Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2012

PORT FREEPORT℠

THE COAST IS CLEAR

Port Freeport
Freeport, Texas

Comprehensive Annual Financial Report
for the Fiscal Year Ended
September 30, 2012

Prepared by:

Jeffrey L. Strader, CPA
Chief Financial Officer

Mary Campus,
Accounting Manager

PORT FREEPORT

Freeport, Texas

Comprehensive Annual Financial Report
Fiscal Years Ended September 30, 2012 and 2011

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PORT FREEPORT

Freeport, Texas

Comprehensive Annual Financial Report
Fiscal Years Ended September 30, 2012 and 2011

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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.

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, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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200 W. SECOND ST., 3RD FL., FREEPORT, TX 77541
(979) 233-2667 1 (800) 362-5743 FAX: (979) 233-5625

STATE OF THE PORT

February 14, 2013

MEMBERS OF THE PORT COMMISSION
PORT FREEPORT
FREEPORT, TEXAS

Gentlemen:

Propelled by a diverse mix of on-port operations, Port Freeport enjoyed another successful year in fiscal 2012 and looks forward to continuing gains with new berth development and expanding cargo opportunities.

Thanks to decades of foresight on the part of Port Commissioners and ongoing dedication of Port staff, Port Freeport is well-positioned to post further gains in years to come. Port Freeport's total foreign tonnage ranking among U.S. Ports is the 16th highest, and total tonnage ranking is 27th highest.

Fiscal year ended Sept. 30, 2012, showed cargo tonnage of 1,706,283 and the Port's total operating revenue $ 14.7 million, both down slightly due to the loss of the wind power projects.

Port Freeport's advantageous position was recognized by the confidence of the prestigious ratings service of Standard & Poor's, which assigned an "A" rating and stable outlook for the Port's revenue bonds. S&P analysts cited solid debt service coverage and a very strong liquidity position.

New developments in fiscal 2012 included:

Port Freeport will complete the Berth 7 construction project in fiscal year 2013, which is a key element in the development of the Port's Velasco Terminal. At full build-out, including three berths and 90 acres of backlands, the Velasco Terminal will generate 3,000 direct jobs plus an equal number of induced and indirect jobs, according to preeminent industry economist Dr. John Martin.

Looking ahead, more than $9 billion in investments by Brazoria County industries are among key developments that bode to propel increasing activity at Port Freeport for decades to come while supporting thousands of local jobs and helping ensure sufficient supplies of low-cost natural gas for Texas and beyond.

Freeport LNG Development LP is investing some $4 billion in expanding the liquefied natural gas facility opened as a receiving and regasification terminal by the Houston-based firm at Port Freeport in 2008. The firm has signed new 20-year contracts to export liquefied natural gas from the facility.

Meanwhile, The Dow Chemical Company is investing more than $4 billion in four new projects – a joint-venture chlor-alkali plant, a propylene production facility, an ethylene cracker and a Dow AgroSciences plant – that together should bring more than 325 permanent jobs and more than 4,500 construction jobs to the area.

A Phillips 66 Company joint venture with Chevron Corporation for a $1.1 billion terminal expansion and a $100 million investment by another longtime Freeport business, BASF Corporation, are among other undertakings that should keep a steady flow of project cargo coming through Port Freeport during construction stages and facilitate growing export cargo flows after becoming operational.

The Eagle Ford Shale oil and gas play in South Texas is a driver behind the burgeoning energy sector activity.

The locally funded widening of Port Freeport's channel is moving forward with construction to begin in early 2014, while the more ambitious endeavor to deepen the channel to 55 feet is advancing as well, with a key U.S. Army Corps of Engineers report that was released in January 2013 signifying the completion of the ten year feasibility study. The next steps will be the pre-engineering design and funding which is anticipated to be completed in three years.

With a rich history spanning more than a century, a diverse cargo and revenue base, more than 7,500 acres available for additional development and an unbeatable business-friendly attitude, Port Freeport is ideally positioned to make the most of these and other dynamic developments, to the benefit of all who work and live in Brazoria County. The coast is clear and our future is bright!

Sincerely,

Glenn A. Carlson
Executive Port Director/CEO

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Directory of Officials
September 30, 2012

Port Commission

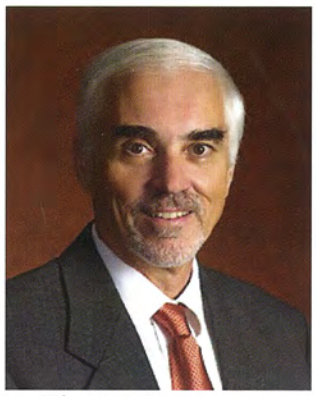
Bill J. Terry
Chairman

Ravi K. Singhania
Vice Chairman

John Hoss
Secretary

Shane Pirtle
Assistant Secretary

Paul Kresta
Commissioner



Thomas Perryman
Commissioner

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Directory of Officials
September 30, 2012

Executive Staff

Glenn A. Carlson
Executive Port Director/CEO

David M. Knuckey, P.E.
Director of Engineering

Jeff Strader, CPA
Chief Financial Officer

Al Durel
Director of Operations

Michael Wilson
Director of Trade Development

Mary Campus
Accounting Manager

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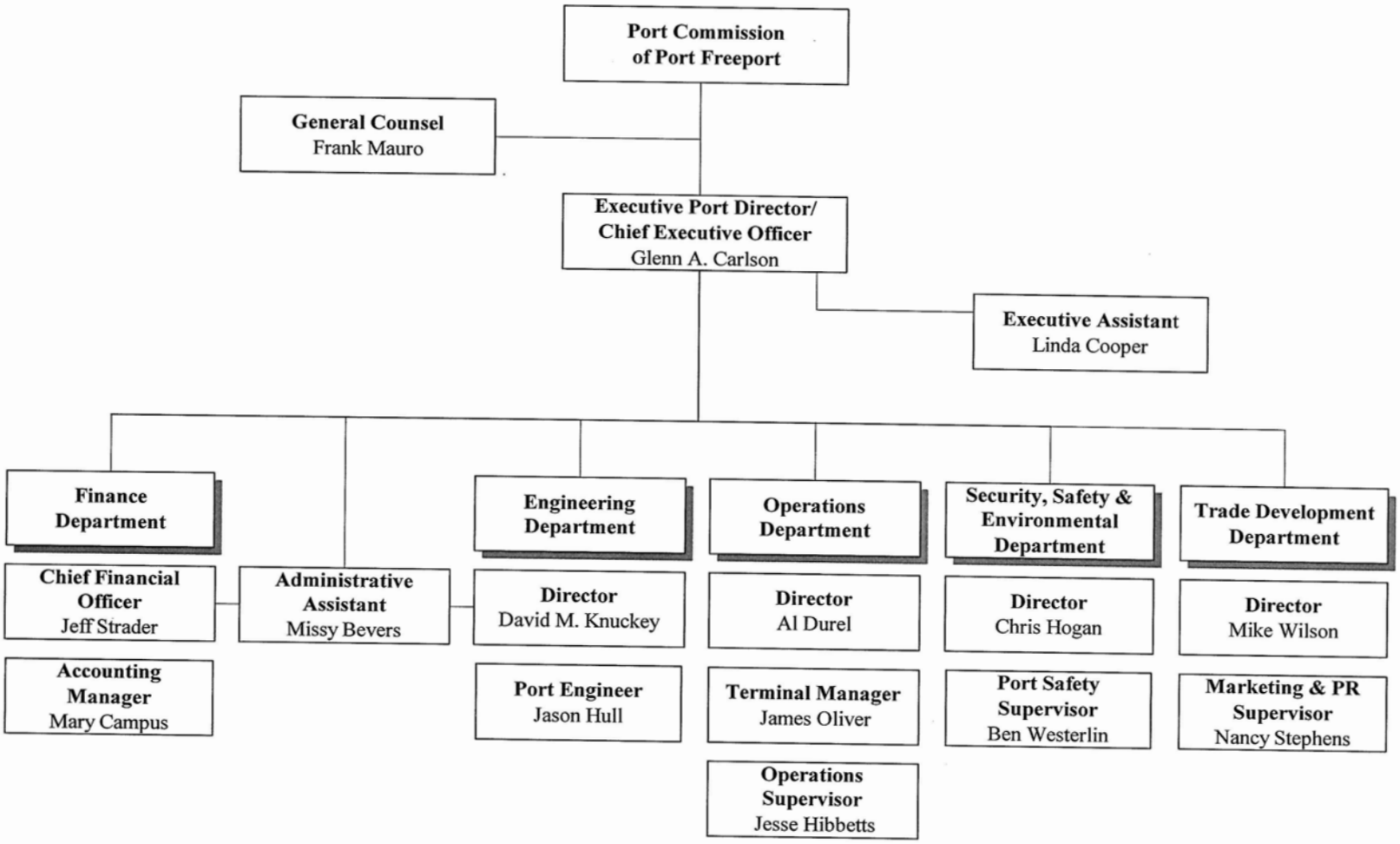
Organizational Chart
September 30, 2012



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LETTER OF TRANSMITTAL

February 14, 2013

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, 2012 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 1.29 percent from November 2011 to November 2012. The Leading Economic Index, which is designed to forecast the economic performance of the county over the next three to six-months, was above the six-month moving average in November after falling below the moving average in July, August, September, and October suggesting that Brazoria County was experiencing a period of slow economic growth, but is recovering. (Brazosport College Economic Forecasting Center, 2012).

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 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 for 2012 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, 2012.

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, 2011. 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-one 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

2012. The first phase of the new Velasco Terminal Project is underway with the site civil work completed and dock construction expected to be complete in the third quarter of 2013. This project is four years behind schedule for final completion due to unanticipated construction issues. This project includes a new 800-foot berth and 20 acres for cargo marshalling that is expected to cost $ 60 million and will lead to significant growth for the Port as it is completed. $ 40 million in Port revenue bonds were issued in the spring 2008 to finance the construction of the berth. This initiative is discussed further in Management's Discussion and Analysis in the Financial Section.

A new Port security gate was completed in fiscal year 2012. Construction was funded 75% from a $ 2.4 million security grant that was awarded in 2007. This project included a gatehouse, increased security lighting, and other ancillary facilities at the intersection of Navigation Boulevard and State Highway 36. The $ 2.6 million 2008 port security grant is funding an emergency operations center. The design was completed in 2012 and construction is anticipated to be completed by the third quarter of 2013.

The Port is acting as the applicant and fiduciary agent for four Port Security Grants totaling $ 9.9 million funded by the Department of Homeland Security. Pending final approval, these funds will be applied to security improvements. In addition, the Port and private terminal operators in the Freeport Harbor are jointly pursuing improvements to area communication systems that will provide enhanced communications in emergency situations. Security grant funding to Port Freeport since 2001 has totaled $ 18.4 million.

To alleviate increased rail and truck traffic congestion and to improve safety at the Port, Port Freeport entered into an agreement with Brazoria County to seek funding from Texas Department of Transportation (TXDOT) to construct a grade separation at the intersection of FM 1495 and State Highway 36. On October 29th, the Executive Director of TXDOT issued an order authorizing the project, subject to the negotiation and execution of a pass-through toll agreement with Brazoria County. The estimated $ 27.2 million project will be cost shared between TXDOT, Brazoria County and Port Freeport. Port Freeport's estimated share of this project is $ 9.4 million which includes the Port providing right-of-way at a current estimated value of $ 2.7 million. The current project timeline provides for preliminary design completion in 2012 and project construction to be completed in 2015.

Future. The U.S. Army Corps of Engineers has completed the initial or reconnaissance phase for a project to widen the Port Freeport 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 reconnaissance study, the first step in the process, resulted in a very favorable report, which moved the project into the feasibility phase. This phase expected to cost $ 3.5 million is being cost shared 50-50, and is scheduled for completion in the first quarter 2013. The Secretary of the Army's report was released recommending approval for this project in January 2013. The design/engineering and construction will follow with project completion in 7 to 10 years. This project presently estimated to cost $ 300 million will be cost shared 50-50 with the U.S. Army Corps of Engineers and will benefit all current and future Port customers and will be especially valuable to crude carriers who can avoid the expense and delays of the lightering process of unloading and daylight-only transit restrictions.

A $ 31 million rail facility at Parcel 14 to provide an area of the loading and offloading of project cargo and containers to and from the Port is planned. The preliminary engineering and environmental work is completed and the Port is ready to move on the final design, project bid and construction phase. It is anticipated that the Port will apply for Federal grant funds, or possibly a third party investor, to offset a portion of the project cost. This initiative is discussed further in Management's Discussion and Analysis in the Financial Section.

The second phase of the Velasco Terminal Project is proposed to provide 15 additional acres of backland development. The backland development has been designed and is currently scheduled for completion in 2014. In addition, an 800 foot berth adjacent to the first berth, as well as an entrance to the Port for traffic, is planned as part of the second phase. It is anticipated that the Port will apply for Federal grant funds, or possibly a third party investor, to offset a portion of the project cost. This initiative is discussed further in Management's Discussion and Analysis in the Financial Section.

In order to provide an environmentally friendly off-road parking/staging for trucks entering the Port and surrounding industrial facilities, a 22 acre truck queuing area is planned. It will be located south of State Highway 36 in close proximity to the Port entrances. It is anticipated that the Port will apply for Federal grant funds to offset a portion of the project cost. This initiative is discussed 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 Accounting Manager and other Accounting 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 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

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Houston Office:
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Houston, Texas 77042
(281) 974-3416 Fax: (281) 974-3764

Independent Auditor's Report
Unqualified Opinion on the Basic Financial Statements
Submitted Together With Required Supplemental Information and
Statistical Supplementary Information

February 14, 2013

Port Commissioners
Port Freeport
Freeport, Texas

We have audited the accompanying statements of net assets of Port Freeport (the "Port"), as of September 30, 2012 and 2011, and the related statements of revenues, expenses and change in net assets and cash flows for the years then ended, which collectively comprise the Port's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Port. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Port as of September 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013 on our consideration of the Port's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 17 through 27 is not required as part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 financial statements of the Port. The accompanying schedule of expenditures for 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 of the Port. The schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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; accordingly, we express no opinion on them.

Kennemer, Masters & Rungford, LLC

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, 2012, 2011 and 2010. 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, 2012

- Total Net Assets increased by $ 2.0 million.
- Total Assets increased by $ 1.4 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 Assets was lower than the previous year due to costs incurred on the Berth 7 dock repair.

September 30, 2011

- Total Net Assets increased by $ 6.8 million.
- Total Assets increased by $ 4.3 million primarily due to an increase in other receivables of $ 3.7 million as a result of insurance claims related to a construction project and an increase in cash and cash equivalents of $ 8.0 million which was offset by a decrease in investments of $ 7.9 million. The remaining decrease relates to net decreases in other assets during the year.
- Total Liabilities decreased by $ 2.5 million primarily due to a decrease in bonds payable.
- Change in Net Assets was consistent with the previous year.

