act of 1979 which authorized certain governmental entities, including districts organized under Article 16, Section 59, of the Constitution, to authorize the creation of a nonprofit corporation for the purpose of issuing bonds on behalf of the governmental unit for the purpose of financing manufacturing and industrial facilities, transportation facilities (including but not limited to airports, ports, mass commuting facilities and parking facilities), in furtherance of the public purposes of the Act. Brazos Harbor Industrial Development Corporation (IDC) is the financing arm of Port Freeport for the issuance of industrial development bonds on behalf of various users for the financing of the type of facilities above enumerated related to industrial development. Port Freeport's commissioners have the right of refusal on the issuance of bonds by the IDC. These bonds are secured solely by the revenues of the commercial enterprises on whose behalf they are issued.

NOTE 14. REVENUE BONDS ISSUED ON BEHALF OF OTHERS - Continued

Industrial Development Bond series issued by the IDC on behalf of others with principal still outstanding at September 30, 2014 and 2013 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-14	Balance Outstanding 9-30-13
American Rice, Inc.	2007	2025	$13,300,000	$13,300,000	$13,300,000
American Rice, Inc.	2007	2037	15,000,000	15,000,000	15,000,000
BASF Corporation	2001	2022	26,500,000	26,500,000	26,500,000
BASF Corporation	2003	2038	25,000,000	25,000,000	25,000,000
BASF Corporation	2006	2036	50,000,000	50,000,000	50,000,000
Total			$129,800,000	$ 129,800,000	$ 129,800,000

NOTE 15. ECONOMIC DEPENDENCY

Operating revenues: During the year ended September 30, 2014, three customers represented approximately 31%**,** 15% and 12% of the Port's operating revenue. During the year ended September 30, 2013, three customers represented approximately 39%, 14% and 11% of the Port's operating revenue. The loss of these customers would have a significant impact on the Port's financial position.

Ad valorem taxes: During the years ended September 30, 2014 and 2013, one taxpayer represented approximately 21% of the total assessed valuation.

NOTE 16. EVALUATION OF SUBSEQUENT EVENTS

The Port has evaluated subsequent events through January 30, 2015, the date which the financial statements were available to be issued.

PORT FREEPORT
Environmental Statement

Port Freeport is fully committed to conducting Port activities in a proactive manner that is protective of the environment, through management and staff commitment, public outreach and regulatory compliance.

Management and Staff Commitment

Port Freeport's Board of Commissioners, Management and staff are committed to the protection of all aspects of the environment, while applying the principles of continuous improvement.

Public Outreach

The Port is committed to providing public outreach and leadership on environmental issues. The Port will make this policy available to its staff, tenants, customers, vendors and the community.

Regulatory Compliance

Port Freeport will comply with all applicable environmental regulations and other requirements while promoting sustainable growth and development.

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Ten Year Cargo Quantities Analysis[1]
for the Fiscal Years Ended September 30, 2005 through 2014

TABLE 1

	Cargo Quantities Short Tons	Percent Total Port Tonnage
Rice	2,636,003	14.39 %
Bananas and Misc. Fruit[6]	3,996,165	21.81
Misc./General Cargo[3]	4,731,328	25.83
Dry Bulk Material[5]	4,113,421	22.45
Liquid Bulk Material[4]	2,593,592	14.16
Project Cargo[7]	223,553	1.22
Chemicals[2]	25,542	0.14
	18,319,604	100.00 %

[1]Source-Port Freeport
[2]Chemicals Classification - Components: Misc. Chemicals, Polyethylene, PVC Resin
[3]Misc./General Cargoes - Components: Roll Paper, Cotton, Automobiles, Empty Containers, Nickel Ore
[4]Components: Liquefied Natural Gas, Liquid Bulk Naptha
[5]Components: Aggregate
[6]Components: Containerized Fruit/Palletized Fruit
[7]Components: Windpower Components, Steel Rail, Pipe, Industry Project Components

Container Traffic Statistics[1]
Twenty-Foot Equivalent Units (T.E.U.)
for the Fiscal Years Ended September 30, 2005 through 2014

TABLE 2

Fiscal Year	Inbound T.E.U.	Outbound T.E.U.	Total	Percent Growth/(Reduction) From Prior Year
2005	38,192	37,694	75,886	14.72 %
2006	38,226	38,630	76,856	1.28
2007	37,426	37,544	74,970	(2.45)
2008	37,296	37,326	74,622	0.50
2009	35,182	35,952	71,134	(4.67)
2010	35,416	36,706	72,122	1.39
2011	33,416	33,894	67,310	(6.67)
2012	35,052	35,528	70,580	4.86
2013	50,140	50,676	100,816	42.83
2014	48,733	49,317	98,050	(2.74)

[1]Source-Port Freeport

PORT FREEPORT

Cargo Traffic Statistics[1]
for the Fiscal Years Ended September 30, 2005 through 2014

	2014		2013		2012		2011	
1. Rice	170,431	7 %	285,618	14 %	293,234	18 %	189,867	10 %
2. Bananas/Misc. Fruit[6]	371,458	14	451,622	22	412,113	24	391,023	19
3. Misc./General Cargo[3]	495,255	19	473,092	23	409,254	24	428,066	20
4. Dry Bulk Material[5]	1,195,603	45	455,346	23	196,814	12	155,809	7
5. Liquid Bulk Material[4]	370,130	14	336,061	17	380,706	22	911,795	43
6. Project Cargo[7]	33,995	1	14,443	1	14,162	1	25,871	1
7. Chemicals[2]	0	0	0	0	0		0	
Annual Port Tonnage[8] -Short Tons	2,636,872	100 %	2,016,182	100 %	1,706,283	100 %	2,102,431	100 %
Percent Export	34.79 %		34.79 %		38.73 %		45.73 %	
Percent Import	55.21		55.21		48.10		48.12	
Percent Domestic	10.00		10.00		13.17		6.15	

[1]Source-Port Freeport

[2]Chemicals Classification - Components: Misc. Chemicals, Polyethylene, PVC Resin

[3]Misc./General Cargoes - Components: Roll Paper, Cotton, Automobiles, Empty Containers, Nickel Ore

[4]Components: Liquefied Natural Gas, Liquid Bulk Naptha

[5]Components: Aggregate

[6]Components: Containerized Fruit/Palletized Fruit

[7]Components: Windpower Components, Steel Rail, Pipe, Industry Project Components

[8]TARE weight not included

TABLE 3

2010		2009		2008		2007		2006		2005	
137,766	8 %	126,316	7 %	183,422	10 %	299,603	20 %	468,080	30 %	481,666	28 %
429,347	24	444,757	30	389,063	23	382,656	26	340,105	21	384,021	22
492,474	27	444,545	30	599,907	35	554,466	37	524,653	33	309,616	18
381,943	21	315,045	21	392,571	23	227,010	15	239,382	15	553,898	32
345,087	19	123,195	8	126,618	7	0		0		0	
19,758	1	53,029	4	36,819	2	25,476	2	0		0	
0		0		0		7,496	1	11,097	1	6,949	0
1,806,375	100 %	1,506,887	100 %	1,728,400	100 %	1,496,707	100 %	1,583,317	100 %	1,736,150	100 %
34.91 %		29.20 %		36.50 %		43.31 %		44.67 %		44.32 %	
61.13		66.42		63.50		56.69		55.33		55.68	
3.96		4.38		5.09		11.27		16.46		16.60	

PORT FREEPORT

Net Position by Component
For The Years 2005 Through 2014

	2014	2013	2012 (Restated)	2011 (Restated)
Net Position:				
Net investment in capital assets	$ 149,397,661	$ 132,423,882	$ 142,112,999	$ 141,431,909
Restricted:				
Debt Service	2,762,928	2,767,814	2,471,425	2,677,543
Capital Projects	15,700	16,199	16,698	17,196
Unrestricted	42,729,110	53,881,956	35,071,249	33,506,284
Total net position	$ 194,905,399	$ 189,089,851	$ 179,672,371	$ 177,632,932

TABLE 4

2010	2009	2008	2007	2006	2005
$ 139,263,051	$ 124,837,211	$ 106,041,805	$ 108,607,433	$ 102,487,808	$ 98,648,579
2,562,125	2,654,335	2,284,365	134,993	163,071	3,538,134
21,495	25,888	15,020,117	21,967	1,195,255	3,067,673
29,368,269	37,082,280	33,888,790	39,628,907	33,499,583	20,292,881
$ 171,214,940	$ 164,599,714	$ 157,235,077	$ 148,393,300	$ 137,345,717	$ 125,547,267

PORT FREEPORT

Summary of Revenues, Expenses and Changes in Net Position
For The Years 2005 Through 2014