September 30, 2010

- Total Net Assets increased by $ 6.6 million.
- Total Assets increased by $ 5.4 million primarily due to an increase in property, plant and equipment of $ 12.2 million which was offset by a decrease in cash and cash equivalents of $ 1.4 million and a decrease in investments of $ 4.9 million.
- Total Liabilities decreased by $ 1.2 million primarily due to a decrease in bonds payable.
- Change in Net Assets decreased minimally from $ 7.4 million to $ 6.6 million primarily due to a decrease in ad valorem tax revenues and an increase in debt interest and fees both of which were somewhat offset by an increase in operating revenues.

PORT FREEPORT

Management Discussion and Analysis

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 assets that is a statement of assets, liabilities and net assets; a statement of revenues, expenses and changes in net assets 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.

Financial Analysis

Over time, increases or decreases in the Port's net assets may serve as a useful indicator of whether the Port's financial position is improving or deteriorating. For the years ended September 30, 2012, 2011 and 2010, the Port's net assets increased by 1.0 percent, 4.0 percent and 4.0 percent to $ 180 million, $ 178 million and $ 171 million, respectively.

Investments in capital assets, net of related debt that includes land, buildings, machinery and equipment at September 30, 2012, 2011 and 2010, were $ 142.4 million, $ 141.4 million and $ 139.3 million, or 79 percent, 79 percent and 81 percent of total net assets, respectively. These net assets are recorded at historical cost and are net of depreciation and related debt. The remaining net assets, at September 30, 2012, 2011 and 2010, are divided into three categories: assets restricted for debt service, $ 2.5 million, $ 2.7 million and $ 2.6 million; assets restricted for capital projects, $ 17 thousand, $ 17 thousand and $ 22 thousand; and unrestricted assets, $ 35.1 million, $ 33.9 million and $ 29.4 million, respectively. Restrictions do not significantly affect the availability of resources for future use.

The Port's total net assets increased by $ 2.0 million in 2012, $ 6.8 million in 2010 and $ 6.6 million in 2010. These increases were provided by operating income (including depreciation) of $ 2.5 million, $ 3.4 million and $ 2.7 million; $ 3.3 million, $ 2.9 million and $ 2.9 million in non-operating net revenues including ad valorem taxes of $ 5.0 million, $ 5.1 million and $ 5.3 million and capital contributions of $ 2.1 million, $ 1.9 million and $ 972 thousand, respectively. In addition, there were net extraordinary expenses of $ 5.9 million in 2012 and 1.4 million in 2011.

Condensed Statements of Net Assets
(in thousands)

	2012	2011	2010
Current and other assets	$ 49,928	$ 47,212	$ 42,949
Capital assets, net of depreciation	184,494	185,780	185,716
Total assets	234,422	232,992	228,665
Current liabilities	14,658	12,865	13,061
Non-current liabilities	39,763	42,095	44,389
Total liabilities	54,421	54,960	57,450
Invested in capital assets, net of related debt	142,442	141,432	139,263
Restricted for debt service	2,536	2,775	2,562
Restricted for capital projects	17	17	22
Unrestricted	35,006	33,808	29,368
Total net assets	$ 180,001	$ 178,032	$ 171,215

PORT FREEPORT

Management Discussion and Analysis

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

	2012	2011	2010
Operating revenues:			
Harbor operations	$ 8,598	$ 9,878	$ 8,523
Lease income	5,945	5,696	5,513
Miscellaneous	228	12	15
Total operating revenues	14,771	15,586	14,051
Operating expenses:			
Payroll and related	3,607	3,710	3,520
Professional services	1,536	1,387	1,006
Supplies and other	2,056	2,210	2,168
Utilities, maintenance and repairs	1,119	1,154	1,384
Depreciation	3,998	3,710	3,272
Total operating expenses	12,316	12,171	11,350
Operating income	2,455	3,415	2,701
Non-operating revenues (expenses):			
Ad valorem tax, net of collection expenses	$ 5,017	$ 5,060	$ 5,256
Investment income	114	142	674
Gain on sale of capital assets and other		4	
Debt interest and fees	(2,104)	(2,195)	(2,355)
Other	122	(476)	(633)
Total non-operating revenues (expenses)	3,149	2,535	2,942
Income before capital contributions and extraordinary revenues (expenses)	5,604	5,950	5,643
Capital contributions	2,291	2,269	972
Extraordinary revenues (expenses)	(5,926)	(1,402)	
Change in net assets	1,969	6,817	6,615
Total net assets – beginning	178,032	171,215	164,600
Total net assets – ending	$ 180,001	$ 178,032	$ 171,215

Total revenues, including capital contributions, have been relatively consistent over the past three years at $ 21.9 million in 2012, $ 22.6 million in 2011 and $ 20.9 million in 2010. Operating revenues decreased by $ 815 thousand in 2012 to $ 14.8 million, increased $ 1.5 million in 2011 to $ 15.6 million and increased $ 1.4 million to $ 14.0 million in 2010. Tonnage overall decreased 18 percent to 1.7 million tons in 2012 while ship calls decreased 6 percent and barge calls increased 3 percent. Tonnage overall increased 16 percent to 2.1 million tons in 2011 while ship calls increased 5 percent and barge calls increased 8 percent. Tonnage overall increased by 19 percent to 1.8 million tons in 2010 while ship calls decreased 3 percent and barge calls increased 28 percent. Green fruit imports increased 5 percent or 21 thousand tons, decreased 9 percent or 38.3 thousand tons, and decreased 3.4 percent or 15.4 thousand tons, in 2012, 2011 and 2010, respectively. Although global rice market competition is showing signs of stabilization, rice exports increased 13 percent to 68 thousand tons in 2012, declined 8 percent to 60 thousand tons in 2011, and rose 9.8 percent to 66 thousand tons in 2010. Domestic rice activity increased 19 percent to 92 thousand tons in 2012, increased 9 percent to 78 thousand tons in 2011, and increased 8 percent to 71 thousand tons in 2010. This was also directly related to the 3 percent increase in barge calls for 2012, 8 percent increase in barge calls for 2011, and the 28 percent increase in barge calls for 2010. With the commencement of operations at the Freeport LNG terminal in April, 2008, 187 thousand tons, 433 thousand tons, and 212 thousand tons of liquefied natural gas were received in 2012, 2011 and 2010, respectively.

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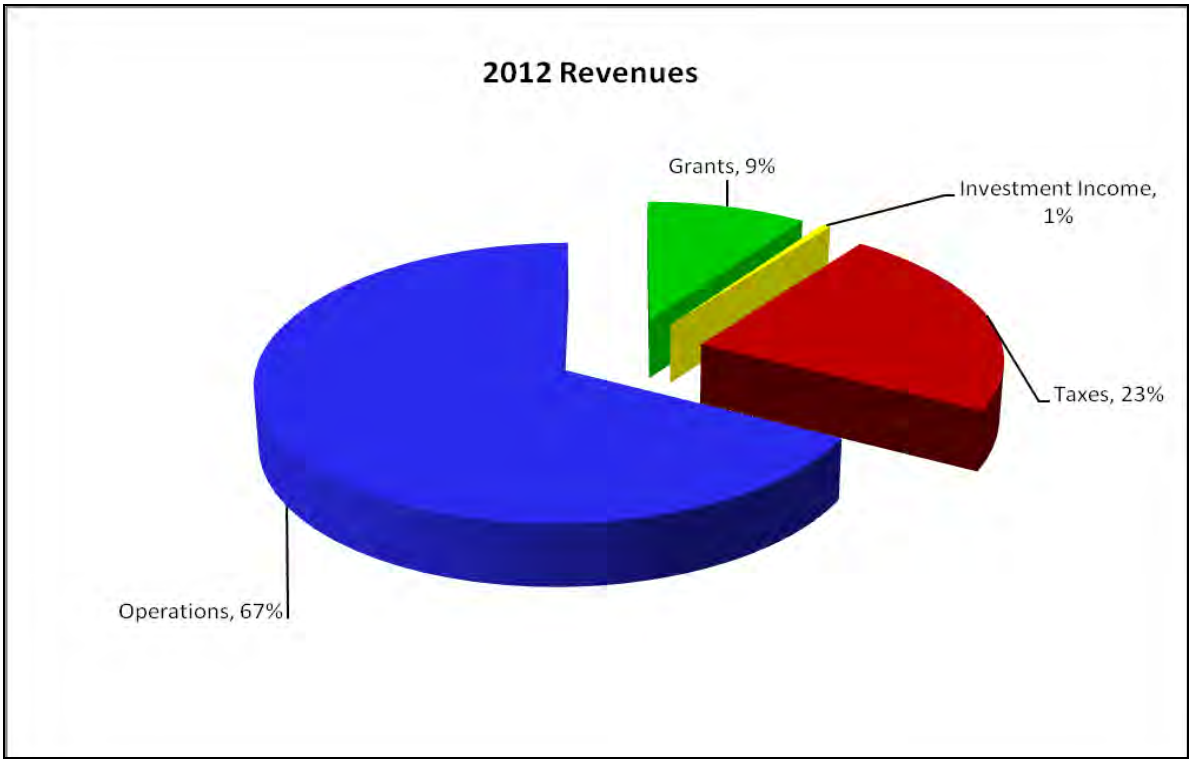
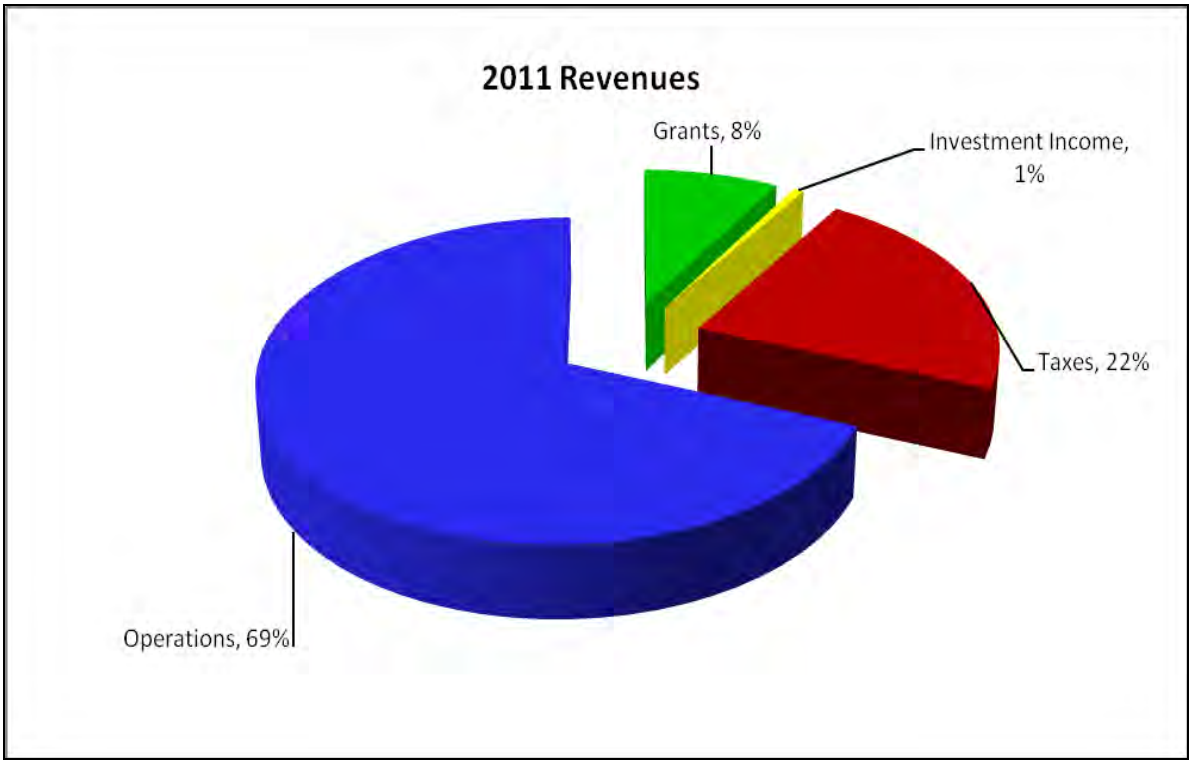
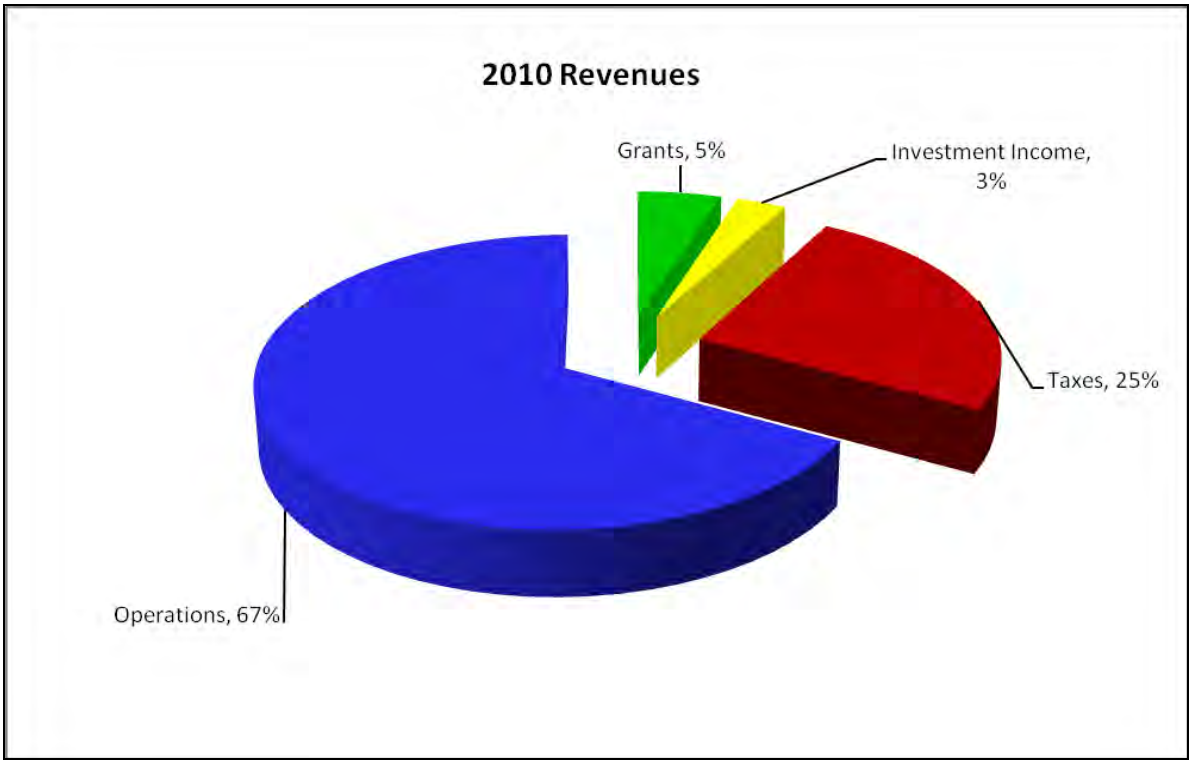
Management Discussion and Analysis

Exported liquefied natural gas increased to 194 thousand tons in 2012, 478 thousand tons in 2011, and 133 thousand tons in 2010. General export cargo remained the same at 275 thousand tons in 2012, decreased 1 percent to 275 thousand tons in 2011, and increased 17 percent to 277 thousand tons in 2010. Wind power projects imported and exported through the Port for the fiscal years 2012, 2011and 2010 totaled, 14 thousand tons, 4 thousand tons, and 15 thousand tons, respectively. Total lease revenue increased 4 percent in 2012, increased 3 percent in 2011 and decreased by 8 percent in 2010; ground lease revenue increased $ 249 thousand in 2012, $ 113 thousand in 2011, and $ 386 thousand in 2010 primarily due to contractual rate adjustments. Other leases remained relatively the same in 2012, 2011 and 2010.

Ad valorem tax revenue decreased by 1.0 percent to $ 5.0 million in 2012 and was $ 5.1 million and $ 5.3 million in 2011 and 2010, respectively. The decreases in each of the years ad valorem revenues are a result of a decrease in property tax values. The tax rate was reduced from 5.60 to 5.35 cents per hundred dollars valuation in 2009 and remained the same in total for both 2010, 2011 and 2012. The decrease in the 2009 tax rate was offset by increases in property values whereas overall property values decreased somewhat in 2010, 2011 and 2012. Investment income decreased by 20 percent in 2012 as compared to 2011 as a result of a reduction in investments coupled with continued low but stable interest rates. In 2011 investment income decreased by 79 percent due to lower overall average investments whereas in 2010 investment income increased by 13 percent due to an overall improvement in investment market conditions. Grant revenues in 2012 were consistent with 2011 and in increased in 2011 by $ 1.5 million or 203% due to an increase in Port security related grant revenues and declined by $ 339 thousand in 2010. 2010 grant revenues saw the wrapping up of Hurricane Ike related grants and the beginning of Port Security Grant receipts. Capital contributions in 2010 were directly related to contributions to the Port for the Freeport Harbor Maintenance fund for maintenance dredging by Freeport LNG, whereas is 2011 and 2012 the Port contributed capital to others for capital projects which will benefit the Port resulting in a net contribution outflow of $ .4 million and $ .2 million, respectively.

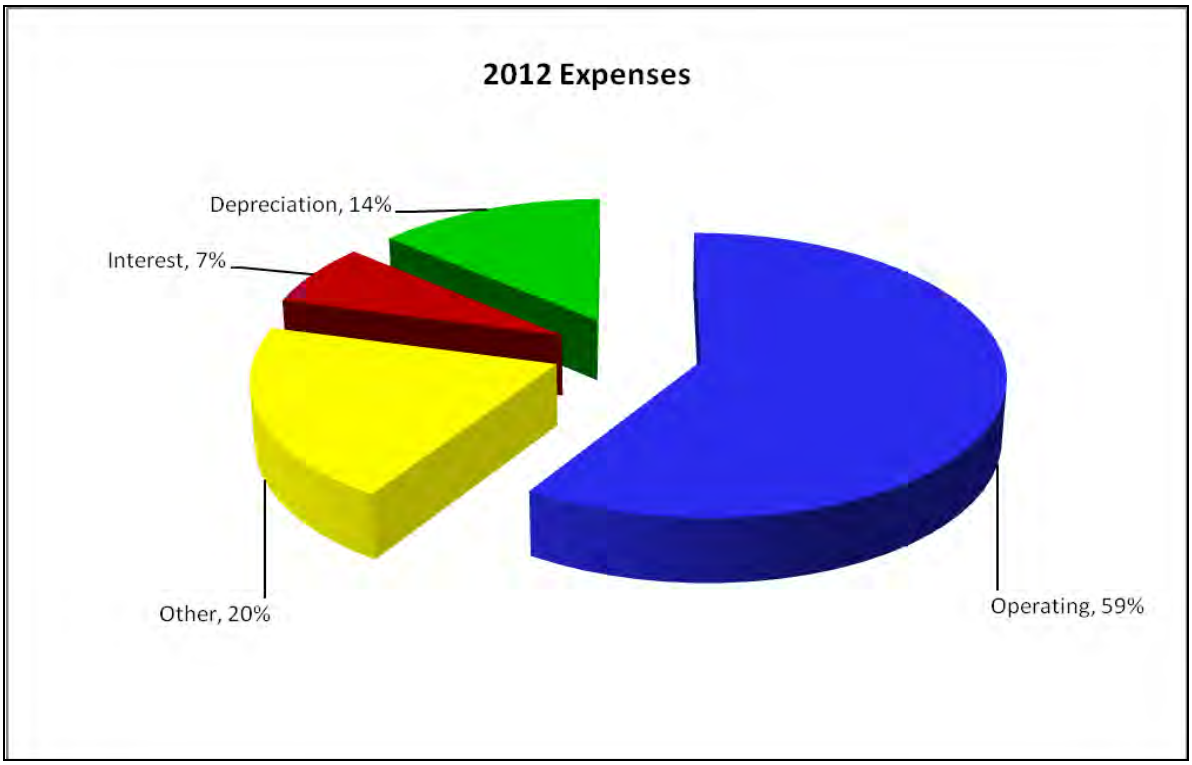


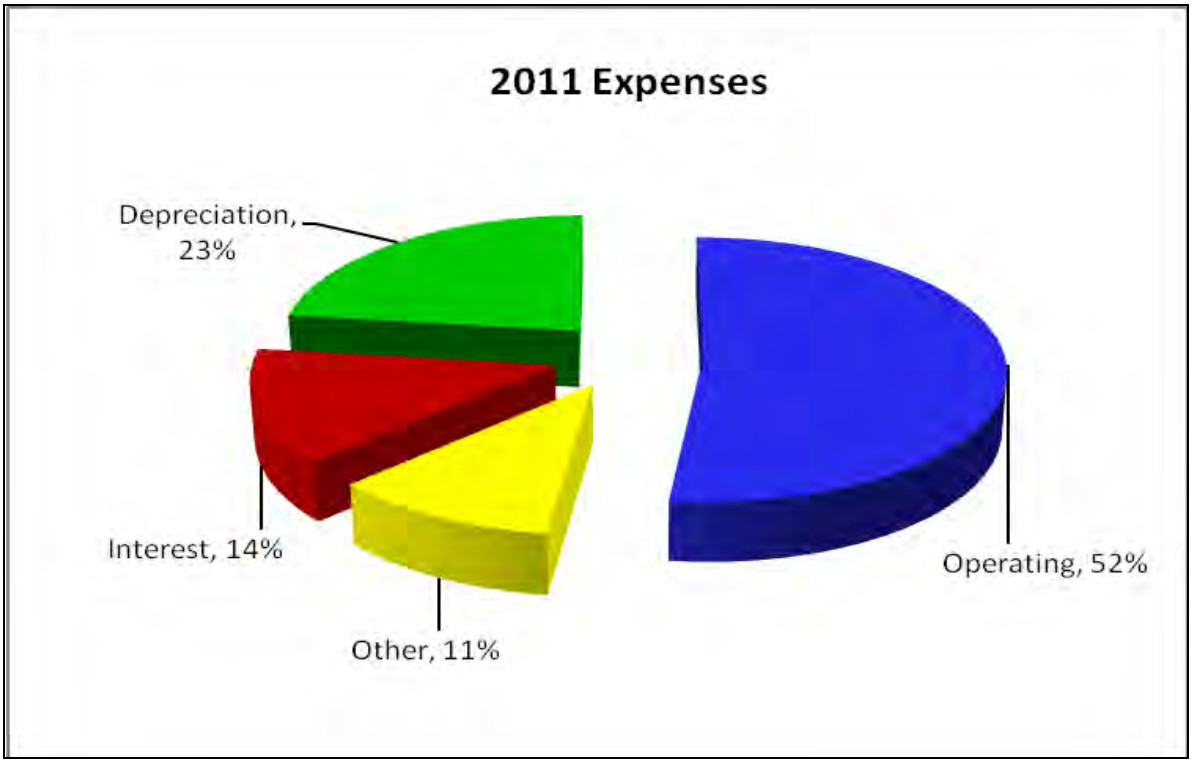

2011 Revenues
Grants, 8%
Investment Income, 1%
Taxes, 22%
Operations, 69%

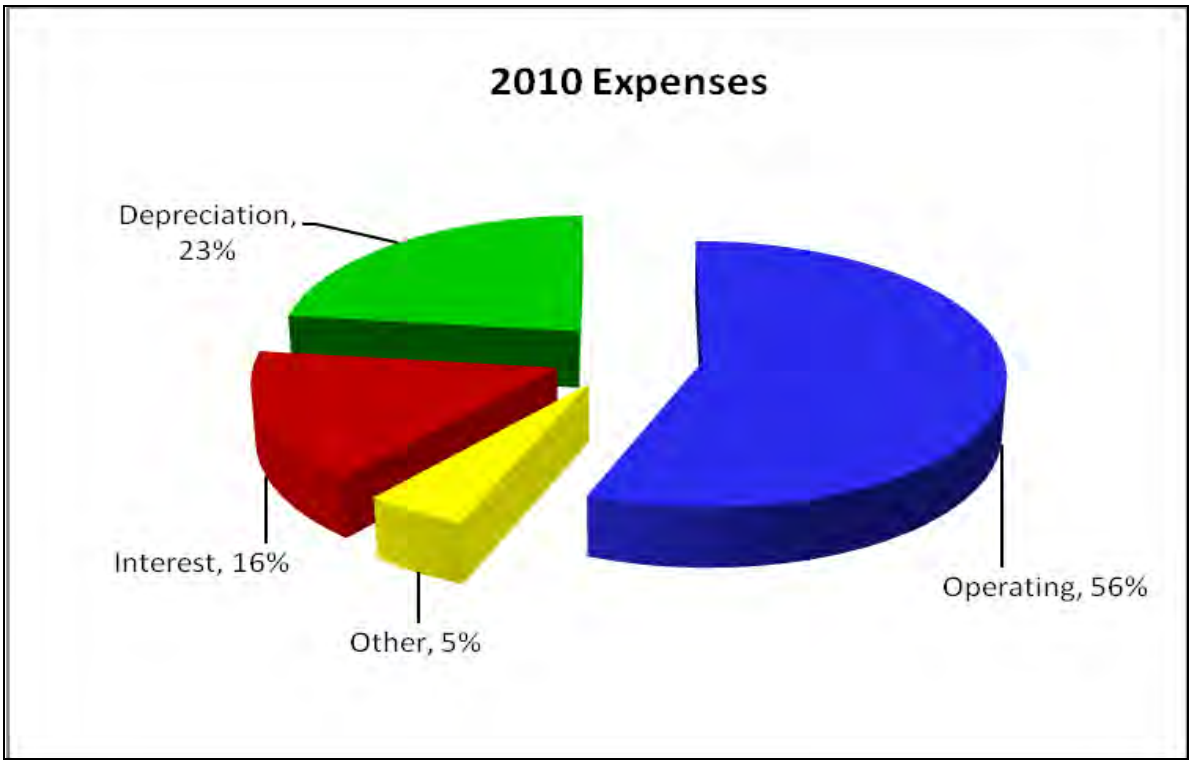

2010 Revenues
Grants, 5%
Investment Income, 3%
Taxes, 25%
Operations, 67%

Total expenses increased 26 percent to $ 20.0 million in 2012, increased 10 percent to $ 15.8 million in 2011 and increased 12 percent to $ 14.3 million in 2010. Operating expenses, including depreciation, were $ 12.3 million in 2012 increasing 145 thousand or 1.2 percent, increasing 820 thousand or 7.2 percent to $ 12.2 million in 2011 and increasing $ 390 thousand or 3.6 percent to $ 11.4 million in 2010. Payroll and related expenses decreased by 3 percent in 2012 primarily related to vacant positions for a major portion of the year, increased by 5 percent in 2011 with salary and wage increases and vacant positions filled, and increased 5 percent in 2010 with payroll salary and wage increases and increased labor for cargo inspections. Professional services expenses increased by $ 149 thousand in 2012 due to increased legal fees associated with construction issues, increased $ 381 thousand in 2011 and decreased $ 381 thousand in 2010. The 2011 increase is due to increase legal fees associated with litigation activities. Supplies and other expenses have been relatively consistent over the past three years with no significant changes in port operations and with prices for supplies and fuel relatively consistent during this period. Utilities and maintenance in 2012 were consistent with 2011, whereas in 2010 utilities and maintenance costs increased by $ 280 thousand to $ 1.4 million due to repairs to heavy equipment being required. Depreciation expense in 2012 increased by 8% and in 2011 increased by 13% due to placement in service of Velasco Terminal related assets which were previously being held in construction in progress. For 2010, depreciation increased by 8 percent due to an increase in capital assets which were added in 2009 and 2010.

The Port had a small gain on the sale of capital assets in 2011 and no gain or loss on the sale of capital assets in 2012 or 2010. Debt interest and fees decreased to $ 2.1 million in 2012 and decreased to $ 2.2 million in 2011 with no new bonds being issued in 2011. In 2010 debt interest and fees increased to $ 2.4 million in 2010 due to bonds issued in 2009. Other expenses have increased significantly in 2012 by $ 4.5 million due to costs incurred on the Velasco terminal repairs with no current insurance reimbursement while in 2011 increased to $ 1.5 million primarily as a result of legal and expert fees incurred on the same construction project issue which occurred during 2011. Other expenses include $ 49 thousand in 2012, $ 199 thousand in 2011 and $ 556 thousand in 2010 paid to the U.S. Army Corps of Engineers related to the Freeport Harbor Improvement Project Feasibility Study that will determine the feasibility of widening and deepening the Freeport Harbor Channel to 55 feet. In addition, other expenses include $ 227 thousand in 2010 paid to the U.S. Army Corps of Engineers for the Freeport Harbor Channel Widening Project.