	2014	2013	2012 (Restated)	2011 (Restated)
Operating Revenues:				
Harbor Operations:				
Wharfage	$ 3,896,689	$ 3,149,424	$ 3,236,202	$ 2,951,064
Dockage	1,763,042	1,353,107	1,605,188	1,977,324
Service, facility use and other fees	4,191,757	4,112,112	3,757,046	4,950,088
Lease income	6,955,488	6,344,343	5,944,957	5,696,372
Miscellaneous	188,619	35,402	228,024	11,583
Total operating revenues	16,995,595	14,994,388	14,771,417	15,586,431
Operating Expenses:				
Payroll and related	4,005,446	3,858,186	3,607,483	3,710,206
Professional services	1,432,875	1,634,189	1,535,977	1,386,515
Supplies and other	2,489,337	2,316,959	2,056,434	2,210,135
Utilities	494,540	553,874	546,062	579,698
Maintenance and repairs	760,060	998,932	571,759	574,300
Depreciation	5,310,409	4,502,480	3,998,418	3,709,807
Total operating expenses	14,492,667	13,864,620	12,316,133	12,170,661
Operating income (loss)	2,502,928	1,129,768	2,455,284	3,415,770
Non-Operating Revenues (Expenses):				
Ad valorum tax collections, net of collection expenses	4,672,390	5,246,302	5,017,130	5,060,167
Investment income	265,046	(59,682)	114,273	142,015
Gain (loss) on sale of capital assets		17,965		4,500
Debt interest and fees	(1,285,213)	(2,163,797)	(2,034,252)	(2,195,700)
Other	(1,381,819)	(1,188,604)	122,074	(476,356)
Total non-operating revenues (expenses)	2,270,404	1,852,184	3,219,225	2,534,626
Income (loss) before capital contributions	4,773,332	2,981,952	5,674,509	5,950,396
Capital contributions -grants	1,042,216	4,682,926	2,290,517	2,269,196
Capital contributions -other	0	0	0	0
Total capital contributions	1,042,216	4,682,926	2,290,517	2,269,196
Extraordinary Revenues (Expenses):				
Insurance and other proceeds - Berth 7		13,095,000	970,541	5,659,125
Construction cost - Berth 7		(9,236,010)	(5,773,285)	(5,946,339)
Legal and expert fees - Berth 7		(2,106,388)	(1,122,843)	(1,115,013)
Total extraordinary revenues (expenses)	0	1,752,602	(5,925,587)	(1,402,227)
Change in net position	$ 5,815,548	$ 9,417,480	$ 2,039,439	$ 6,817,365

TABLE 5

2010	2009	2008	2007	2006	2005
$ 3,130,735	$ 2,577,245	$ 1,908,272	$ 1,706,555	$ 1,686,554	$ 1,509,278
1,463,269	1,246,154	1,407,643	1,176,209	1,114,831	1,064,267
3,929,599	3,715,210	3,349,964	2,996,296	2,471,406	1,988,210
5,513,072	5,104,487	5,461,429	4,861,294	4,847,531	4,235,213
14,571	31,881	465,182	341,200	221,375	84,149
14,051,246	12,674,977	12,592,490	11,081,554	10,341,697	8,881,117
3,520,049	3,350,988	3,216,104	2,750,632	2,563,143	2,301,071
1,006,587	1,387,336	1,177,484	1,036,471	1,281,552	884,519
2,167,854	2,093,330	2,133,667	1,893,418	1,820,520	1,663,146
602,286	541,352	481,707	431,522	330,177	240,413
781,548	564,802	683,182	614,687	564,483	601,246
3,272,302	3,021,853	2,976,874	2,236,176	2,103,234	1,913,376
11,350,626	10,959,661	10,669,018	8,962,906	8,663,109	7,603,771
2,700,620	1,715,316	1,923,472	2,118,648	1,678,588	1,277,346
5,255,410	5,650,052	5,641,225	5,776,916	5,636,883	5,499,624
674,309	597,457	1,699,266	2,146,892	1,292,072	555,981
	2,350	5,383	2,601	4,300	(308,533)
(2,354,736)	(1,125,130)	(521,691)	(477,829)	(628,000)	(801,351)
(632,829)	(719,886)	(442,597)	(652,900)	3,049,972	(397,000)
2,942,154	4,404,843	6,381,586	6,795,680	9,355,227	4,548,721
5,642,774	6,120,159	8,305,058	8,914,328	11,033,815	5,826,067
747,749	1,087,132	518,996	1,907,399	492,894	883,090
224,703	157,346	17,723	225,856	271,741	518,618
972,452	1,244,478	536,719	2,133,255	764,635	1,401,708
0	0	0	0	0	0
$ 6,615,226	$ 7,364,637	$ 8,841,777	$ 11,047,583	$ 11,798,450	$ 7,227,775

PORT FREEPORT

Property Tax Rates[3]
Direct and Overlapping Governments
for the Levy Years 2004 through 2013[1][2]

	2013	2012	2011
Port Freeport	$ 0.045000	$ 0.051500	$ 0.053500
Overlapping Governments:			
Alvin I.S.D.	1.329100	1.329100	1.344100
Alvin Community College	0.199756	0.199756	0.199485
Angleton, City of	0.723500	0.723500	0.723500
Angleton Drainage District	0.175448	0.176563	0.176563
Angleton I.S.D.	1.455200	1.455200	1.455200
Angleton-Danbury Hospital	0.362678	0.359592	0.299592
Brazoria, City of	0.770700	0.762300	0.762300
Brazoria County	0.043202	0.425900	0.413100
Brazoria County FWD #1	0.00	0.250000	0.280000
Brazosport College	0.267309	0.259436	0.239198
Brazosport I.S.D.	1.255300	1.259500	1.241500
Clute, City of	0.672000	0.672000	0.672000
Columbia/Brazoria I.S.D.	1.296500	1.296500	1.296500
Commodore Cove I.D.	0.467538	0.461570	0.475693
Danbury, City of	0.829169	0.826940	0.826940
Danbury Drainage District	0.349474	0.366000	0.366000
Danbury I.S.D.	1.141081	1.136445	1.137000
Freeport, City of	0.675586	0.700000	0.680000
Jones Creek, Village of	0.410000	0.380000	0.380000
Lake Jackson, City of	0.390000	0.390000	0.390000
Liverpool, City of	0.230463	0.230463	0.236850
Oak Manor U.D.	0.520000	0.505000	0.500000
Oyster Creek, City of	0.476394	0.473161	0.431106
Quintana, Town of	0.022882	0.023640	0.024413
Richwood, City of	0.735680	0.735680	0.693660
Surfside, Village of	0.432601	0.432601	0.402610
Sweeny, City of	0.887456	0.844034	0.782818
Sweeny Hospital District	0.470003	0.429109	0.393133
Sweeny I.S.D.	1.211700	1.211700	1.211700
Treasure Island M.U.D.	0.575262	0.551848	0.604590
Varner Creek M.U.D.	0.890000	0.928000	0.888220
Velasco Drainage District	0.100226	0.094805	0.094214
West Brazoria County Drainage District #11	0.020000	0.020000	0.020000
West Columbia, City of	0.831900	0.831900	0.831900

[1]Source--Brazoria County Appraisal District
[2]Property taxes are levied annually in October.
[3]Property tax rates are per $100 taxable valuation.

TABLE 6

2010	2009	2008	2007	2006	2005	2004
$ 0.053500	$ 0.053500	$ 0.053500	$ 0.056000	$ 0.059671	$ 0.065000	$ 0.067500
1.304100	1.304100	1.328200	1.328200	1.545900	1.705800	1.676000
0.199830	0.199830	0.199832	0.210280	0.219521	0.237555	0.240561
0.706000	0.706000	0.706000	0.706000	0.706000	0.734150	0.739774
0.183900	0.183900	0.183900	0.170850	0.172000	0.175000	0.185000
1.455200	1.455200	1.314000	1.197000	1.463800	1.571000	1.610000
0.380692	0.246500	0.246500	0.246500	0.246500	0.247745	0.248244
0.762300	0.728300	0.728300	0.728300	0.728300	0.728300	0.728300
0.403010	0.366286	0.330000	0.311396	0.321701	0.347987	0.421995
0.280000	0.295000	0.300000	0.310000	0.350000	0.360000	0.400000
0.190175	0.175754	0.156488	0.121000	0.122000	0.119000	0.114000
1.241500	1.228500	1.192200	1.133900	1.423700	1.572800	1.522800
0.672000	0.672000	0.693000	0.698000	0.713000	0.723000	0.723000
1.296500	1.296500	1.296500	1.296500	1.640000	1.770000	1.870000
0.472234	0.620318	0.597220	0.597220	0.740837	0.890000	0.986093
0.769538	0.762014	0.760600	0.766940	0.728846	0.775664	0.823830
0.366000	0.366000	0.361000	0.353723	0.370857	0.372541	0.372689
1.135400	1.143900	1.134900	1.134900	1.418000	1.557600	1.561500
0.708266	0.708266	0.700000	0.710000	0.710000	0.710000	0.716900
0.380000	0.340000	0.340000	0.310000	0.310000	0.310000	0.310000
0.390000	0.390000	0.390000	0.385000	0.370000	0.380000	0.370000
0.236850	0.236852	0.175800	0.175800	0.175800	0.175800	0.175800
0.480000	0.451178	0.421852	0.363000	0.373000	0.398000	0.360000
0.423154	0.401142	0.395000	0.387211	0.452100	0.452100	0.411106
0.024413	0.033365	0.027140	0.032000	0.035000	0.040000	0.050000
0.693660	0.693660	0.693660	0.681080	0.681260	0.691200	0.691200
0.408801	0.442056	0.352392	0.342392	0.419203	0.490000	0.400354
0.772818	0.741595	0.762105	0.750000	0.750000	0.750000	0.775571
0.279998	0.349917	0.323170	0.298289	0.273770	0.343781	0.349000
1.211700	1.211700	1.211700	1.211700	1.541700	1.671000	1.692000
0.576368	1.258218	0.563556	0.595802	0.634370	0.739283	0.823466
0.858000	0.858000	0.814000	0.661890	0.510000	0.510000	0.540000
0.090907	0.087130	0.082075	0.082075	0.082113	0.082113	0.076210
0.020000	0.020000	0.020000	0.020000	0.020000	0.020000	0.020000
0.831900	0.831900	0.831900	0.831900	0.838837	0.838837	0.838837