2011 Expenses
Depreciation, 23%
Interest, 14%
Other, 11%
Operating, 52%

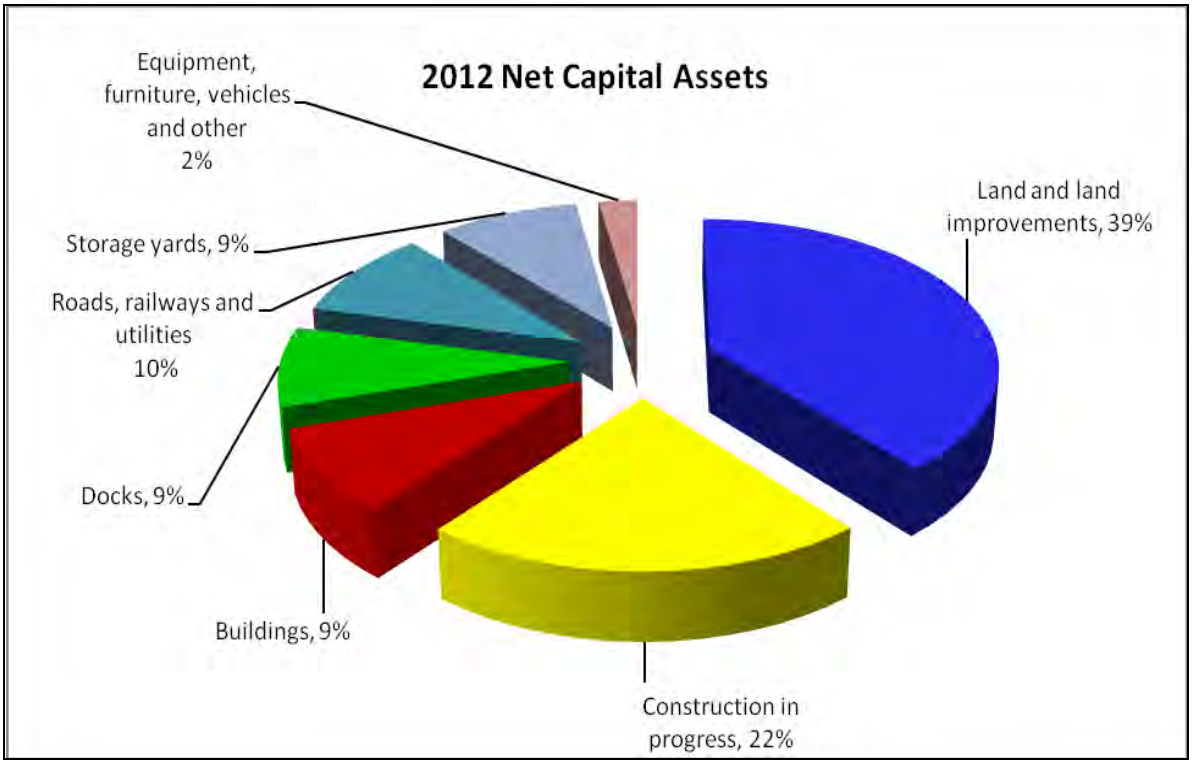

2010 Expenses
Depreciation, 23%
Interest, 16%
Other, 5%
Operating, 56%

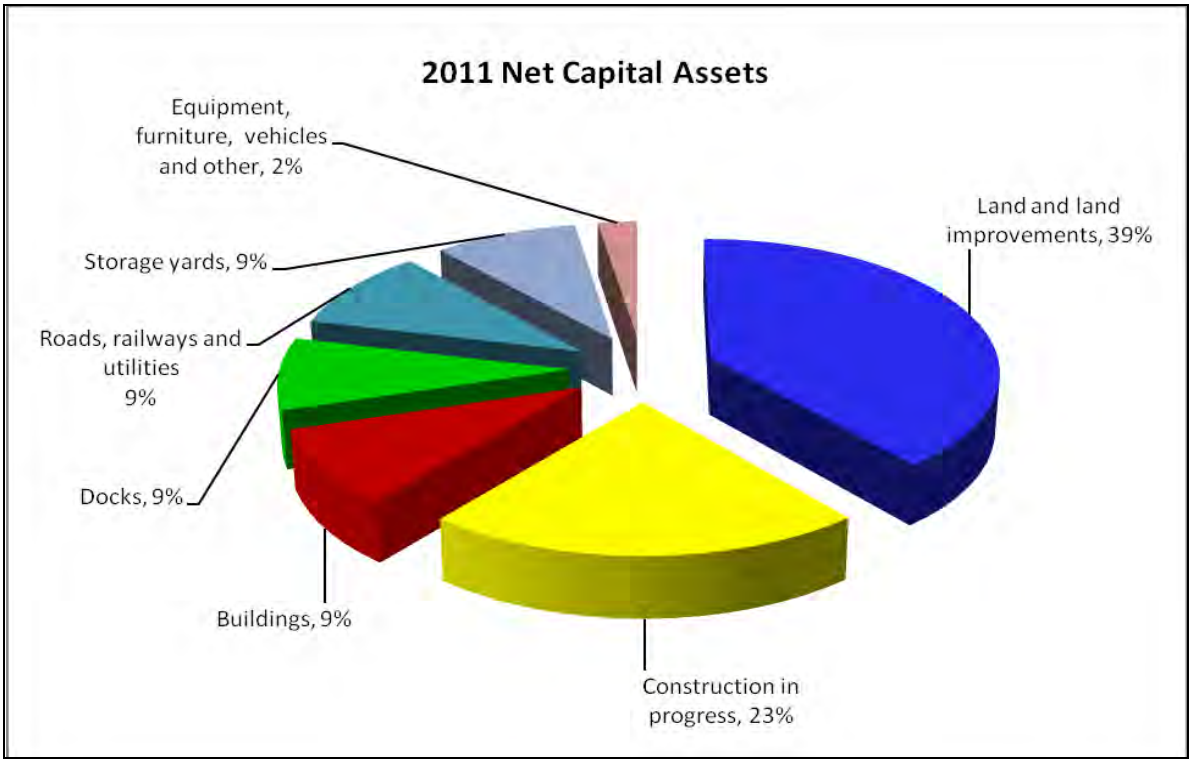
Capital Assets and Long Term Debt

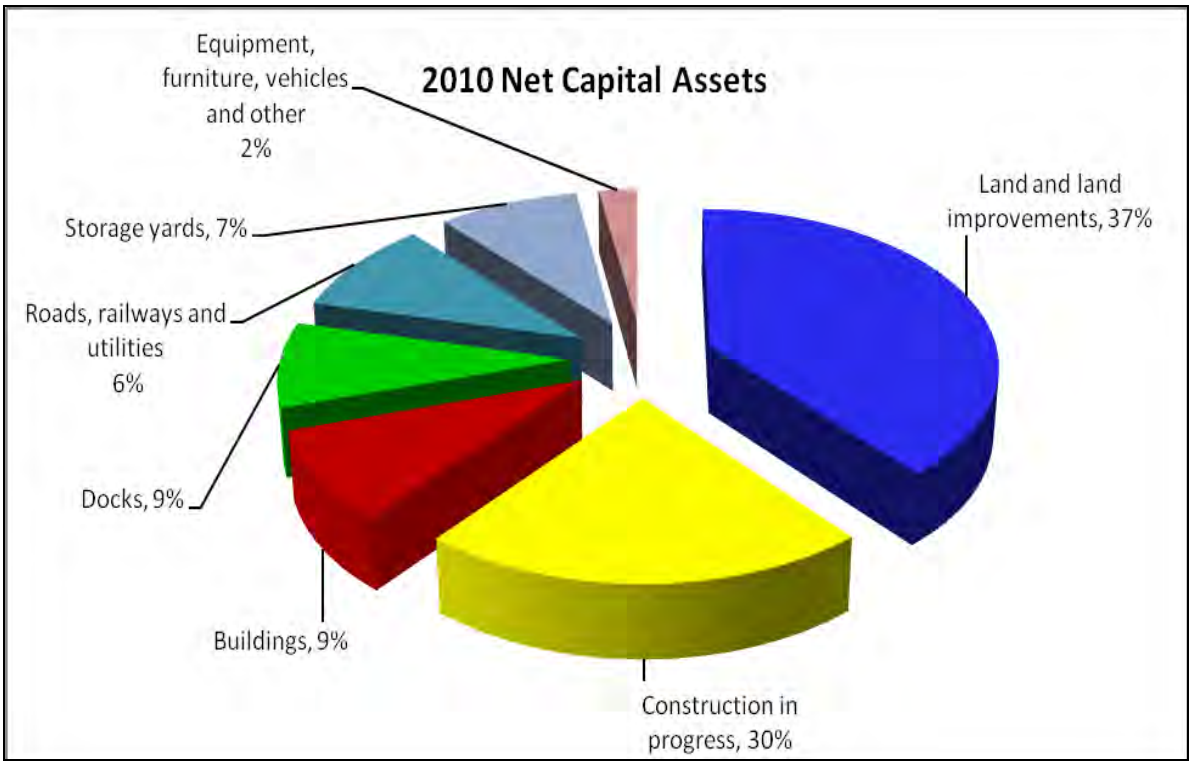
The Port's investment in capital assets is $ 184.5 million, $ 185.8 million and $ 185.7 million, net of depreciation, as of September 30, 2012, 2011 and 2010, respectively. The investment includes land and land improvements, docks and appurtenances, buildings, storage yards, equipment, roads and railways, utilities and construction in progress. In 2012, 2011 and 2010 there were additions of $ 2.7 million, $ 3.8 million and $ 15.5 million (net of construction in progress placed in service) with depreciation of $ 4.0 million, $ 3.7 million and $ 3.3 million, respectively. Regarding additions, the security gate improvements added $ 1.2 million to buildings in 2012. Cathodic protection system items added $ 170 thousand in 2011. Completion of flexible base open storage areas for project cargo increased open storage areas $ 5.3 million in 2011. Pete Schaff Boulevard repairs added $ 115 thousand to roads, lots and railways in 2010.

Land and improvements additions were $ 253 thousand, $ 3.8 million and $ 500 thousand, in 2012, 2011 and 2010, respectively, primarily related to the Velasco Terminal civil site work, landscaping of the gateway to the Port, and land acquisitions of properties adjacent to the Port. Completion of security lighting improvements added $ 1.5 million to utilities in 2012. Velasco Terminal utilities increased utility infrastructure $ 6.1 million in 2011, fiber optic cabling increased utility infrastructure $ 839 thousand in 2010. Equipment, furniture, vehicles and other additions totaled $ 1.2 million in 2012 with the purchase of security equipment and security upgrades, $ 740 thousand in 2011 with the purchase of security equipment, a security vehicle, and crane computer system upgrades, and $ 808 thousand in 2010 with the purchase of security equipment and computer systems. Gross additions to construction in progress were $ 674 thousand in 2012, $ 3.1 million in 2011 and $ 14.2 million in 2010, including the emergency operations center, Gate 4 entrance facilities, additional security systems, and Velasco Terminal improvements. Construction in progress placed in service totaled $ 3.3 million in 2012, $ 15.6 million in 2011 and $ 1.1 million in 2010, respectively. Additional information on capital assets can be found in Note 4 on pages 43-45 of this report.

Total bonds payable are $ 41.9 million at September 30, 2012, $ 44.2 million at September 30, 2011 and $ 46.5 million at September 30, 2010. Senior Lien Revenue Bonds, Series 2008 totaling $ 40 million were issued in May, 2008. The 2008 Series bonds mature in 2028. As of September 30, 2012 the amount outstanding on these bonds was $ 34.8 million. 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, 2012 the Port had general obligation bonds payable of $ 7.1 million, $ 8.0 million at September 30, 2011 and $ 8.8 million at September 30, 2010. The final maturity for these general obligation bonds is 2019. The debt service for these bonds is paid from ad valorem tax revenue. Additional information on long-term debt activity can be found in Note 5 on pages 46-48 of this report.


2012 Net Capital Assets
Equipment, furniture, vehicles and other 2%
Storage yards, 9%
Roads, railways and utilities 10%
Docks, 9%
Buildings, 9%
Construction in progress, 22%
Land and land improvements, 39%


2011 Net Capital Assets
Equipment, furniture, vehicles and other, 2%
Storage yards, 9%
Roads, railways and utilities 9%
Docks, 9%
Buildings, 9%
Construction in progress, 23%
Land and land improvements, 39%



Outlook

There are several significant developments known at this time that will affect the future financial performance of the Port. Freeport LNG Development, L.P. received approval from the Federal Energy Regulatory Commission (FERC) in 2004 for construction of a $ 750 million facility to receive and store liquefied natural gas, convert the product back to a gas and transport it to commercial and industrial users via pipeline. With the start of construction, the Port lease revenue increased substantially. The facility was completed and placed in operation in the second quarter of 2008. To date there has been limited activity at the facility due to global demand and pricing. Only 22 vessels have called at the facility thus far and with the announced shale gas in north Texas and other regions of the United States, imports of liquid natural gas are not expected to increase.

Late in 2010, Freeport LNG made application to FERC for expansion of their facility to provide for the liquefaction of gas so that domestic natural gas can be exported. The permitting process is expected to take approximately 12-18 months. Once permitted, construction of the new facility improvements will take approximately 3 years at an estimated cost of $ 1-2 billion per train of production. This project will further increase revenue for the Port.

A contract was awarded in January 2008 for construction of the Port's seventh cargo berth at an initial length of 800 feet. Modifications are being made to the original design which has delayed the completion of the berth to the third quarter of 2013. This is the first phase of the new Velasco Terminal Project that ultimately is to provide 2,400 linear feet of berthing, including a full roll-on/roll-off cargo ramp and as many as 90 acres of backland, of which 22

acres have been stabilized, for the continued growth and development of the Port at a total estimated cost of $ 300 million. It is anticipated that the Port as part of its marketing effort to consider joining with a private partner to further develop this project.

The U.S. Army Corps of Engineers has completed the initial or reconnaissance phase for a project to widen the Port Freeport 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 reconnaissance study, the first step in the process, resulted in a very favorable report, which moved the project into the feasibility phase. This phase at a cost of $ 5 million is being cost shared 50-50, and was completed in January 2013. Assuming congressional appropriation, design/engineering and construction will follow with project completion in 7 to 10 years at estimated total project cost of $ 300 million and will be cost shared 50-50.

In response to the recent expansion and rapid growth in project cargo activity, construction of a new security gate east of the intersection of Navigation Blvd. and Highway 36 was started in 2010 and was placed in service in 2012. Total project cost was $ 1.8 million of which 75 percent was funded with a Federal grant. In order to provide an eco-friendly off-road parking/staging for trucks entering the Port and surrounding industrial facilities, a 22-acre truck queuing area is being planned at a cost of $ 10.5 million. It is anticipated that the Port will apply for Federal grant funds to offset a portion of the project cost.

Union Pacific Railroad (UPRR) and the Port are focused on improving rail service and capacity to and from the Port. The replacement of the swing bridge in downtown Freeport across the old Brazos River and improvements to the primary rail corridor between the Port and the Angleton switching yards were completed in 2011 by the UPRR while the Port is developing a plan for the Port's multi-modal facilities which could include up to three new rail lines each approximately 5,000 feet long, providing service enhancements related to both the Parcel 25 and the new Velasco Terminal. These investments will significantly improve capacity for Port clients, service by UPRR and is necessary to accommodate the increase in rail shipments.