PORT FREEPORT

Valuation, Exemptions and General Obligation Debt
for Fiscal Year Ended September 30, 2014
(In Thousands)

TABLE 7

2013 Market Valuation:[1] (excluding totally exempt property)		
Land, Homesite	$ 775,022	
Land, Non Homesite	754,906	
Land, Ag and Timber Market	706,369	
Improvement, Homesite	3,649,557	
Improvement, Non-Homesite	6,389,187	
Non Real, Personal Property	2,842,272	
Non Real, Mineral	106,703	
Total Market Value Before Exemptions		$ 15,224,016
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	$ 616,459	
Over 65 Homesteads Exemptions	695,356	
Disabled Exemptions	117,124	
Abatements	48,649	
Freeport Loss	476,691	
Pollution Control	691,241	
Productivity Loss	662,240	
Tax Exempt	1,409,516	
Other	2,615	
Total Exemptions		$ 4,719,891
Net 2013 Taxable Valuation		$ 10,504,125

[1] Source - Brazoria County Appraisal District. Valuations shown are certified taxable values reported to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

PORT FREEPORT

Taxable and Estimated Valuation of Properties Located
Within the Port Taxing District [1] for the Fiscal Years 2005 through 2014
(In Thousands)

TABLE 8

Fiscal Year	Estimated Market Value: Real Property	Estimated Market Value: Personal Property	Less: Tax-Exempt Property	Taxable Valuation	Percent Growth (Reduction) From Prior Year	Total Direct Tax Rate [2]
2005	$ 9,891,263	$ 1,969,596	$ 3,845,733	$ 8,015,126	6.72 %	$ 0.067500
2006	9,966,192	2,681,724	4,230,178	8,417,738	5.02	0.065000
2007	10,695,744	3,188,652	4,459,817	9,424,579	11.96	0.059671
2008	12,334,116	2,391,067	4,857,589	9,867,594	4.70	0.056000
2009	13,327,255	2,720,091	5,502,506	10,544,840	6.86	0.053500
2010	12,608,414	2,593,214	5,580,518	9,621,110	(8.76)	0.053500
2011	12,156,069	2,355,464	5,190,492	9,321,041	(3.12)	0.053500
2012	12,091,652	2,677,361	5,463,411	9,305,602	(0.17)	0.053500
2013	12,063,258	2,886,275	5,377,878	9,571,655	2.86	0.051500
2014	12,381,744	2,842,272	4,719,891	10,504,125	9.74	0.045000
Taxable Valuation 2005-2014					31.05	

[1] Source--Brazoria County Appraisal District
[2] Property tax rates are per $100 taxable valuation.

PORT FREEPORT

Property Tax Levies and Collections[1]
for the Fiscal Years 2005 through 2014

TABLE 9

Fiscal Year	Total[2] Levy Amount	Levy Adjustments	Adjusted Levy Amount[3]	Total Current Year Collections	Percent of Current Year Collections	Delinquent Tax Collections	Total Gross Collections	Percent of Total Collections
2005	$ 5,410,374		$ -	$ 5,433,553	100.43 %	$ 63,900	$ 5,497,453	101.61 %
2006	5,471,530			5,575,351	101.90	41,711	5,617,062	102.66
2007	5,767,235	143,494	5,623,741	5,691,227	98.68	63,311	5,754,538	99.78
2008	5,668,728	142,875	5,525,853	5,594,596	98.69	61,283	5,655,879	99.77
2009	5,673,491	32,001	5,641,490	5,593,590	98.59	63,797	5,657,387	99.72
2010	5,261,212	113,918	5,147,294	5,178,848	98.43	67,147	5,245,995	99.71
2011	5,139,874	34,583	5,105,291	5,001,518	97.31	88,301	5,089,819	99.03
2012	5,018,556	40,059	4,978,497	4,949,272	98.62	131,738	5,081,010	101.24
2013	5,135,924	206,479	4,929,445	5,069,539	98.71	33,405	5,102,944	99.36
2014	4,679,020	118,085	4,560,935	4,632,114	99.00	-	4,632,114	99.00

[1] Total Collections are reported on the cash receipt basis. The financial statements are presented using the accrual basis of accounting. Since there is an inherent difference between the two methods of reporting, the collections reported on this schedule will not necessarily represent the total revenue reported in the financial statements.

[2] Amounts shown are original levy amounts and exclude any subsequent supplemental assessments, and therefore collections may exceed total levy amount.

[3] Information prior to 2007 for adjusted tax levy is not readily available. Results will be added each year until ten years are presented.

PORT FREEPORT

Principal Taxpayers[1]
Current Year and Nine Years Ago

September 30, 2014
(In Thousands)

TABLE 10

Entity	2013[2] Market Valuation	Percent of Total Market Valuation	2013 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 2,719,749	17.86 %	$ 2,178,208	21.49 %
Phillips 66 Company	1,213,181	7.97	661,534	6.53
BASF Corp. Chemicals Div.	704,178	4.63	551,085	5.44
Chevron Phillips Chemical Company	544,671	3.58	437,471	4.32
Freeport LNG	238,906	1.57	183,733	1.81
Freeport Energy Center	128,044	0.84	128,044	1.26
Shintech, Inc.	152,570	1.00	124,114	1.22
Sweeny Cogenerations Ltd	102,750	0.67	95,991	0.95
Centerpoint Energy Inc	91,115	0.60	91,111	0.90
Braskem America Inc.	78,518	0.52	71,191	0.70
TOTAL	$ 5,973,682	39.24 %	$ 4,522,482	44.62 %

September 30, 2005
(In Thousands)

Entity	2004[3] Market Valuation	Percent of Total Market Valuation	2004 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 2,280,232	25.54 %	$ 3,103,831	38.72 %
BASF Corp. Chemicals Div.	604,240	6.77	836,575	10.44
Chevron Phillips Chemical Company	322,633	3.61	327,076	4.08
Conoco/Phillips Company	233,079	2.61	692,674	8.64
Oyster Creek Limited	132,834	1.49	132,834	1.66
Sweeny Cogenerations Ltd	129,993	1.46	134,505	1.68
Shintech, Inc.	129,346	1.45	152,887	1.91
Centerpoint Energy Inc.	81,943	0.92	81,950	1.02
Hicorp Energy Co	73,257	0.82	73,724	0.92
Air Liquide America Corp	60,076	0.67	66,841	0.83
TOTAL	$ 4,047,633	45.34 %	$ 5,602,897	69.90 %

[1] Source--Brazoria County Appraisal District

[2] Property taxes levied for the 2014 fiscal year were based on 2013 market valuations.

[3] Property taxes levied for the 2005 fiscal year were based on 2004 market valuations.

PORT FREEPORT

Computation of Legal Debt Margin
Levy Year 2013
(In Thousands)

TABLE 11

Taxable valuations:					
Taxable value				$	10,504,125
Add back: exempt real property					4,719,891
Total market value:				$	15,224,016
Legal debt margin:					
Debt limitation - 25 percent of total taxable value				$	3,806,004
Total debt		$	57,125		
Less:	Revenue bonds		37,710		
	Amount available for repayment of general obligation bonds		235		
Total debt applicable to limitation					19,180
Legal debt margin				$	3,786,824

PORT FREEPORT

Ratio of Outstanding Debt by Type
for the Fiscal Years Ended September 30, 2005 through 2014
(In Thousands)

TABLE 12

Fiscal Year Ending September 30	General Obligation Bonds	Revenue Bonds	Note Payable	Total	Estimated Personal Income [1]	Estimated County Population [1]	Percentage of Personal Income	Per Capita
2005	$ 12,425	$ 1,355	$ 9	$ 13,789	$ 5,509,459	275	0.2503 %	$ 50
2006	12,020	-	-	12,020	5,483,331	274	0.2192	44
2007	11,245	-	-	11,245	5,840,706	292	0.1925	39
2008	10,505	40,000	-	50,505	5,940,051	297	0.8502	170
2009	9,725	38,835	-	48,560	5,940,051	297	0.8175	164
2010	8,825	37,555	-	46,380	6,263,610	313	0.7405	148
2011	8,000	36,215	-	44,215	6,269,896	313	0.7052	141
2012	7,112	34,805	-	41,917	6,328,218	316	0.6624	133
2013	6,248	52,600	-	58,848	6,506,825	325	0.9044	181
2014	5,391	37,710	14,100	57,201	6,526,846	326	0.8764	175

[1] Source Brazoria County Partnership 1997-2002, The Woods & Poole Economics Demographics Report 2003, Texas State Data Center 2004-2014

PORT FREEPORT

Ratio of Net General Bonded Debt to Taxable Value
and to Net Bonded Debt Per Capita[1]
(In Thousands)
For Fiscal Years 2005 through 2014

TABLE 13

Fiscal Year	Taxable Valuation	Gross General Bonded Debt	Debt Service Restricted Cash	Net General Bonded Debt	Ratio of Net Bonded Debt to Taxable Value	Estimated Population	Net Bonded Debt Per Capita
2005	$ 8,015,126	$ 13,780	$ 1,277	$ 12,503	0.0016	275	$ 45
2006	8,417,738	12,020	142	11,878	0.0014	274	43
2007	9,424,579	11,245	160	11,085	0.0012	292	38
2008	9,867,594	10,505	172	10,333	0.0010	297	35
2009	10,544,840	9,725	185	9,540	0.0009	297	32
2010	9,621,110	8,825	247	8,578	0.0009	313	27
2011	9,321,041	8,000	46	7,954	0.0009	313	25
2012	9,305,602	7,111	34	7,077	0.0008	316	22
2013	9,571,655	6,248	59	6,189	0.0006	325	19
2014	10,504,125	5,391	235	5,156	0.0005	326	16

[1] Source: 2005-2014 Source: Texas State Data Center

PORT FREEPORT

Computation of Direct and Overlapping
Bonded Debt of General Obligation Bond Issues ①
September 30, 2014

TABLE 14

Taxing Entity	Net Bonded Debt Amount	As of	Percent Overlapping	Amount Overlapping
Alvin I.S.D.	$ 463,780,000	9-30-14	7.38 %	$ 34,226,964
Alvin Community College	14,380,000	9-30-14	8.23	1,183,474
Angleton, City of	17,145,000	9-30-14	100.00	17,145,000
Angleton Drainage District	0	9-30-14	100.00	0
Angleton I.S.D.	134,812,352	9-30-14	72.84	98,197,317
Angleton/Danbury Hospital	11,260,000	9-30-14	100.00	11,260,000
Brazoria, City of	1,420,000	9-30-14	100.00	1,420,000
Brazoria County	90,265,000	9-30-14	49.10	44,320,115
Brazoria County FWSD #1	0	9-30-14	100.00	0
Brazosport I.S.D.	139,004,050	9-30-14	100.00	139,004,050
Brazosport College	63,555,000	9-30-14	99.35	63,141,893
Clute, City of	0	9-30-14	100.00	0
Columbia/Brazoria I.S.D.	38,449,985	9-30-14	100.00	38,449,985
Danbury, City of	1,911,000	9-30-14	100.00	1,911,000
Danbury I.S.D.	2,950,000	9-30-14	100.00	2,950,000
Freeport, City of	4,379,000	9-30-14	100.00	4,379,000
Lake Jackson, City of	29,035,000	9-30-14	100.00	29,035,000
Manvel, City of	2,560,000	9-30-14	2.82	72,192
Oyster Creek, Village of	195,000	9-30-14	100.00	195,000
Richwood, City of	2,655,000	9-30-14	100.00	2,655,000
Sweeny, City of	2,526,000	9-30-14	100.00	2,526,000
Sweeny Hospital District	0	9-30-14	100.00	0
Sweeny I.S.D.	27,665,000	9-30-14	100.00	27,665,000
Varner Creek UD	8,280,000	9-30-14	100.00	8,280,000
West Columbia, City of	180,000	9-30-14	100.00	180,000
Sub-total Bonded Debt	$ 1,056,407,387	Sub-total Overlapping Debt		$ 528,196,990
Port Freeport	$ 5,315,000	9-30-14	100.00 %	$ 5,315,000
Total Direct & Overlapping General Obligation Issue Debt	$ 1,061,722,387			$ 533,511,990
Ratio of Overlapping Debt to Direct 2014 Taxable Valuation				0.001 %

PORT FREEPORT

Pledged Revenue Coverage
for Fiscal Years 2005 through 2014
(In Thousands)

	2014	2013	2012	2011	2010
Operating Revenue	$ 16,996	$ 14,994	$ 14,771	$ 15,586	$ 14,051
Operating Expenses (Net of Depreciation)	(9,183)	(9,363)	(8,318)	(8,460)	(8,078)
Ad Valorem Tax Collections	4,672	5,246	5,017	5,060	5,255
Investment Income	265	(59)	114	142	674
Other Income		13,785	1,334	5,708	232
Net Revenues Available for Debt Service	$ 12,750	$ 24,603	$ 12,918	$ 18,036	$ 12,134
Annual Bonded Debt Service	$ 5,657	$ 17,123	$ 4,353	$ 4,354	$ 4,345
Percent of Coverage	225%	144%	297%	414%	279%
Maximum Debt Service	$ 10,164	$ 17,200	$ 4,400	$ 4,400	$ 4,400
Percent of Coverage[1]	125%	143%	294%	410%	276%

[1] Indicates the extent to which net revenues available for debt service would provide coverage of maximum annual debt service requirements in any future year. The maximum annual debt service will occur in 2017.

TABLE 15

2009	2008	2007	2006	2005
$ 12,675	$ 12,592	$ 11,082	$ 10,342	$ 8,881
(7,938)	(7,692)	(6,727)	(6,560)	(5,690)
5,650	5,641	5,777	5,637	5,500
597	1,699	2,146	1,292	556
	473		3,549	
$ 10,984	$ 12,713	$ 12,278	$ 14,260	$ 9,247
$ 4,421	$ 4,425	$ 1,222	$ 1,389	$ 1,389
248%	287%	1005%	1027%	666%
$ 4,500	$ 4,500	1,300	$ 1,389	$ 1,389
244%	283%	944%	1027%	666%

PORT FREEPORT

Unlimited Tax Refunding Bonds, Series 2006
September 30, 2014

TABLE 16

Fiscal Year Ending September 30	Coupon	Interest Due February 15	Interest Due August 15	Principal Due August 15	Total Principal & Interest	Principal Balance
2014						$ 5,315,000
2015	4.00 %	$ 113,838	$ 113,838	$ 1,000,000	$ 1,227,676	4,315,000
2016	5.50	93,838	93,838	1,005,000	1,192,676	3,310,000
2017	4.00	66,200	66,200	1,060,000	1,192,400	2,250,000
2018	4.00	45,000	45,000	1,105,000	1,195,000	1,145,000
2019	4.00	22,900	22,900	1,145,000	1,190,800	0
		$ 341,776	$ 341,776	$ 5,315,000	$ 5,998,552	

Senior Lien Revenue Refunding Bonds, Series 2013A
September 30, 2014

TABLE 17

Fiscal Year Ending September 30	Coupon	Interest Due December 1	Interest Due June 1	Principal Due June 1	Total Principal & Interest	Principal Balance
2014						$ 31,270,000
2014	3.08 %	$ 481,558	$ 481,558	$ 1,820,000	$ 2,783,116	29,450,000
2016	3.08	453,530	453,530	1,880,000	2,787,060	27,570,000
2017	3.08	424,578	424,578	1,935,000	2,784,156	25,635,000
2018	3.08	394,779	394,779	1,990,000	2,779,558	23,645,000
2019	3.08	364,133	364,133	2,055,000	2,783,266	21,590,000
2020	3.08	332,486	332,486	2,115,000	2,779,972	19,475,000
2021	3.08	299,915	299,915	2,185,000	2,784,830	17,290,000
2022	3.08	266,266	266,266	2,250,000	2,782,532	15,040,000
2023	3.08	231,616	231,616	2,320,000	2,783,232	12,720,000
2024	3.08	195,888	195,888	2,395,000	2,786,776	10,325,000
2025	3.08	159,005	159,005	2,465,000	2,783,010	7,860,000
2026	3.08	121,044	121,044	2,540,000	2,782,088	5,320,000
2027	3.08	81,928	81,928	2,620,000	2,783,856	2,700,000
2028	3.08	41,580	41,580	2,700,000	2,783,160	0
		$ 3,848,306	$ 3,848,306	$ 31,270,000	$ 38,966,612	