To alleviate increased rail and truck traffic congestion and to improve safety at the Port, Port Freeport entered into an agreement with Brazoria County in 2009 to seek funding from Texas Department of Transportation (TXDOT) to construct a grade separation at the intersection of FM 1495 and State Highway 36. On October 29th, the Executive Director of TXDOT issued an order authorizing the project. The Port entered into an interlocal agreement with Brazoria County for preliminary engineering which was started in the fourth quarter of 2010. The estimated $ 27.2 million project will be cost shared between TXDOT, Brazoria County and Port Freeport. Port Freeport's estimated share of this project is $ 9.4 million which includes the Port providing right-of-way at a current estimated value of $ 2.7 million. The current project timeline provides for preliminary design completion in 2012 and project construction to be completed in 2015.

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 Jeffrey L. Strader, CPA, Chief Financial Officer, at Port Freeport, 200 West 2nd Street, 3rd Floor, Freeport, Texas 77541.

PORT FREEPORT

Statements of Net Assets

September 30, 2012 and 2011

Assets

	2012	2011
Current Assets:		
Cash and cash equivalents	$ 16,253,410	$ 15,993,122
Investments	27,151,259	19,877,422
Receivables:		
Trade accounts (less allowance for uncollectible accounts - 2012, $ 48,557; 2011, $53,993)	1,001,038	1,117,225
Property taxes (less allowance for uncollectible accounts - 2012, $ 61,924; 2011, $ 69,647)	120,470	120,484
Other	176,220	3,870,972
Other governments	912,353	1,581,939
Accrued interest	38,527	34,458
Prepaids	667,577	667,898
Inventory	77,275	77,725
Total unrestricted current assets	46,398,129	43,341,245
Restricted Current Assets:		
Cash and cash equivalents	1,151,955	1,432,925
Investments	1,915,595	1,887,822
Receivables:		
Property taxes (less allowance for uncollectible accounts - 2012, $ 19,746; 2011, $ 23,335)	35,140	34,779
Accrued interest receivable	15,748	22,322
Other	1,116	952
Bond discount and issuance costs	64,503	70,116
Total restricted current assets	3,184,057	3,448,916
Total current assets	49,582,186	46,790,161
Non-Current Assets:		
Bond issuance costs (less accumulated amortization - 2012, $ 330,958; 2011, $ 260,842) - restricted	264,754	329,257
Property, plant and equipment (less accumulated depreciation - 2012, $ 40,745,295; 2011, $ 36,747,616)	184,493,680	185,780,131
Other assets	81,471	91,984
Total non-current assets	184,839,905	186,201,372
Total assets	$ 234,422,091	$ 232,991,533

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

Liabilities and Net Assets

	2012	2011
Current Liabilities:		
Accounts payable and accrued expenses	$ 9,466,075	$ 8,071,475
Deferred lease income	2,107,585	1,721,685
Accrued compensated absences	48,838	102,788
Current liabilities	11,622,498	9,895,948
Current Liabilities Payable from Restricted Assets:		
Accrued bond interest payable	631,430	656,268
Bonds payable	2,403,632	2,312,586
Current liabilities payable from restricted assets	3,035,062	2,968,854
Total current liabilities	14,657,560	12,864,802
Non-current Liabilities:		
Bonds payable	39,647,791	42,035,634
Accrued compensated absences	115,112	58,792
Total non-current liabilities	39,762,903	42,094,426
Total liabilities	54,420,463	54,959,228
Net Assets:		
Invested in capital assets, net of related debt	142,442,256	141,431,909
Restricted:		
Debt service	2,535,929	2,775,455
Capital projects	16,698	17,196
Unrestricted	35,006,745	33,807,745
Total net assets	$ 180,001,628	$ 178,032,305

PORT FREEPORT

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Harbor Operations:		
Wharfage	$ 3,236,202	$ 2,951,064
Dockage	1,605,188	1,977,324
Service, facility use and other fees	3,757,046	4,950,088
Lease income	5,944,957	5,696,372
Miscellaneous	228,024	11,583
Total operating revenues	14,771,417	15,586,431
Operating Expenses:		
Payroll and related	3,607,483	3,710,206
Professional services	1,535,977	1,386,515
Supplies and other	2,056,434	2,210,135
Utilities	546,062	579,698
Maintenance and repairs	571,759	574,300
Depreciation	3,998,418	3,709,807
Total operating expenses	12,316,133	12,170,661
Operating income	2,455,284	3,415,770
Non-Operating Revenues (Expenses):		
Ad valorem tax, net of collection expenses	5,017,130	5,060,167
Investment income	114,273	142,015
Gain on sale of capital assets		4,500
Debt interest and fees	(2,104,368)	(2,195,700)
Other	122,074	(476,356)
Total non-operating revenues (expenses)	3,149,109	2,534,626
Income before capital contributions	5,604,393	5,950,396
Capital contributions - grants	2,290,517	2,269,196
Total capital contributions	2,290,517	2,269,196
Extraordinary Revenues (Expenses):		
Insurance and other proceeds – Berth 7	970,541	5,659,125
Construction costs – Berth 7	(5,773,285)	(5,946,339)
Legal and expert fees – Berth 7	(1,122,843)	(1,115,013)
Total extraordinary revenues (expenses)	(5,925,587)	(1,402,227)
Change in net assets	1,969,323	6,817,365
Total net assets – beginning	178,032,305	171,214,940
Total net assets – ending	$ 180,001,628	$ 178,032,305

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, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from customers	$ 17,177,542	$ 16,012,525
Cash paid to suppliers for goods and services	(1,501,903)	(5,083,950)
Cash paid to employees for services and benefits	(3,610,437)	(3,763,399)
Net cash provided by operating activities	12,065,202	7,165,176
Cash Flows from Non-capital Financing Activities:		
Property tax receipts	5,078,811	5,131,532
Property tax collection expenses	(61,667)	(64,214)
Net cash provided by non-capital financing activities	5,017,144	5,067,318
Cash Flows from Capital and Related Financing Activities:		
Principal payments under bond obligations	(2,265,000)	(2,165,000)
Interest and fees paid under debt obligations	(2,129,203)	(2,182,313)
Land & equipment purchases	(2,728,030)	(3,773,511)
Other capital acquisition costs	(5,892,121)	(4,919,542)
Capital contributions	(307,656)	(826,782)
Grants received	2,960,103	1,553,832
Proceeds from the sale of capital assets		4,500
Net cash used by capital and related financing activities	(10,361,907)	(12,308,816)
Cash Flows from Investing Activities:		
Purchase of investments	(16,931,325)	(15,507,700)
Proceeds from sale and maturity of investments	10,080,000	23,200,000
Investment earnings	110,204	424,090
Net cash provided (used) by investing activities	(6,741,121)	8,116,390
Increase (decrease) in cash and cash equivalents	(20,682)	8,040,068
Cash and cash equivalents, October 1,	17,426,047	9,385,979
Cash and cash equivalents, September 30,	$ 17,405,365	$ 17,426,047

(continued)

PORT FREEPORT

Statements of Cash Flows - Continued
For the Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 2,455,284	$ 3,415,770
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	3,998,418	3,709,807
Change in assets and liabilities:		
Accounts receivable	116,187	191,837
Other receivables	3,701,162	189,857
Inventory	450	(16,760)
Prepaid and other	321	(66,800)
Other assets	10,513	10,512
Accounts payable and accrued expenses	1,394,597	(312,439)
Deferred lease income	385,900	34,146
Accrued compensated absences	2,370	9,246
Net cash provided by operating activities	$ 12,065,202	$ 7,165,176
Non-cash Transactions Affecting Financial Position:		
Change in value of investments	$ 88,434	$(239,970)
Net effect of non-cash transactions	$ 88,434	$(239,970)

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, 2012 and 2011

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 13).

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 2011 have been reclassified to conform to the 2012 presentation.

D. NEW PRONOUNCEMENTS

GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", was issued April 2009. This statement provides guidance on classification of fund equity. This statement is effective for periods beginning after June 15, 2010. The statement does not impact the Port's financial statements as they follow the enterprise reporting format.

GASB No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", was issued December 2009. This statement was effective immediately and had no affect on the Port's financial statements.

GASB No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies", was issued December 2009. This statement is effective for periods beginning after June 15, 2009. The statement was implemented and did not have an impact on the Port's financial statements.

GASB No. 59, "Financial Instrument Omnibus", was issued December 2009. 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, 2010.

GASB No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", was issued November 2010. 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, 2011.

GASB No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. 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, 2012.

GASB No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", was issued December 2010. 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, 2011.

GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. 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, 2011.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. NEW PRONOUNCEMENTS - Continued

GASB 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 a material effect on the financial statements of the Port. This statement is effective for periods beginning after June 15, 2011.

GASB No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. 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, although it will reclassify items previously recorded as assets and liabilities within the Port's financial statements as outflow and inflows of resources. This statement is effective for periods beginning after December 15, 2012.

GASB No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. 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, 2012.

GASB No. 67, "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25", was issued June 2012. This statement is effective for periods beginning after June 15, 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.

GASB No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27", was issued June 2012. This statement is effective for periods beginning after June 15, 2014. 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.

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 assets. 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. There was no interest capitalized for the years ended September 30, 2012 and 2011.

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, 2012 and 2011, the Commission levied taxes at a rate of $ 0.01224 and $ 0.012019 for debt service and a rate of $ 0.04126 and $ 0.041481 for operation and maintenance, for a total tax rate of $ 0.0535 and $ 0.0535 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, 2012 and 2011 were $ 163,950 and $ 161,580, respectively.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. 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 assets at September 30, 2012 and 2011, are as follows:

September 30, 2012	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 820	$	$ 820
Financial Institution Deposits:			
Demand deposits	4,968,310	36,771	5,005,081
State Treasury Investment Pool:			
Texpool	11,284,280	1,115,184	12,399,464
Total cash and temporary investments	$ 16,253,410	$ 1,151,955	$ 17,405,365
Investments:			
Investments Held by Broker-Dealers:			
U.S. Treasury's and Agencies	$ 27,151,259	$ 1,915,595	$ 29,066,854
Total investments	$ 27,151,259	$ 1,915,595	$ 29,066,854

September 30, 2011	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 820	$	$ 820
Financial Institution Deposits:			
Demand deposits	6,219,703	47,853	6,267,556
State Treasury Investment Pool:			
Texpool	9,772,599	1,385,072	11,157,671
Total cash and temporary investments	$ 15,993,122	$ 1,432,925	$ 17,426,047
Investments:			
Investments Held by Broker-Dealers:			
U.S. Treasury's and Agencies	$ 19,877,422	$ 1,887,822	$ 21,765,244
Total investments	$ 19,877,422	$ 1,887,822	$ 21,765,244

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, 2012, the carrying amount of the Port's deposits was $ 5,005,081 while the financial institution balances totaled $ 5,126,642. Of the financial institution balances, $ 252,133 was covered by federal deposit insurance, $ 1,000,000 was covered by the Securities Investor Protection Corporation insurance, and $ 3,874,509 was covered by collateral held by the Port's agent in the Port's name. At September 30, 2011, the carrying amount of the Port's deposits was $ 6,627,556 while the financial institution balances totaled $ 6,509,034. Of the financial institution balances, $ 252,133 was covered by federal deposit insurance, $ 1,000,000 was covered by the Securities Investor Protection Corporation insurance and $ 3,246,885 was covered by securities brokers private insurance and $ 2,010,016 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. Obligations, including letter of credit, of the United States or its agencies and instrumentalities;
2. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporations or by the explicit full faith and credit of the Unites States,
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 branch 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.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

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.

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, 2012 and 2011 TexPool had a weighted average maturity of 46 and 46, respectively. Although TexPool portfolios had a weighted average maturity of 46 and 46 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, 2012 and 2011.

	September 30, 2012		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 11,284,280	$ 1,115,184	$ 12,399,464
U.S. Treasury's and Agencies	27,151,259	1,915,595	29,066,854
Total investments	$ 38,435,539	$ 3,030,779	$ 41,466,318

	September 30, 2011		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 9,772,599	$ 1,385,072	$ 11,157,671
U.S. Treasury's and Agencies	19,877,422	1,887,822	21,765,244
Total investments	$ 29,650,021	$ 3,272,894	$ 32,922,915

Unrestricted Funds

As of September 30, 2012, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 11,284,280	46
U.S. Treasury's and Agencies	27,151,259	268
	$ 38,435,539	164

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

As of September 30, 2011, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 9,772,599	46
U.S. Treasury's and Agencies	19,877,422	311
	$ 29,650,021	209

Credit Risk – As of September 30, 2012, the LGIP (which represent approximately 29% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The U.S. agencies (which represent approximately 71% of the unrestricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. As of September 30, 2011, the LGIP (which represent approximately 33% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The U.S. agencies (which represent approximately 67% of the unrestricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively.

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.

Restricted Funds

As of September 30, 2012, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 1,115,184	46
U.S. Treasury's and Agencies	1,915,595	1,087
	$ 3,030,779	688

As of September 30, 2011, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 1,385,072	46
U.S. Treasury's and Agencies	1,887,822	970
	$ 3,272,894	560

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Credit Risk – As of September 30, 2012, the LGIP (which represents approximately 37% of the restricted portfolio) is rated AAAm by Standard and Poor's. The U.S. Agencies (which represent approximately 63% of the restricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively. As of September 30, 2011, the LGIP (which represents 42% of the restricted portfolio) is rated AAAm by Standard and Poor's. The U.S. Treasury's and Agencies (which represent approximately 58% of the restricted portfolio) are rated AAA and Aaa by Standard and Poor's and Moody, respectively.

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.

Calculation of the net increase (decrease) in fair value of investments as of September 30, 2012 and 2011 utilizing the aggregate method is as follows:

	2012		
	Unrestricted	Restricted	Total
Fair value at September 30, 2012	$ 27,151,259	$ 1,915,595	$ 29,066,854
Add: Proceeds of investments sold	9,580,000	500,000	10,080,000
Less: Cost of investments purchased	(16,899,380)	(570,664)	(17,470,044)
Less: Fair value at September 30, 2011	(19,877,422)	(1,887,822)	(21,765,244)
Changes in fair value of investments for the year ended September 30, 2012	$(45,543)	$(42,891)	$(88,434)

	2011		
	Unrestricted	Restricted	Total
Fair value at September 30, 2011	$ 19,877,422	$ 1,887,822	$ 21,765,244
Add: Proceeds of investments sold	22,700,000	500,000	23,200,000
Less: Cost of investments purchased	(14,823,238)	(684,929)	(15,508,167)
Less: Fair value at September 30, 2010	(28,011,520)	(1,685,527)	(29,697,047)
Changes in fair value of investments for the year ended September 30, 2011	$(257,336)	$ 17,366	$(239,970)

These changes in fair value for the years ended September 30, 2012 and 2011 are reported as investment income.

Derivatives

The Port made no direct investments in derivatives during the years ended September 30, 2012 and 2011, and held no direct investments in derivatives at September 30, 2012 and 2011. 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.

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, 2012 and 2011 was $ 81,670 and $ 92,982, 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, 2012 and 2011 was $ 48,557 and $ 53,993, respectively.