PORT FREEPORT

Senior Lien Revenue Notes, Series 2013B
September 30, 2014

TABLE 18

Fiscal Year Ending September 30	Coupon*	Interest Due Monthly 1st *	Principal Due Dec 1	Total Principal & Interest	Principal Balance
2014					$ 6,440,000
2015	1.30	$ 51,150	$ -	$ 51,150	6,440,000
2016	1.50	51,150	0	$ 51,150	6,440,000
2017	1.80	32,800	4,560,000	$ 4,592,800	1,880,000
2018	1.95	3,702	1,880,000	$ 1,883,702	0
		$ 138,802	$ 6,440,000	$ 6,578,802	

* Interest is paid monthly on a floating rate of BBA LIBOR plus 66 basis points.
Amounts shown are estimated

Note Payable
September 30, 2014

TABLE 19

Fiscal Year Ending September 30	Coupon	Interest Due Sept. 30	Principal Due Sept. 30	Total Principal & Interest	Principal Balance
2014					$ 14,100,000
2015	2.31 %	$ 325,146	$ 1,269,794	$ 1,594,940	12,830,206
2016	2.31	295,865	1,299,076	1,594,941	11,531,130
2017	2.31	265,908	1,329,033	1,594,941	10,202,097
2018	2.31	235,260	1,359,680	1,594,940	8,842,417
2019	2.31	203,906	1,391,034	1,594,940	7,451,383
2020	2.31	171,829	1,423,112	1,594,941	6,028,271
2021	2.31	139,012	1,455,929	1,594,941	4,572,342
2022	2.31	105,438	1,489,502	1,594,940	3,082,840
2023	2.31	71,090	1,523,850	1,594,940	1,558,990
2024	2.31	35,950	1,558,990	1,594,940	0
		$ 1,849,404	$ 14,100,000	$ 15,949,404	

PORT FREEPORT

Summary of Annual Cash Requirements on Debt Outstanding
September 30, 2014

TABLE 20

Fiscal Year Ending September 30	Unlimited Tax Refunding Bonds Series 2006	Senior Lien Revenue Refunding Bonds Series 2013A	Senior Lien Revenue Notes Series 2013B	Note Payable	Total
2015	$ 1,227,676	$ 2,783,116	$ 51,150	$ 1,594,940	$ 5,656,882
2016	1,192,676	2,787,060	51,150	1,594,941	5,625,827
2017	1,192,400	2,784,156	4,592,800	1,594,941	10,164,297
2018	1,195,000	2,779,558	1,883,702	1,594,940	7,453,200
2019	1,190,800	2,783,266		1,594,940	5,569,006
2020		2,779,972		1,594,941	4,374,913
2021		2,784,830		1,594,941	4,379,771
2022		2,782,532		1,594,940	4,377,472
2023		2,783,232		1,594,940	4,378,172
2024		2,786,776		1,594,940	4,381,716
2025		2,783,010			2,783,010
2026		2,782,088			2,782,088
2027		2,783,856			2,783,856
2028		2,783,160			2,783,160
	$ 5,998,552	$ 38,966,612	$ 6,578,802	$ 15,949,404	$ 67,493,370

PORT FREEPORT

Table 21, Miscellaneous Statistical Data

Located in Texas's Central Gulf Coast, Port Freeport currently encompasses approximately 85% of Brazoria County. Occupying the only frontal mainland coastline in Brazoria County, it also offers one of Texas's most fertile agricultural areas. The primary economic bases of the county include chemical manufacturing, petroleum processing, offshore production and maintenance services, diversified manufacturing, biochemical, electronics, commercial fishing and agriculture. In addition, the area's deepwater transportation waterway, port facilities, sport fishing services and tourism are major components of the county's economic base.

Date of Incorporation	1925
Form of Government	A political subdivision of the state of Texas
Number of Employees	34
Geographical Location	Southeast Coast of Texas on the Gulf of Mexico approximately 60 miles South of Houston
Port Owned Property	approximately 540 acres developed Approximately 7,000 acres undeveloped
Elevation	3-12 feet above sea level
Tidal Range-Inner Harbor	Plus (minus) 2.5 feet
Aerial Clearance	No restriction
Climate Type	Sub-tropical
Temperature - Annual Average	71.6 degrees F.
Precipitation - Annual Average	52.17
Number of Public Docks	7
Covered Dry Warehouse Space	554,400 square feet
Cold Storage Space	38,600 square feet
Port Freeport's Total Foreign Tonnage Ranking Among U.S. Ports	24th highest
Port Freeport's Total Tonnage Ranking Among U.S. Ports	30th highest
Major Trade Areas of Port	Central America, South America, Middle East, Africa
Major Import Commodities	Food, bulk chemicals, clothing, crude oil, paper goods aggregate, wind energy products, liquid natural gas, resin
Major Export Commodities	Food, chemicals, autos, general cargo, clothing, rice paper goods, resin, and liquid natural gas
Number of Truck Lines Serving Port Freeport	39
Number of Barge Lines Serving Port Freeport	7
Number of Railroad Lines Serving Port Freeport	1
Number of Shipping Lines Calling Port Freeport	13
Area of County	1,386.4 square miles
Brazoria County's Total Assessed Valuation Among Texas Counties	13th highest without exemptions
Brazoria County's Total Population Ranking Among All Texas Counties	15th highest
Brazoria County's Total Area Ranking Among All Texas Counties	28th highest
Economic Impact on Brazoria County	$17.9 billion annually / 13,362 direct jobs; 27,656 induced jobs

PORT FREEPORT

History of the Port[©]

The history of navigation in the Brazos River area can be traced to as early as 1528 when the Spanish explorer Cabeza de Vaca first arrived in the “New Land”. In 1821, Stephen F. Austin chose the mouth of the Brazos River as the location of a colony and deepwater port to be developed. Throughout the nineteenth century and beyond, the area’s importance as a trade and shipping area became more viable. A brief chronological history of the development of Port Freeport.

In 1889, Congress authorized the Brazos River and Dock Company to construct, own and operate sufficient jetties as might be necessary to create a navigable channel between the mouth of the Brazos River and the Gulf of Mexico. Granite jetties were constructed by the Brazos River and Dock Company at a cost of $1,449,025.

The Brazos River Harbor Navigation District was created by an action of the voters on the 4th day of December 1925. In 1960, the size of the elected number of Commissioners was increased from three to six positions by an act of the Texas Legislature.

On December 4, 1925, the voters approved the issuance of $989,000 of ad valorem tax bonds to be utilized for the elimination of the river jetty siltation - shoaling problems by diversion of the “live” Brazos River to another course for its final flow to the Gulf of Mexico.

In January 1951, the voters approved the issuance of $2,600,000 of ad valorem tax bonds to be utilized for the purchase of additional land for the construction of the Harbor and District’s first dock and terminal facilities. In June 1957, the voters approved the issuance of $1,500,000 of Port Revenue Bonds for construction of a second transit shed and dock facility. In 1961, the harbor and channel were first dredged to the original project depth of 36 - feet by the Federal Government.

In June 1963, the Interstate Commerce Commission granted the District an all-inclusive equalization of rail rates, placing the Ports of Houston, Galveston and Freeport on an equal rail rate basis.

In January 1964, Transit Shed No. 5 was opened for business. This 36,000 square foot cargo storage facility was constructed with retained Port revenues; no bonds were issued for its construction. In May 1969, the Board of Navigation and Canal Commissioners authorized the issuance of $865,000 of Port Revenue Bonds for the construction of a 60,000 square foot, warehouse, known as Warehouse 53, and modifications and improvements to other District warehouses, transit sheds and dock facilities. On October 5, 1980, the voters approved the issuance of $20,000,000 of ad valorem tax bonds for the acquisition of 8,700 acres of land for future industrial development and for expenses related to the District’s waterway and jetty system widening and deepening project, construction of additional office and warehouse space and improvements to existing port facilities.

In 1983, the Board of Navigation and Canal Commissioners entered into a lease agreement with Dole Fresh Fruit Company to construct a trailer marshaling yard and maintenance facility to handle Dole’s weekly-containerized fruit import and commodity export trade. In 1985, the Board of Navigation and Canal Commissioners entered into a lease agreement with American Rice, Inc. to construct the largest state-of-the-art rice milling facility in the United States on a site leased to it by the Port and authorized the issuance of $10,500,000 of Port Revenue Bonds for the construction of an additional berth, 180,000 square feet of transit sheds, a barge unloading facility along with numerous major infrastructure improvements.

On June 2, 1985, then Texas Governor Mark White signed a bill authorizing the Brazos River Harbor Navigation District to apply for and to accept, operate and maintain a Foreign-Trade Zone within its boundaries. The Foreign-Trade Zones Board on June 28, 1988, issued Order No. 385 approving the establishment of Foreign-Trade Zone No. 149 at specific sites located within the jurisdiction of the Brazos River Harbor Navigation District. On July 18, 1988, authorization to “activate” sites of Foreign-Trade Zone No. 149 was issued by the District Director of the U. S. Customs Service and on July 19, 1988, the first goods were received into Foreign-Trade Zone No. 149.

In 1962, the District requested the U. S. Army Corps of Engineers to study the widening and deepening of the Freeport jetty system, channels and harbor to improve navigation and to accommodate the larger ships that were first appearing at this time and were forecasted to be standard fleet size in the near future. Twenty-four years later, on November 17, 1986, President Ronald Reagan signed “The Water Resources Development Act of 1986” which authorized the first new waterway construction starts since 1976. The authorization included the Freeport Harbor, Texas, 45-Foot Project,

PORT FREEPORT

History of the Port©

at an estimated total project cost of $88,600,000 of which $29,200,000 was non-federal/local expense. To satisfy the recreational requirements of the project, the District completed the $1,000,000 Surfside Jetty Park Complex in 1994, and through an Interlocal Cooperation Agreement with Brazoria County, turned the park over to the Brazoria County Parks Department for operation and maintenance.

In 1989, the Board of Navigation and Canal Commissioners authorized the purchase of the Canadian Millworks, Inc. leasehold improvements, now known as Warehouse 51, for $350,000. The facility has undergone major upgrades and is presently being utilized for warehousing of domestic cargoes. On January 1, 1993, the Board of Navigation and Canal Commissioners entered into an Industrial Lease and Docking Agreement with McDermott, Inc. for the pre and post-mating hook-up and commissioning site for Shell Offshore, Inc.'s "Auger" Tension Leg Platform Project. In conjunction with the lease, the District realized over $580,000 in permanent site improvements to District lands fronting on the Brazos River channel. Additionally, the District contracted for the dredging of a 60-foot deep berthing area in the Upper Turning Basin. In January 1994, the Board of Navigation and Canal Commissioners entered into a lease agreement with Western Towing, Inc. for the construction of a barge fleeting facility located on the Old Brazos River upstream from the Upper Turning Basin.

In June 1995, the Board of Navigation and Canal Commissioners adopted a long-term master plan developed with the assistance from the firm, Vickerman, Zachary and Miller. With input from the Board of Navigation and Canal Commissioners, staff, community leaders and local industry, the District's Mission Statement and Goals were developed. An update to the Master Plan was adopted in 1999.

In September 1995, the Board of Navigation and Canal Commissioners entered into a lease agreement with Chiquita Brands, Inc. for the construction of a Green Fruit Terminal on leased Port lands. The terminal includes space for up to 200 containers on chassis, interchange and maintenance facilities, as well as modular office units at a total cost of $2.5 million. The facility went on line in March 1996. $3,265,000 of Port Revenue Bonds were issued to finance the Green Fruit Terminal as well as renovations to Berth No. 1.

In December 1998, the voters approved the issuance of $16,000,000 of ad valorem tax bonds to be utilized for the purchase and commissioning of a $3.1 million mobile harbor crane and 500-foot extension of Berth No. 5 and berthing area improvements at Parcel 39. To facilitate the more efficient handling of containerized and project cargoes and to handle the additional loads from container handling equipment, the dock aprons of Berths No. 1 and No. 2 were widened from 45 – feet to 100 – feet in 1998-1999 by demolition of a portion of the transit sheds. These projects were funded by a combination of Port Revenue Bonds and retained earnings. In 1998, Warehouse 52, a 36,000 square foot facility, was constructed and is currently being used for domestic warehousing and cargo storage. This project was funded with Port retained earnings.

In 1999, the District acquired two tracts of land adjacent to the Port for future development and expansion. The first is a 2.5-acre tract, formerly occupied by Freeport Welding and Fabrication. The second is a 45-acre tract, formerly owned by Marathon Oil Company, with deep-water frontage on the Old Brazos River.

In 1999, the main Port entrance was rebuilt and widened, the 30-plus year old pavement west of the rail crossing on Pete Schaff Blvd. was replaced, and the final phase of a 5-acre open storage yard was completed. In 2000, the Deep Berthing Area was dredged to a depth of 70 feet, making it one of only two 70-foot deep berthing areas in the Upper Gulf Coast. The first phase of Berthing Area Improvements, Parcel 39, was completed in 2000, which included dredging a berthing area to 40-foot depth, the installation of monopile breasting/mooring dolphins and extending the Port's water distribution system. These projects were funded with proceeds from the 1998 bond issuance.

In March 2000, the Board of Navigation and Canal Commissioners entered into a lease agreement with Transit Mix Concrete and Materials, a division of Trinity Industries, to import limestone for the construction industry. In October, the first self-unloading vessel carrying over 60,000 tons of limestone discharged at their facility located on the Upper Turning Basin.

In 2000-2001 the Port completed the Berth 5 Extension Project, increasing the number of public deepwater berths from three to four. A harbor tug berthing facility was constructed to provide a home base for harbor tugs serving vessels in Port Freeport. A portion of Transit Shed No. 5 was demolished and the balance

PORT FREEPORT

History of the Port[①]

renovated to provide for a 100-foot wide dock apron and more efficient handling of cargo. These projects were funded with proceeds from the 1998 bond issuance.

In 2001, the Board of Navigation and Canal Commissioners signed a lease agreement with Parker/Cabett Subsea Products Inc. to construct a state-of-the-art umbilical cable manufacturing facility to serve the offshore oil and gas industry. The facility is located adjacent to the recently completed Berth 5 and manufactured its first cable in early 2002.

In 2002, the Port contracted for the development of a Conceptual Master Plan that provides for the organized expansion of the Port over the next 20 years in order to better serve the marine industry. Also in 2002, the Port started the process of widening and deepening the Freeport Harbor Channel to serve larger vessels and the anticipated increase in vessel traffic. The U. S. Army Corps of Engineers issued the Section 216 Reconnaissance Phase Report that identified a federal interest in the project. In 2003, the Board of Navigation and Canal Commissioners entered into a $6.5 million Feasibility Cost Sharing Agreement with the U.S. Army Corps of Engineers for the Freeport Harbor Improvement Project. The Feasibility Phase of the project is currently underway with scheduled for completion in the first quarter of 2013.

In 2004, the Port undertook three major projects in its efforts to diversify its cargo base. Construction of a 38,000 square foot Cool Storage Facility to handle palletized fruit as well as other temperature-sensitive commodities was completed in 2005. Design of the Velasco Terminal project was started in late 2004 and construction started in early 2007. The new 800-foot long berth is designed to handle the next generation of gantry cranes and accommodate vessels up to 48-foot draft. The signing of a land lease agreement with Freeport LNG was the first step in the construction of a liquefied natural gas receiving facility. Construction began in early 2005 and was completed in 2008. The first vessel of liquefied natural gas was received in April 2008.

In 2007, the State of Texas passed House Bill 542, which legally changed the name of the Brazos River Harbor Navigation District to "Port Freeport" and the name of the governing body of the Brazos River Harbor Navigation District to "Port Commission" and the name of each member of the Port Commission to be changed to "Port Commissioner." Development on Parcel 25 began and Wind energy started calling Port Freeport via Suzlon Wind Energy Corp. and other manufacturers.

The Port completed construction of a 60-acre project cargo area that is being leased for storage of wind power production components in 2009 at Parcel 25. In addition, the first 5-acres of an additional project cargo area at Parcel 19 was completed and the design for the next 10-acres was completed in 2009.

In 2010, Freeport LNG filed an application with the Federal Energy and Regulatory Commission to expand their facility to include re-liquefaction capabilities.

In 2011, the State of Texas passed House Bill 1305, which granted authority to Port Freeport to issue permits for the movement of oversize or overweight vehicles carrying cargo on highways located within a ten mile radius of Port Freeport.

In 2013, Velasco Terminal Phase 1, Berth 7 was completed and operational. The permit system for the movement of oversize or overweight vehicles carrying cargo on highways located within a ten mile radius of Port Freeport was implemented.