NOTE 4: CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended September 30, 2012:

	Useful Life in Years	Balance 10-01-11	Additions	Deletions	Balance 9-30-12
Capital assets, not being depreciated:					
Land & improvements		$ 71,679,929	$ 252,911	$	$ 71,932,840
Construction in progress		42,989,895	674,476	3,393,983	40,270,388
Total capital assets, not being depreciated		114,669,824	927,387	3,393,983	112,203,228
Capital assets, being depreciated:					
Buildings	50	26,936,753	1,871,674		28,808,427
Docks & appurtenances	5 - 50	26,767,527	40,742		26,808,269
Utilities	20 - 50	15,944,485	1,732,648		17,677,133
Roads, lots & railways	50	6,236,763	199,861		6,436,624
Storage yards	50	21,165,104		16,063	21,149,041
Equipment, furniture & vehicles	5 - 50	10,329,560	845,883		11,175,443
Other	10 - 50	476,993	503,818		980,811
Total capital assets, being depreciated		107,857,185	5,194,626	16,063	113,035,748
Accumulated depreciation:					
Buildings		10,818,455	840,552		11,659,007
Docks & appurtenances		10,038,105	623,998		10,662,103
Utilities		3,092,710	686,699		3,779,409
Roads, lots & railways		2,202,964	174,456		2,377,420
Storage yards		4,005,445	626,260		4,631,705
Equipment, furniture & vehicles		6,339,195	972,288		7,311,483
Other		250,004	74,165		324,169
Total accumulated depreciation		36,746,878	3,998,418	-0-	40,745,296
Total capital assets, being depreciated, net		71,110,307	1,196,208	16,063	72,290,452
Total capital assets, net		$185,780,131	$ 2,123,595	$ 3,410,046	$184,493,680

NOTE 4: CAPITAL ASSETS - Continued

The following is a summary of capital asset activity for the year ended September 30, 2011:

	Useful Life in Years	Balance 10-01-10	Additions	Deletions	Balance 9-30-11
Capital assets, not being depreciated:					
Land & improvements		$ 67,877,310	$ 3,802,619	$	$ 71,679,929
Construction in progress		55,512,513	3,128,659	15,651,277	42,989,895
Total capital assets, not being depreciated		123,389,823	6,931,278	15,651,277	114,669,824
Capital assets, being depreciated:					
Buildings	50	26,936,753			26,936,753
Docks & appurtenances	5 - 50	26,576,790	190,737		26,767,527
Utilities	20 - 50	9,809,380	6,135,105		15,944,485
Roads, lots & railways	50	6,203,686	33,077		6,236,763
Storage yards	50	15,770,583	5,394,521		21,165,104
Equipment, furniture & vehicles	5 - 50	9,625,127	719,910	15,477	10,329,560
Other	10 - 50	456,833	20,160		476,993
Total capital assets, being depreciated		95,379,152	12,493,510	15,477	107,857,185
Accumulated depreciation:					
Buildings		9,978,753	839,702		10,818,455
Docks & appurtenances		9,426,956	611,149		10,038,105
Utilities		2,481,407	611,303		3,092,710
Roads, lots & railways		2,025,633	177,331		2,202,964
Storage yards		3,459,821	545,624		4,005,445
Equipment, furniture & vehicles		5,483,180	871,492	15,477	6,339,195
Other		196,798	53,206		250,004
Total accumulated depreciation		33,052,548	3,709,807	15,477	36,746,878
Total capital assets, being depreciated, net		62,326,604	8,783,703	-0-	71,110,307
Total capital assets, net		$185,716,427	$ 15,714,981	$ 15,651,277	$185,780,131

NOTE 4: CAPITAL ASSETS - Continued

The Port has entered into contracts for construction as of September 30, 2012 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
2nd Street Admin Building Renovations	$ 56,844	$ 14,858	$ 41,986	$
M&R HVAC Operations Building	20,275	15,505	4,770	
Emergency Operations Center	3,194,200	400,887	2,793,313	
Warehouse 51 Roof Repair	69,854	7,466	62,388	
Velasco Terminal Phase 2 - Backland	3,780	3,136	644	
Consulting	177,176	47,544	129,632	
FM 1495 & SH 36 Grade Separation	305,522	266,263	39,259	
Velasco Terminal Phase 1 - Berth 7	18,519,884	4,895,955	13,623,929	
Total	$ 22,347,535	$ 5,651,614	$ 16,695,921	$ -0-

The Port has entered into contracts for construction as of September 30, 2011 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
Velasco Terminal Phase 1	$ 42,621,109	$ 42,610,612	$ 10,497	$
Velasco Terminal Phase 1 - Berth 8	36,264	16,739	19,525	
Velasco Terminal Phase 1 - Backland	1,416,474	1,391,749	24,725	
Velasco Terminal Phase 2 - Backland	624,339	393,156	231,183	
Velasco Terminal Phase 1 - Berth 7	169,925	56,034	113,891	
Gate 4	1,471,223	1,389,583	81,640	
Gate 12	278,483	257,895	20,588	
North/South Access Road	197,679	108,782	88,897	
Security Fencing	382,557	379,849	2,708	
Consulting	21,660		21,660	
Other	247,375	121,514	125,861	
Total	$ 47,467,088	$ 46,725,913	$ 741,175	$ -0-

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

Non-current liabilities activity for the year ended September 30, 2012 was as follows:

	Balance 10-01-11	Additions	Reductions	Balance 9-30-12	Due Within One Year
General obligation bonds	$ 7,950,725	$ 15,789	$ 855,000	$ 7,111,514	$ 880,000
Revenue bonds	36,215,000		1,410,000	34,805,000	1,480,000
Components of Long-Term Debt:					
Premium on bonds	182,495		47,586	134,909	43,632
Compensated absences	161,580	48,838	46,468	163,950	48,838
Total non-current liabilities	$ 44,509,800	$ 64,627	$ 2,359,054	$ 42,215,373	$ 2,432,033

Non-current liabilities activity for the year ended September 30, 2011 was as follows:

	Balance 10-01-10	Additions	Reductions	Balance 9-30-11	Due Within One Year
General obligation bonds	$ 8,760,546	$ 15,179	$ 825,000	$ 7,950,725	$ 855,000
Revenue bonds	37,555,000		1,340,000	36,215,000	1,410,000
Components of Long-Term Debt:					
Premium on bonds	230,082		47,587	182,495	47,586
Compensated absences	152,334	102,789	93,543	161,580	102,788
Total non-current liabilities	$ 46,697,962	$ 117,968	$ 2,306,130	$ 44,509,800	$ 2,415,374

General Obligation Bonds Payable: The Unlimited Tax Refunding Bonds, Series 2009, were issued in November, 2009. The proceeds from the $ 3,260,000 of Unlimited Tax Refunding Bonds, Series 2009, were placed in an escrow account and will be used through August 15, 2013 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 $ 282,716. The economic gain resulting from the transaction was $ 185,686.

The Series 2009 bonds are dated November 10, 2010 with a final maturity of September 30, 2013 and bear interest at 3.0% per annum, payable semi-annually on February 15 and August 15. The issuance of the Unlimited Tax Refunding Bonds, Series 2009, incurred $ 71,967 of bond issuance costs which will be amortized over the life of the Series 2009 bonds.

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 effected 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.

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 remaining Unlimited Tax (Port Freeport Projects) Bonds, Series 1998 were issued in August, 1998. The remaining Series 1998 bonds are dated August 1, 1998 with a final maturity of August 15, 2013 and bear interest ranging from 4.5% to 4.9% per annum, payable semi-annually on February 15 and August 15. The series 1998 bonds were subject to optional redemption on August 15, 2008.

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

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. The issuance of the Unlimited Tax Bonds, Series 1998, resulted in bond issuance cost of $ 94,780. These balances are amortized as a component of interest expense over the remaining life of the bonds. These amounts net of amortization are reported as bond discount and issuance costs on the statements of net assets. Amortization of these costs for the years ended September 30, 2012 and 2011 were $ 55,511 and $ 55,511, respectively.

The bond resolution for the 1998 Series and 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.

For the years ended September 30, 2012 and 2011, the amount of ad valorem taxes collected for interest and sinking was $ 1,147,261 and $ 1,139,562, while the debt service requirements for principal and interest were $ 1,155,362 and $ 1,150,300 which utilized a portion of existing net assets. 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 the 2006 Series General Obligations Bonds are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2013	$ 35,000	$ 249,144	$ 284,144
2014	950,000	247,876	1,197,876
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
2018-2019	2,250,000	135,800	2,385,800
Total	$ 6,300,000	$ 1,180,572	$ 7,480,572

Annual debt service requirement to maturity for the 2009 Series General Obligation Bonds are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2013	$ 845,000	$ 25,350	$ 870,350
	$ 845,000	$ 25,350	$ 870,350

Annual debt service requirement to maturity for General Obligation Bonds are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2013	$ 880,000	$ 274,494	$ 1,154,494
2014	950,000	247,876	1,197,876
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
2018-2019	2,250,000	135,800	2,385,800
	$ 7,145,000	$ 1,205,922	$ 8,350,922

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

The $ 33,486 difference between the bonds outstanding at September 30, 2012 of $ 7,111,514 and the bond principal requirements of $ 7,145,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

Revenue Bonds Payable: Revenue bonds payable, which consist of serially maturing bonds for Port facilities and improvements, are payable from the operations of the Port. The Senior Lien Revenue Bonds, Series 2008 (AMT), were issued on May 21, 2008. The 2008 Series bonds are dated May 21, 2008 with a final maturity of June 1, 2028 and bear interest of 4.94% per annum, payable semi-annually on June 1 and December 1. The Series 2008 bonds are subject to optional redemption on June 1, 2012 or after with 30 days notice.

The net proceeds from the issuance of the $ 40,000,000 of Revenue Bonds, Series 2008, are intended to be utilized at least 95% to provide "docks and wharves" and "storage or training facilities directly related" thereto. Other more detailed restrictions have been placed on the use of these funds.

The covenants of the Refunding Revenue Bonds, Series 2008, require the Port to maintain balances in a senior lien bond interest and sinking fund adequate to pay amounts due for bond principal and interest, and a senior lien bond reserve fund equal to the greatest amount due in any fiscal year. At September 30, 2012, the amounts for principal, interest, and reserve were $ 470,000, $ 596,341 and $ 1,599,965, respectively, totaling $ 2,666,306.

Annual debt service requirement to maturity for the 2008 Series Revenue Bonds are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2013	$ 1,480,000	$ 1,719,366	$ 3,199,366
2014	1,550,000	1,646,256	3,196,256
2015	1,630,000	1,569,686	3,199,686
2016	1,710,000	1,489,162	3,199,162
2017	1,795,000	1,404,689	3,199,689
2018-2022	10,380,000	5,603,936	15,983,936
2023-2027	13,215,000	2,773,316	15,988,316
2028	3,045,000	150,423	3,195,423
	$ 34,805,000	$ 16,356,834	$ 51,161,834

NOTE 6. EXTRAORDINARY REVENUES (EXPENSES)

During the years ended September 30, 2012 and 2011 the Port incurred extraordinary costs of $ 5,773,285 and $ 5,946,339, respectively 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 $ 1,122,843 and $ 1,115,013 for the years ended September 30, 2012 and 2011 have been incurred which are also directly associated with the Velasco terminal issue. Extraordinary revenues of $ 970,541 and $ 5,659,125 for the years ended September 30, 2012 and 2011 represent insurance reimbursements of costs which relate to the Velasco Terminal issue.

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, 2012 or 2011.

NOTE 8. LITIGATION

On September 5, 2008, RLB Contracting, Inc. ("RLB") filed suit against the Port under Cause No. 48914 in the 239th Judicial District Court of Brazoria County, Texas, seeking to recover sums due and damages under the construction contract dated April 19, 2007. A settlement has been completed with no material loss occurring.

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. A substantial amount of discovery has been completed and certain amounts have been paid to Port Freeport. The final expected outcome cannot be determined at this time.

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, 2012 and 2011:

	2012	2011
Escrow balance, October 1,	$ 15,064	$ 15,562
Investment earnings	2	2
Fiduciary fees	(500)	(500)
Escrow balance, September 30,	$ 14,566	$ 15,064

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, 2012 and 2011, respectively.

NOTE 9. FREEPORT HARBOR IMPROVEMENT PROJECTS - Continued

A feasibility study was completed in January 2013 for a potential project to deepen the harbor channel to 55 feet from its current 45 feet, and widen it from 400 feet to 600 feet. The feasibility study is being cost-shared 50-50 by the Port and the U.S. Army Corps of Engineers. During the years ended September 30, 2012 and 2011, the Port contributed $ 49,000 and $ 199,459, 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, 2012 and 2011 was $ 55,477,458 and $ 55,464,521, respectively, and accumulated depreciation was $ 22,083,220 and $ 18,867,742, respectively. Lease revenue for the years ended September 30, 2012 and 2011 was $ 5,944,957 and $ 5,696,372, 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 Assets as a reduction in service, facility use and other fees revenues. Amortization for the years ended September 30, 2012 and 2011 was $ 10,512 and $ 10,512. As of September 30, 2012, the long-term portion of the lease incentive of $ 81,472 has been recorded as an other long-term asset while the current portion of $ 10,512 is included as a prepaid asset on the accompanying Statement of Net Assets.

Minimum future rentals to be received on noncancelable leases as of September 30, 2012 are as follows:

Fiscal Year Ending September 30	2012
2013	$ 5,497,377
2014	5,043,909
2015	4,557,158
2016	4,294,755
2017	3,965,507
2018-2022	19,645,628
2023-2027	19,772,718
2028-2032	19,447,724
2033-2043	26,432,041
Total minimum future rentals	$ 108,656,817

NOTE 11. GRANT REVENUE

The following is a schedule of port grant revenue for the years ended September 30, 2012 and 2011.

Agency	Grant Number	Total Entitlement	Pre-2011 Revenues	Revenue 9-30-11	Revenue 9-30-12	Remaining Project 9-30-12
US Department of Homeland Security:						
Port Security Grant	2005-GB-T5-0090	$ 2,646,984	$ 2,646,984	$	$	$
Port Security Grant	2006-GB-T6-0084	1,200,098	1,200,089			
Port Security Grant	2007-GB-T7-0044	2,443,848	53,310	1,585,807	416,638	388,093
Port Security Grant	2008-GB-T8-K056	3,451,502			351,212	3,100,290
Port Security Grant	2009-PU-T9-K026	3,410,916			57,077	3,353,839
Port Security Grant	2009-PU-R1-0179	1,940,032	68,223	429,930	1,389,270	52,609
Port Security Grant	2011-PUK-00058	1,354,831			47,285	1,307,546
Public Assistance Grant						
	FEMA 1791 DR TX	406,166	403,579	2,587		
	FEMA 1791-072	104,749		75,714	29,035	
US Department of Education:						
SFSF Government Services		192,201	15,521	175,158		1,522
Total grant revenues		$17,151,327	$ 4,387,706	$ 2,269,196	$ 2,290,517	$ 8,203,899

Accounts receivable related to these grants as of September 30, 2012 and 2011 totaled $ 276,302 and $ 945,888, respectively and are included in the receivables from other governments line item in the accompanying Statements of Net Assets.