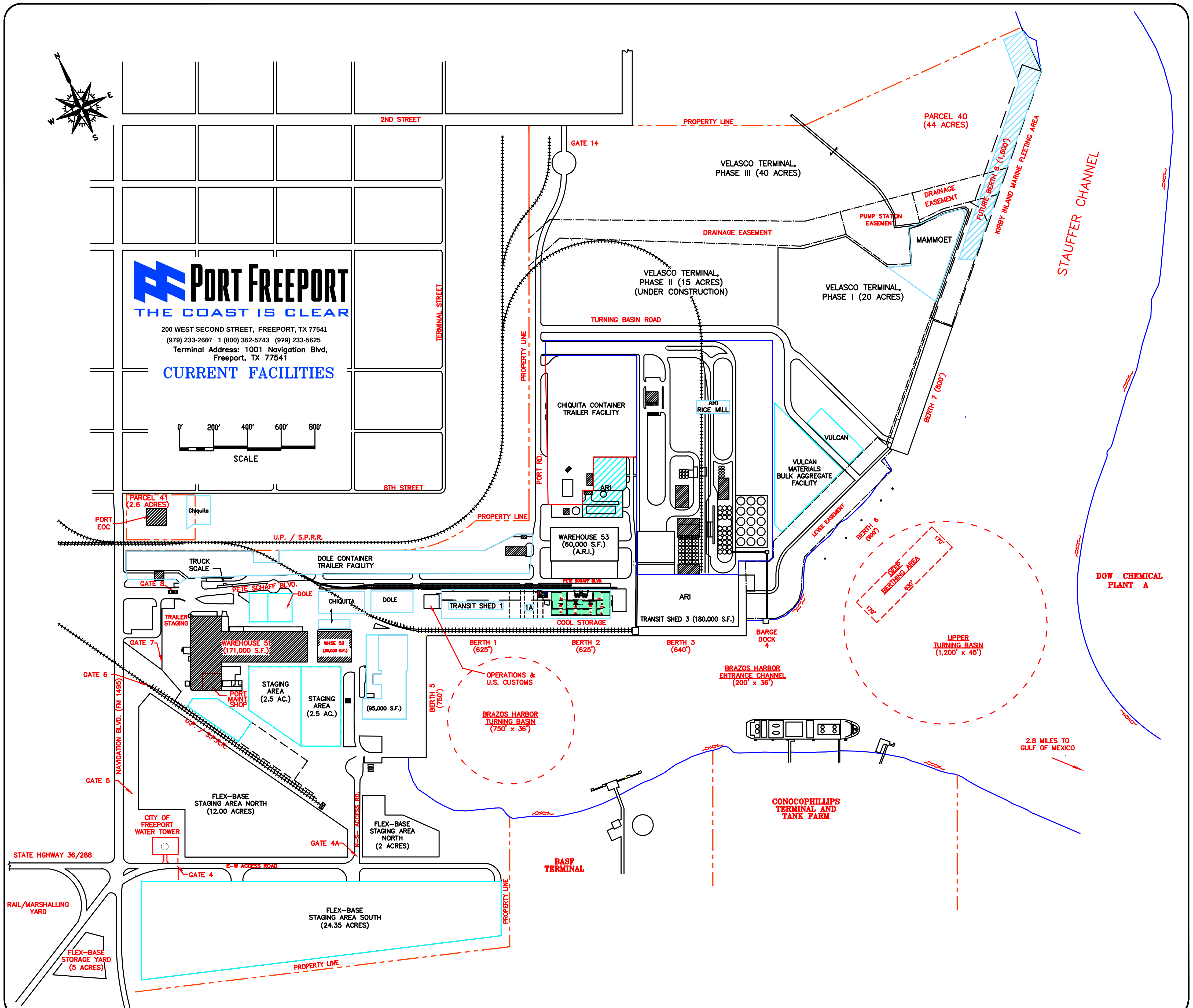
In 2014, the Port purchased two ship-to-shore Port Panamax container cranes for Velasco Terminal. Mediterranean Shipping Company, S.A. began servicing the Port in a vessel sharing agreement with Chiquita Brands International. In preparation of its new export facility, Freeport LNG signed an agreement with Port Freeport to widen the entrance of the channel. Also, Congress approved the Water Resource Development Act designating the Port as an "authorized project."

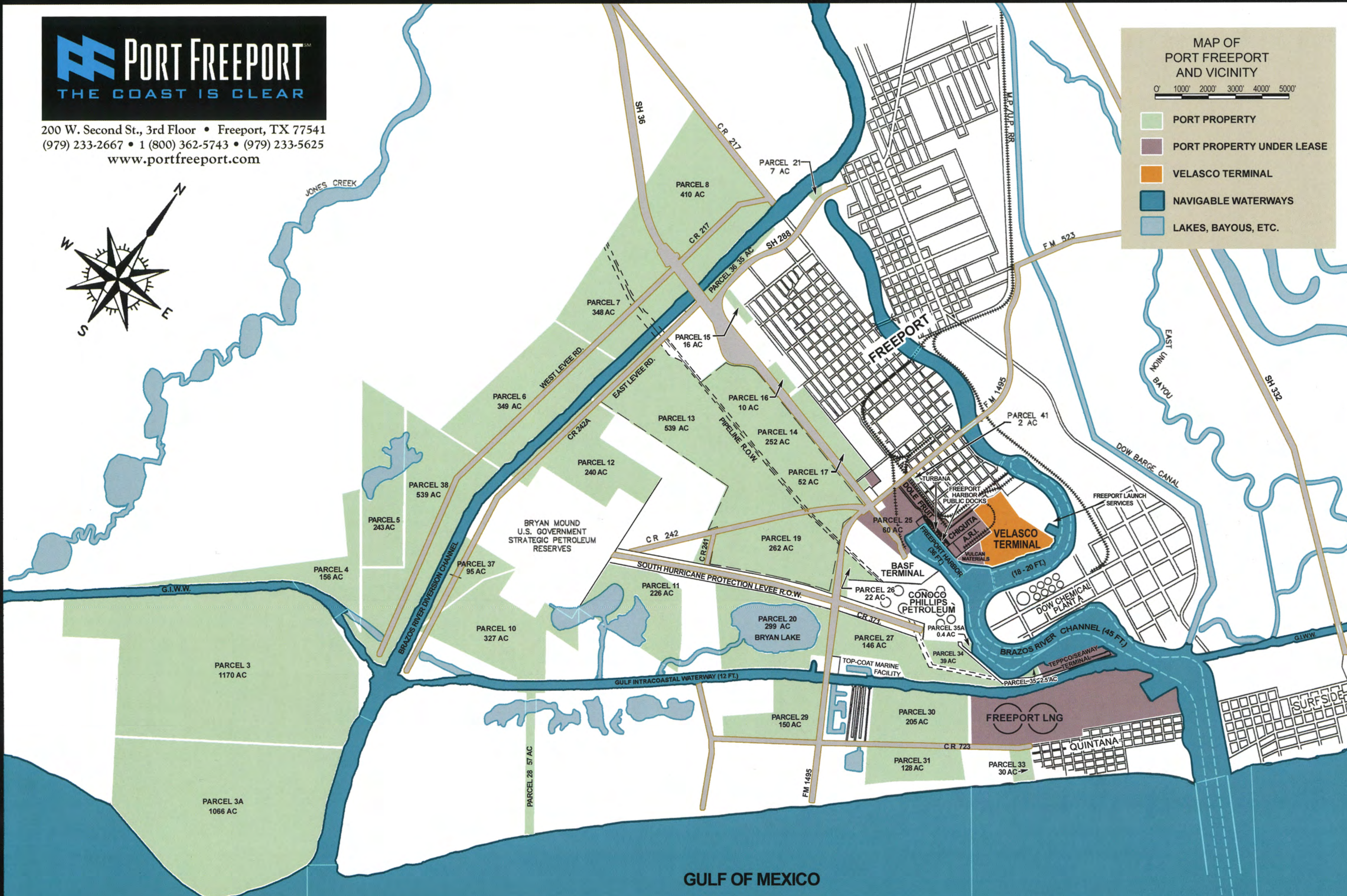
Port Freeport history documents the prior and current commitment of the Brazoria County residents, its industries, the Port Commission, administration and staff members to ensure the continued successful economic impact of the Port.

[①]Historical data summarized from the previous research of Glenn Heath and Nat Hickey.

PORT FREEPORT℠

THE COAST IS CLEAR


PORT FREEPORT
THE COAST IS CLEAR
200 WEST SECOND STREET, FREEPORT, TX 77541
(979) 233-2667 1 (800) 362-5743 (979) 233-5625
Terminal Address: 1001 Navigation Blvd, Freeport, TX 77541
CURRENT FACILITIES
0' 200' 400' 600' 800'
SCALE
2ND STREET
8TH STREET
TERMINAL STREET
PROPERTY LINE
GATE 14
VELASCO TERMINAL, PHASE III (40 ACRES)
PARCEL 40 (44 ACRES)
DRAINAGE EASEMENT
PUMP STATION EASEMENT
MAMMOET
FUTURE BERTH 8 (1,600')
KIRBY INLAND MARINE FLEETING AREA
STAUFFER CHANNEL
VELASCO TERMINAL, PHASE II (15 ACRES) (UNDER CONSTRUCTION)
VELASCO TERMINAL, PHASE I (20 ACRES)
TURNING BASIN ROAD
BERTH 7 (800')
CHIQUITA CONTAINER TRAILER FACILITY
ARI RICE MILL
VULCAN
VULCAN MATERIALS BULK AGGREGATE FACILITY
LEVEE EASEMENT
BERTH 6 (900')
PORT RD.
ARI
WAREHOUSE 53 (60,000 S.F.) (A.R.I.)
PARCEL 41 (2.6 ACRES)
Chiquita
PORT EOC
U.P. / S.P.R.R.
TRUCK SCALE
DOLE CONTAINER TRAILER FACILITY
GATE 8
PETE SCHAFF BLVD.
DOLE
CHIQUITA
TRANSIT SHED 1
COOL STORAGE
ARI
TRANSIT SHED 3 (180,000 S.F.)
BARGE DOCK 4
TRAILER STAGING
GATE 7
WAREHOUSE 51 (171,000 S.F.)
WHSE 52
GATE 6
PORT MAINT. SHOP
STAGING AREA (2.5 AC.)
STAGING AREA (2.5 AC.)
(95,000 S.F.)
BERTH 5 (750')
BERTH 1 (625')
BERTH 2 (625')
BERTH 3 (640')
OPERATIONS & U.S. CUSTOMS
BRAZOS HARBOR TURNING BASIN (750' x 36')
BRAZOS HARBOR ENTRANCE CHANNEL (200' x 36')
DEEP BERTHING AREA
UPPER TURNING BASIN (1,200' x 45')
DOW CHEMICAL PLANT A
2.8 MILES TO GULF OF MEXICO
NAVIGATION BLVD. (FM 1495)
GATE 5
U.P. / S.P.R.R.
FLEX-BASE STAGING AREA NORTH (12.00 ACRES)
CITY OF FREEPORT WATER TOWER
GATE 4A
N-S ACCESS RD.
FLEX-BASE STAGING AREA NORTH (2 ACRES)
CONOCOPHILLIPS TERMINAL AND TANK FARM
BASF TERMINAL
STATE HIGHWAY 36/288
GATE 4
E-W ACCESS ROAD
RAIL/MARSHALLING YARD
FLEX-BASE STAGING AREA SOUTH (24.35 ACRES)
FLEX-BASE STORAGE YARD (5 ACRES)
PROPERTY LINE


PORT FREEPORT
THE COAST IS CLEAR
200 W. Second St., 3rd Floor • Freeport, TX 77541
(979) 233-2667 • 1 (800) 362-5743 • (979) 233-5625
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MAP OF
PORT FREEPORT
AND VICINITY
0' 1000' 2000' 3000' 4000' 5000'
PORT PROPERTY
PORT PROPERTY UNDER LEASE
VELASCO TERMINAL
NAVIGABLE WATERWAYS
LAKES, BAYOUS, ETC.
N
W
E
S
JONES CREEK
SH 36
CR 217
PARCEL 8
410 AC
PARCEL 21
7 AC
SH 288
PARCEL 36 35 AC
PARCEL 7
348 AC
PARCEL 15
16 AC
FREEPORT
WEST LEVEE RD.
EAST LEVEE RD.
PARCEL 6
349 AC
PARCEL 16
10 AC
PARCEL 13
539 AC
PARCEL 14
252 AC
PIPELINE R.O.W.
CR 242A
PARCEL 12
240 AC
PARCEL 17
52 AC
FM 1495
PARCEL 41
2 AC
FM 523
PARCEL 38
539 AC
PARCEL 5
243 AC
BRYAN MOUND
U.S. GOVERNMENT
STRATEGIC PETROLEUM
RESERVES
CR 242
CR 241
PARCEL 19
262 AC
PARCEL 25
60 AC
TURBANA
FREEPORT HARBOR PUBLIC DOCKS
DOLE FRUIT
CHIQUITA
A.R.I.
VULCAN MATERIALS
VELASCO TERMINAL
FREEPORT HARBOR (36 FT.)
(18 - 20 FT.)
FREEPORT LAUNCH SERVICES
EAST UNION BAYOU
DOW BARGE CANAL
SH 332
PARCEL 4
156 AC
PARCEL 37
95 AC
BRAZOS RIVER DIVERSION CHANNEL
G.I.W.W.
SOUTH HURRICANE PROTECTION LEVEE R.O.W.
PARCEL 11
226 AC
BASF TERMINAL
PARCEL 26
22 AC
CONOCO PHILLIPS PETROLEUM
DOW CHEMICAL PLANT A
CR 371
PARCEL 20
299 AC
BRYAN LAKE
PARCEL 10
327 AC
PARCEL 27
146 AC
PARCEL 35A
0.4 AC
PARCEL 34
39 AC
BRAZOS RIVER CHANNEL (45 FT.)
TEPPCO/SEAWAY TERMINAL
G.I.W.W.
PARCEL 3
1170 AC
TOP-COAT MARINE FACILITY
GULF INTRACOASTAL WATERWAY (12 FT.)
PARCEL 35 2.5 AC
PARCEL 29
150 AC
PARCEL 30
205 AC
FREEPORT LNG
SURFSIDE
CR 723
QUINTANA
PARCEL 28 57 AC
PARCEL 31
128 AC
PARCEL 33
30 AC
FM 1495
PARCEL 3A
1066 AC
GULF OF MEXICO

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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El Campo, Texas 77437
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Houston Office:
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281-974-3416

Independent Auditor's 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 Port Commissioners
Port Freeport
Freeport, Texas 77541

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Port Freeport (the "Port"), as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements, and have issued our report thereon dated January 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port'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 Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas
January 30, 2015

Kennemer, Masters & Lunsford

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Independent Auditor's Report
On Compliance for each Major Program and on Internal
Control over Compliance Required by OMB Circular A-133

To the Port Commissioners
Port Freeport
Freeport, Texas 77541

Report on Compliance for Each Major Federal Program

We have audited Port Freeport's (the "Port") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Port's major federal programs for the year ended September 30, 2014. The Port's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Port's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Port's compliance.

Opinion on Each Major Federal Program

In our opinion, Port Freeport, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Port Commissioners
Port Freeport
Freeport, Texas
Page 2

Report on Internal Control over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kennemer, Masters & Lunsford, LLC

Lake Jackson, Texas 77566
January 30, 2015

PORT FREEPORT

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.

2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.

3. Noncompliance, which is material to the financial statements: None.

4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the major programs.

5. Type of auditor's report on compliance for major programs: Unmodified.

6. Did the audit disclose findings, which are required to be reported under Sec._510(a): No.

7. Major programs include:

   Department of Homeland Security:
   97.056 Port Security Grant.

8. Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000.

9. Low risk auditee: Yes.

II. Findings related to the financial statements

The audit disclosed no findings required to be reported.

Ill. Findings and questioned costs related to the federal awards.

The audit disclosed no findings required to be reported.

PORT FREEPORT

Schedule of Status of Prior Findings
Year Ended September 30, 2014

PRIOR YEAR'S FINDING/NONCOMPLIANCE

None.

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Corrective Action Plan
Year Ended September 30, 2014

None.

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
U. S. Department of Homeland Security			
Direct Program:			
Port Security Grant	97.056	2011-PU-K0-0058	$ 1,016,046
Port Security Grant	97.056	2013-PU-00457-S01	26,170
TOTAL DEPARTMENT OF HOMELAND SECURITY			$ 1,042,216
TOTAL FEDERAL ASSISTANCE			$ 1,042,216

See notes to supplement Schedule of Expenditures of Federal Awards.

PORT FREEPORT

Notes on Accounting Policies for Federal Awards
Year Ended September 30, 2014

1. The Port is reported as a single enterprise fund and accordingly follows all the requirements set forth in enterprise fund accounting and reporting, including the accrual basis of accounting and application of all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncement conflict with or contradict GASB pronouncements. Federal financial assistance for the benefiting enterprise operations is accounted for in the single Enterprise Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

2. The Enterprise Fund Type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (net total assets) is segregated into net investment in capital assets, and restricted or unrestricted net position. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Federal grant funds were accounted for in the Enterprise Fund.

   Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. Matching Expenses - The Port Security Grants Program require local matching expenditures. Matching expenses for the years ended September 30, 2014 and 2013 were as follows:

	Federal CFDA Number	Pass-Through Grantor's Number	Program Required Matching	Direct Matching Expenses Years Ended September 30, 2013	2014	Total
2013 Port Security Grant Program	97.056	2013-PU-00457-S01	$ 37,500	$	$ 26,170	$ 26,170
			$ 37,500	$ -0-	$ 26,170	$ 26,170

Port Freeport
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