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, 2012 and 2011.

The Port provides a commercial medical insurance program for its employees. In addition, the Port maintained a self-insurance program as a supplement to the commercial health insurance program to cover employee deductibles. This program was discontinued on September 1, 2011. The cost of the self-insurance plan for the years ended September 30, 2011 was $ 31,204. Although exact amounts are not available, these costs were expected to be exceeded by the savings in premiums on commercial insurance due to the increase in deductibles.

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 Hartford Life Insurance Company. 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 $ 116,562 ($ 34,146 calendar year 2011 and $ 82,416 for calendar 2012) to the plan for the year ended September 30, 2012. The Port contributed $ 120,880 ($ 30,683 calendar year 2010 and $ 90,197 for calendar 2011) to the plan for the year ended September 30, 2011. Participants do not contribute to the plan. The trustees of the plan distribute any benefits provided by the plan from net assets 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 Hartford Life Insurance Company 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 $ 47,609 and $ 49,271 to the 457 Plan for the years ended September 30, 2012 and 2011, respectively. Participant contributions for the years ended September 30, 2012 and 2011 totaled $ 132,059 and $ 113,063, respectively. The trustee of the plan distributes any benefits provided by the plan from net assets 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, 2012 and 2011 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-12	Balance Outstanding 9-30-11
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	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.	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			$ 744,150,000	$ 744,150,000	$ 744,150,000

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

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

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.

Industrial Development Bond series issued by the IDC on behalf of others with principal still outstanding at September 30, 2012 and 2011 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-12	Balance Outstanding 9-30-11
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
ConocoPhillips Company	2003	2038	25,000,000	25,000,000	25,000,000
Republic Waste Services of Texas, Ltd.	2002	2024	11,000,000	11,000,000	11,000,000
Total			$165,800,000	$ 165,800,000	$ 165,800,000

NOTE 15. ECONOMIC DEPENDENCY

Operating revenues: During the year ended September 30, 2012, three customers represented approximately 39%**,** 14% and 11% of the Port's operating revenue. During the year ended September 30, 2011, three customers represented approximately 15%, 12% and 9% 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, 2012 and 2011, one taxpayer represented approximately 24% of the total assessed valuation.

NOTE 16. EVALUATION OF SUBSEQUENT EVENTS

On November 8, 2012, the Port entered into a settlement agreement with RLB Contracting regarding claims asserted in a contract dispute from a construction contract dated April 19, 2007. The Port agreed to pay RLB Contracting $ 875,000 for final payment of all amounts due regarding the contract.

The Port has evaluated subsequent events through February 14, 2013, 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.

PORT FREEPORT

Statistical Section
For the Years Ended September 30, 2012 and 2011

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PORT FREEPORT℠

THE COAST IS CLEAR

PORT FREEPORT

Ten Year Cargo Quantities Analysis[1]
for the Fiscal Years Ended September 30, 2003 through 2012

TABLE 1

	Cargo Quantities Short Tons	Percent Total Port Tonnage
Rice	3,179,701	19.71 %
Bananas and Misc. Fruit[6]	3,702,751	22.95
Misc./General Cargo[3]	4,388,061	27.20
Dry Bulk Material[5]	2,738,815	16.98
Liquid Bulk Material[4]	1,887,401	11.70
Project Cargo[7]	183,869	1.14
Chemicals[2]	50,928	0.32
	16,131,526	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
[5] Components: Aggregate/Salt
[6] Components: Containerized Fruit/Palletized Fruit
[7] Components: Windpower Components

Container Traffic Statistics[1]
Twenty-Foot Equivalent Units (T.E.U.)
for the Fiscal Years Ended September 30, 2003 through 2012

TABLE 2

Fiscal Year	Inbound T.E.U.	Outbound T.E.U.	Total	Percent Growth/(Reduction) From Prior Year
2003	34,816	34,916	69,732	(6.45) %
2004	32,910	33,240	66,150	(5.14)
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

[1] Source-Port Freeport

PORT FREEPORT

Cargo Traffic Statistics[1]
for the Fiscal Years Ended September 30, 2003 through 2012

	2012		2011		2010		2009	
1. Rice	293,234	18 %	189,867	10 %	137,766	8 %	126,316	7 %
2. Bananas/Misc. Fruit[6]	412,113	24	391,023	19	429,347	24	444,757	30
3. Misc./General Cargo[3]	409,254	24	428,066	20	492,474	27	444,545	30
4. Dry Bulk Material[5]	196,814	12	155,809	7	381,943	21	315,045	21
5. Liquid Bulk Material[4]	380,706	22	911,795	43	345,087	19	123,195	8
6. Project Cargo[7]	14,162	1	25,871	1	19,758	1	53,029	4
7. Chemicals[2]	0		0		0		0	
Annual Port Tonnage[8] -Short Tons	1,706,283	100 %	2,102,431	100 %	1,806,375	100 %	1,506,887	100 %
Percent Export	38.85 %		45.73 %		34.91 %		29.20 %	
Percent Import	47.93		48.12		61.13		66.42	
Percent Domestic	13.17		6.15		3.96		4.38	

[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, Steel Pipe
[4] Components: Liquefied Natural Gas
[5] Components: Aggregate
[6] Components: Containerized Fruit/Palletized Fruit
[7] Components: Windpower Components
[8] TARE weight not included

TABLE 3

2008		2007		2006		2005		2004		2003	
183,422	10 %	299,603	20 %	468,080	30 %	481,666	28 %	565,700	42 %	434,047	39 %
389,063	23	382,656	26	340,105	21	384,021	22	256,942	19	272,724	24
599,907	35	554,466	37	524,653	33	309,616	18	317,566	24	307,514	27
392,571	23	227,010	15	239,382	15	553,898	32	196,288	15	80,055	7
126,618	7	0		0		0		0		0	
36,819	2	25,476	2	0		0		0		8,754	1
0		7,496	1	11,097	1	6,949	0	10,138	1	15,248	1
1,728,400	100 %	1,496,707	100 %	1,583,317	100 %	1,736,150	100 %	1,346,634	100 %	1,118,342	100 %
36.50 %		43.31 %		44.67 %		44.32 %		39.99 %		47.88 %	
63.50		56.69		55.33		55.68		60.01		52.11	
5.09		11.27		16.46		16.60		25.29		18.58	

PORT FREEPORT

Net Assets by Component
For The Years 2003 Through 2012

	2012	2011	2010	2009
Net Assets:				
Invested in capital assets, net of related debt	$ 142,442,256	$ 141,431,909	$ 139,263,051	$ 124,837,211
Restricted:				
Debt Service	2,535,929	2,677,543	2,562,125	2,654,335
Capital Projects	16,698	17,196	21,495	25,888
Unrestricted	35,006,745	33,905,657	29,368,269	37,082,280
Total net assets	$ 180,001,628	$ 178,032,305	$ 171,214,940	$ 164,599,714

TABLE 4

2008	2007	2006	2005	2004	2003
$ 106,041,805	$ 108,607,433	$ 102,487,808	$ 98,648,579	$ 89,041,513	$ 87,693,913
2,284,365	134,993	163,071	3,538,134	3,497,965	3,593,080
15,020,117	21,967	1,195,255	3,067,673	1,731,606	1,686,101
33,888,790	39,628,907	33,499,583	20,292,881	24,048,408	20,970,861
$ 157,235,077	$ 148,393,300	$ 137,345,717	$ 125,547,267	$ 118,319,492	$ 113,943,955

Summary of Revenues, Expenses and Changes in Net Assets
For The Years 2003 Through 2012

	2012	2011	2010	2009
Operating Revenues:				
Harbor Operations:				
Wharfage	$ 3,236,202	$ 2,951,064	$ 3,130,735	$ 2,577,245
Dockage	1,605,188	1,977,324	1,463,269	1,246,154
Service, facility use and other fees	3,757,046	4,950,088	3,929,599	3,715,210
Lease income	5,944,957	5,696,372	5,513,072	5,104,487
Miscellaneous	228,024	11,583	14,571	31,881
Total operating revenues	14,771,417	15,586,431	14,051,246	12,674,977
Operating Expenses:				
Payroll and related	3,607,483	3,710,206	3,520,049	3,350,988
Professional services	1,535,977	1,386,515	1,006,587	1,387,336
Supplies and other	2,056,434	2,210,135	2,167,854	2,093,330
Utilities	546,062	579,698	602,286	541,352
Maintenance and repairs	571,759	574,300	781,548	564,802
Depreciation	3,998,418	3,709,807	3,272,302	3,021,853
Total operating expenses	12,316,133	12,170,661	11,350,626	10,959,661
Operating income (loss)	2,455,284	3,415,770	2,700,620	1,715,316
Non-Operating Revenues (Expenses):				
Ad valorum tax collections, net of collection expenses	5,017,130	5,060,167	5,255,410	5,650,052
Investment income	114,273	142,015	674,309	597,457
Gain (loss) on sale of capital assets		4,500		2,350
Debt interest and fees	(2,104,368)	(2,195,700)	(2,354,736)	(1,125,130)
Other	122,074	(476,356)	(632,829)	(719,886)
Total non-operating revenues (expenses)	3,149,109	2,534,626	2,942,154	4,404,843
Income (loss) before capital contributions	5,604,393	5,950,396	5,642,774	6,120,159
Capital contributions -grants	2,290,517	2,269,196	747,749	1,087,132
Capital contributions -other	0	0	224,703	157,346
Total capital contributions	2,290,517	2,269,196	972,452	1,244,478
Extraordinary Revenues (Expenses):				
Insurance and other proceeds - Berth 7	970,541	5,659,125		
Construction cost - Berth 7	(5,773,285)	(5,946,339)		
Legal and expert fees - Berth 7	(1,122,843)	(1,115,013)		
Total extraordinary revenues (expenses)	(5,925,587)	(1,402,227)	0	0
Change in net assets	$ 1,969,323	$ 6,817,365	$ 6,615,226	$ 7,364,637

TABLE 5

2008	2007	2006	2005	2004	2003
$ 1,908,272	$ 1,706,555	$ 1,686,554	$ 1,509,278	$ 1,240,198	$ 1,138,757
1,407,643	1,176,209	1,114,831	1,064,267	952,278	778,562
3,349,964	2,996,296	2,471,406	1,988,210	1,426,052	993,328
5,461,429	4,861,294	4,847,531	4,235,213	2,825,401	2,688,529
465,182	341,200	221,375	84,149	126,585	585,722
12,592,490	11,081,554	10,341,697	8,881,117	6,570,514	6,184,898
3,216,104	2,750,632	2,563,143	2,301,071	1,988,675	1,812,569
1,177,484	1,036,471	1,281,552	884,519	857,397	1,201,273
2,133,667	1,893,418	1,820,520	1,663,146	1,315,904	1,386,296
481,707	431,522	330,177	240,413	126,490	187,839
683,182	614,687	564,483	601,246	530,835	434,965
2,976,874	2,236,176	2,103,234	1,913,376	1,898,808	1,823,774
10,669,018	8,962,906	8,663,109	7,603,771	6,718,109	6,846,716
1,923,472	2,118,648	1,678,588	1,277,346	(147,595)	(661,818)
5,641,225	5,776,916	5,636,883	5,499,624	5,435,810	5,338,963
1,699,266	2,146,892	1,292,072	555,981	447,776	581,305
5,383	2,601	4,300	(308,533)	(451,960)	18,900
(521,691)	(477,829)	(628,000)	(801,351)	(859,971)	(944,509)
(442,597)	(652,900)	3,049,972	(397,000)	(511,920)	(70,000)
6,381,586	6,795,680	9,355,227	4,548,721	4,059,735	4,924,659
8,305,058	8,914,328	11,033,815	5,826,067	3,912,140	4,262,841
518,996	1,907,399	492,894	883,090	267,754	85,000
17,723	225,856	271,741	518,618	195,643	316,878
536,719	2,133,255	764,635	1,401,708	463,397	401,878
0	0	0	0	0	0
$ 8,841,777	$ 11,047,583	$ 11,798,450	$ 7,227,775	$ 4,375,537	$ 4,664,719

PORT FREEPORT

Property Tax Rates[3]
Direct and Overlapping Governments
for the Levy Years 2002 through 2011[1][2]

	2011	2010	2009
Port Freeport	$ 0.053500	$ 0.053500	$ 0.053500
Overlapping Governments:			
Alvin I.S.D.	1.344100	1.304100	1.304100
Alvin Community College	0.199485	0.199830	0.199830
Angleton, City of	0.723500	0.706000	0.706000
Angleton Drainage District	0.176563	0.183900	0.183900
Angleton I.S.D.	1.455200	1.455200	1.455200
Angleton-Danbury Hospital	0.299592	0.380692	0.246500
Brazoria, City of	0.762300	0.762300	0.728300
Brazoria County	0.413100	0.403010	0.366286
Brazoria County FWD #1	0.280000	0.280000	0.295000
Brazosport College	0.239198	0.190175	0.175754
Brazosport I.S.D.	1.241500	1.241500	1.228500
Clute, City of	0.672000	0.672000	0.672000
Columbia/Brazoria I.S.D.	1.296500	1.296500	1.296500
Commodore Cove I.D.	0.475693	0.472234	0.620318
Danbury, City of	0.826940	0.769538	0.762014
Danbury Drainage District	0.366000	0.366000	0.366000
Danbury I.S.D.	1.137000	1.135400	1.143900
Freeport, City of	0.680000	0.708266	0.708266
Jones Creek, Village of	0.380000	0.380000	0.340000
Lake Jackson, City of	0.390000	0.390000	0.390000
Liverpool, City of	0.236850	0.236850	0.236852
Oak Manor U.D.	0.500000	0.480000	0.451178
Oyster Creek, City of	0.431106	0.423154	0.401142
Quintana, Town of	0.024413	0.024413	0.033365
Richwood, City of	0.693660	0.693660	0.693660
Surfside, Village of	0.402610	0.408801	0.442056
Sweeny, City of	0.782818	0.772818	0.741595
Sweeny Hospital District	0.393133	0.279998	0.349917
Sweeny I.S.D.	1.211700	1.211700	1.211700
Treasure Island M.U.D.	0.604590	0.576368	1.258218
Varner Creek M.U.D.	0.888220	0.858000	0.858000
Velasco Drainage District	0.094214	0.090907	0.087130
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

2008	2007	2006	2005	2004	2003	2002
$ 0.053500	$ 0.056000	$ 0.059671	$ 0.065000	$ 0.067500	$ 0.070000	$ 0.071200
1.328200	1.328200	1.545900	1.705800	1.676000	1.626100	1.626100
0.199832	0.210280	0.219521	0.237555	0.240561	0.254766	0.254766
0.706000	0.706000	0.706000	0.734150	0.739774	0.744740	0.744774
0.183900	0.170850	0.172000	0.175000	0.185000	0.185000	0.185000
1.314000	1.197000	1.463800	1.571000	1.610000	1.626100	1.630000
0.246500	0.246500	0.246500	0.247745	0.248244	0.260562	0.260562
0.728300	0.728300	0.728300	0.728300	0.728300	0.728300	0.728300
0.330000	0.311396	0.321701	0.347987	0.421995	0.419500	0.419500
0.300000	0.310000	0.350000	0.360000	0.400000	0.073924	0.730000
0.156488	0.121000	0.122000	0.119000	0.114000	0.105000	0.105000
1.192200	1.133900	1.423700	1.572800	1.522800	1.472800	1.472800
0.693000	0.698000	0.713000	0.723000	0.723000	0.723000	0.723000
1.296500	1.296500	1.640000	1.770000	1.870000	1.576300	1.576300
0.597220	0.597220	0.740837	0.890000	0.986093	0.986093	0.986093
0.760600	0.766940	0.728846	0.775664	0.823830	0.841738	0.841738
0.361000	0.353723	0.370857	0.372541	0.372689	0.372689	0.372689
1.134900	1.134900	1.418000	1.557600	1.561500	1.540000	1.540000
0.700000	0.710000	0.710000	0.710000	0.716900	0.748500	0.748500
0.340000	0.310000	0.310000	0.310000	0.310000	0.310000	0.310000
0.390000	0.385000	0.370000	0.380000	0.370000	0.370300	0.370300
0.175800	0.175800	0.175800	0.175800	0.175800	0.175800	0.175800
0.421852	0.363000	0.373000	0.398000	0.360000	0.400000	0.400000
0.395000	0.387211	0.452100	0.452100	0.411106	0.411106	0.411106
0.027140	0.032000	0.035000	0.040000	0.050000	0.160000	0.160000
0.693660	0.681080	0.681260	0.691200	0.691200	0.691200	0.691200
0.352392	0.342392	0.419203	0.490000	0.400354	0.400354	0.400354
0.762105	0.750000	0.750000	0.750000	0.775571	0.775571	0.775571
0.323170	0.298289	0.273770	0.343781	0.349000	0.352600	0.352600
1.211700	1.211700	1.541700	1.671000	1.692000	1.675000	1.675000
0.563556	0.595802	0.634370	0.739283	0.823466	0.927240	0.927240
0.814000	0.661890	0.510000	0.510000	0.540000	0.592300	0.592300
0.082075	0.082075	0.082113	0.082113	0.076210	0.073924	0.073924
0.020000	0.020000	0.020000	0.020000	0.020000	0.020000	0.020000
0.831900	0.831900	0.838837	0.838837	0.838837	0.838837	0.838837

Valuation, Exemptions and General Obligation Debt
for Fiscal Year Ended September 30, 2012
(In Thousands)

TABLE 7

2011 Market Valuation:[1] (excluding totally exempt property)		
Land, Homesite	$ 758,652	
Land, Non Homesite	748,351	
Land, Ag and Timber Market	649,034	
Improvement, Homesite	3,524,352	
Improvement, Non-Homesite	6,411,263	
Non Real, Personal Property	2,518,902	
Non Real, Mineral	158,459	
Total Market Value Before Exemptions		$ 14,769,013
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	$ 607,577	
Over 65 Homesteads Exemptions	650,960	
Disabled Exemptions	24,554	
Abatements	898,549	
Freeport Loss	389,639	
Pollution Control	691,468	
Productivity Loss	607,278	
Tax Exempt	1,506,665	
Other	86,721	
Total Exemptions		$ 5,463,411
Net 2011 Taxable Valuation		$ 9,305,602

[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 2003 through 2012
(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]
2003	$ 9,109,663	$ 2,266,198	$ 3,869,301	$ 7,506,560	1.78 %	$ 0.071200
2004	9,614,734	2,433,432	4,537,855	7,510,311	0.05	0.070000
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
Taxable Valuation 2003-2012					23.97	

[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 2003 through 2012

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
2003	$ 5,344,787	$ -	$ -	$ 5,299,336	99.15 %	$ 89,026	$ 5,388,362	100.82 %
2004	5,257,404			5,175,578	98.44	114,065	5,289,643	100.61
2005	5,410,374			5,433,553	100.43	79,270	5,512,823	101.89
2006	5,471,530			5,575,351	101.90	60,440	5,635,791	103.00
2007	5,767,235	143,494	5,623,741	5,691,227	98.68	75,689	5,766,916	102.55
2008	5,668,728	142,875	5,525,853	5,594,596	98.69	46,541	5,641,137	102.09
2009	5,673,491	32,001	5,641,490	5,593,590	98.59	61,503	5,655,093	100.24
2010	5,261,212	113,918	5,147,294	5,178,848	98.43	72,101	5,250,949	102.01
2011	5,139,874	34,583	5,105,291	5,001,518	97.31	70,608	5,072,126	99.35
2012	5,018,556	40,059	4,978,497	4,949,272	98.62	66,371	5,015,643	100.75

[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 collection 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, 2012
(In Thousands)

TABLE 10

Entity	2011[2] Market Valuation	Percent of Total Market Valuation	2011 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 2,934,404	27.57 %	$ 2,263,967	24.33 %
ConocoPhillips Company	1,179,104	11.08	494,231	5.31
BASF Corp. Chemicals Div.	800,103	7.52	420,142	4.52
Chevron Phillips Chemical Company	547,984	5.15	271,835	2.92
Shintech, Inc.	162,332	1.53	129,974	1.40
Sweeny Cogenerations Ltd	106,589	1.00	99,350	1.07
Hicorp Energy Co	88,511	0.83	87,070	0.94
Centerpoint Energy Inc	79,152	0.74	79,149	0.85
Air Liquide Large Industries US LP	127,275	1.20	73,903	0.79
SI Group Inc	98,842	0.93	68,967	0.74
TOTAL	$ 6,124,296	57.55 %	$ 3,988,588	42.87 %

September 30, 2003
(In Thousands)

Entity	2002[3] Market Valuation	Percent of Total Market Valuation	2002 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 2,973,393	35.23 %	$ 2,340,012	31.35 %
Phillips Petroleum Co.	1,391,486	16.49	778,893	10.43
BASF Corp. Chemicals Div.	914,313	10.83	452,659	6.06
Shintech, Inc.	166,411	1.97	145,237	1.95
Oyster Creek Limited	160,710	1.90	160,710	2.15
Schenectady International	83,222	0.99	43,840	0.59
Air Liquide America Corp	81,472	0.97	19,807	0.27
Roche Vitamins Inc.	80,666	0.96	75,958	1.02
Houston Lighting & Power	66,439	0.79	66,431	0.89
Hicorp Energy Co	65,408	0.78	65,408	0.88
TOTAL	$ 5,983,520	70.91 %	$ 4,148,955	55.59 %

[1] Source--Brazoria County Appraisal District

[2] Property taxes levied for the 2012 fiscal year were based on 2011 market valuations.

[3] Property taxes levied for the 2003 fiscal year were based on 2002 market valuations.

PORT FREEPORT

Computation of Legal Debt Margin
Levy Year 2011
(In Thousands)

TABLE 11

Taxable valuations:				
Taxable value			$	9,305,602
Add back: exempt real property				5,463,411
Total market value:			$	14,769,013
Legal debt margin:				
Debt limitation - 25 percent of total taxable value			$	3,692,253
Total bonded debt	$	41,916		
Less: Revenue bonds		34,805		
Amount available for repayment of general obligation bonds		34		
Total debt applicable to limitation				7,077
Legal debt margin			$	3,685,176

PORT FREEPORT

Ratio of Outstanding Debt by Type
for the Fiscal Years Ended September 30, 2003 through 2012
(In Thousands)

TABLE 12

Fiscal Year Ending September 30	General Obligation Bonds	Revenue Bonds	Capital Leases	Total	Estimated Personal Income[1]	Estimated County Population [1]	Percentage of Personal Income	Per Capita
2003	$ 13,615	$ 3,875	$ 64	$ 17,554	$ 5,185,639	259	0.3385 %	$ 68
2004	13,035	2,645	25	15,705	5,312,893	265	0.2956	59
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

[1] Source Brazoria County Partnership 1997-2002, The Woods & Poole Economics Demographics Report 2003, Texas State Data Center 2004-2011

PORT FREEPORT

Ratio of Net General Bonded Debt to Taxable Value
and to Net Bonded Debt Per Capita[1]
(In Thousands)
For Fiscal Years 2003 through 2012

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
2003	$ 7,506,560	$ 17,490	$ 3,044	$ 14,446	0.0019	259	$ 56
2004	7,510,311	15,680	1,218	14,462	0.0019	265	54
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

[1]Source: Brazoria County Partnership except 2003 and 2004. 2003 Source: The Woods & Poole Economics Demograph Report. 2004-2012 Source: Texas State Data Center.

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Computation of Direct and Overlapping
Bonded Debt of General Obligation Bond Issues
September 30, 2012

TABLE 14

Taxing Entity	Net Bonded Debt Amount	As of	Percent Overlapping	Amount Overlapping
Alvin I.S.D.	$ 476,152,701	8-31-12	8.65 %	$ 41,187,209
Alvin Community College	15,330,000	8-31-12	100.00	15,330,000
Angleton, City of	17,490,000	9-30-12	100.00	17,490,000
Angleton Drainage District	0	9-30-12	100.00	0
Angleton I.S.D.	146,196,895	8-31-12	61.97	90,598,216
Angleton/Danbury Hospital	14,020,000	9-30-12	100.00	14,020,000
Brazoria, City of	2,900,000	9-30-12	100.00	2,900,000
Brazoria County	89,385,000	9-30-12	52.32	46,766,232
Brazoria County FWSD #1	77,620	9-30-12	100.00	77,620
Brazosport I.S.D.	148,319,050	8-31-12	100.00	148,319,050
Brazosport College	74,695,000	8-31-12	100.00	74,695,000
Clute, City of	5,365,000	8-31-12	100.00	5,365,000
Columbia/Brazoria I.S.D.	37,380,000	8-31-12	100.00	37,380,000
Danbury, City of	2,323,000	9-30-12	100.00	2,323,000
Danbury Drainage District	0	9-30-12	100.00	0
Danbury I.S.D.	4,546,486	8-31-12	100.00	4,546,486
Freeport, City of	4,977,000	9-30-12	100.00	4,977,000
Iowa Colony Drainage District	0	9-30-12	90.00	0
Jones Creek, Village of	0	9-30-12	100.00	0
Lake Jackson, City of	15,728,944	9-30-12	100.00	15,728,944
Manvel, City of	2,855,000	9-30-12	100.00	2,855,000
Oyster Creek, Village of	360,000	9-30-12	100.00	360,000
Quintana, Town of	0	9-30-12	100.00	0
Richwood, City of	3,151,896	9-30-12	100.00	3,151,896
Sweeny, City of	1,999,000	9-30-12	100.00	1,999,000
Sweeny Hospital District	5,500,706	9-30-12	100.00	5,500,706
Sweeny I.S.D.	19,835,000	8-31-12	100.00	19,835,000
Velasco Drainage District	0	9-30-12	100.00	0
West Columbia, City of	0	9-30-12	100.00	0
Sub-total Bonded Debt	$ 1,088,588,298	Sub-total Overlapping Debt		$ 555,405,359
Port Freeport	$ 7,145,000	9-30-12	100.00 %	$ 7,145,000
Total Direct & Overlapping General Obligation Issue Debt	$ 1,095,733,298			$ 562,550,359
Ratio of Overlapping Debt to Direct 2012 Taxable Valuation				0.001 %

Pledged Revenue Coverage
for Fiscal Years 2003 through 2012
(In Thousands)

	2012	2011	2010	2009	2008
Operating Revenue	$ 14,771	$ 15,586	$ 14,051	$ 12,675	$ 12,592
Operating Expenses (Net of Depreciation)	(8,318)	(8,460)	(8,078)	(7,938)	(7,692)
Ad Valorem Tax Collections for Maintenance and Operations, Net of Collection Expense	3,868	3,899	4,055	4,424	4,447
Investment Income	114	142	674	597	1,699
Net Revenues Available for Debt Service	$ 10,435	$ 11,167	$ 10,702	$ 9,758	$ 11,046
Annual Bonded Debt Service	$ 3,199	$ 3,199	$ 3,195	$ 3,198	$ 3,196
Percent of Coverage	326%	349%	335%	305%	346%
Maximum Debt Service	$ 3,200	$ 3,200	$ 3,200	$ 3,200	$ 3,200
Percent of Coverage[1]	326%	349%	334%	305%	345%

[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 2024.

TABLE 15

2007	2006	2005	2004	2003
$ 11,082	$ 10,342	$ 8,881	$ 6,571	$ 6,185
(6,727)	(6,560)	(5,690)	(4,819)	(5,023)
4,563	4,425	4,260	4,044	4,094
2,146	1,292	556	448	581
$ 11,064	$ 9,499	$ 8,007	$ 6,244	$ 5,837
$ 0	$ 1,389	$ 1,389	$ 1,388	$ 1,392
N/A	684%	576%	450%	419%
N/A	$ 1,389	$ 1,389	$ 1,389	$ 1,389
N/A	684%	576%	449%	420%

PORT FREEPORT

Unlimited Tax Refunding Bonds, Series 2006
September 30, 2012

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
2012						$ 6,300,000
2013	3.625 %	$ 124,572	$ 124,572	$ 35,000	$ 284,144	6,265,000
2014 ①	4.000	123,938	123,938	950,000	1,197,876	5,315,000
2015	4.000	113,838	113,838	1,000,000	1,227,676	4,315,000
2016	5.500	93,838	93,838	1,005,000	1,192,676	3,310,000
2017	4.000	66,200	66,200	1,060,000	1,192,400	2,250,000
2018	4.000	45,000	45,000	1,105,000	1,195,000	1,145,000
2019	4.000	22,900	22,900	1,145,000	1,190,800	0
		$ 590,286	$ 590,286	$ 6,300,000	$ 7,480,572	

① 2006 Series Capital Appreciation Bonds totalling $445,000 will mature 8/15/2014

Unlimited Tax Refunding Bonds, Series 2009
September 30, 2012

TABLE 17

Fiscal Year Ending September 30	Coupon	Interest Due February 15	Interest Due August 15	Principal Due August 15	Total Principal & Interest	Principal Balance
2012						$ 845,000
2013	3.000 %	$ 12,675	$ 12,675	$ 845,000	$ 870,350	0
		$ 12,675	$ 12,675	$ 845,000	$ 870,350	

PORT FREEPORT

Senior Lien Revenue Bonds, Series 2008
September 30, 2012

TABLE 18

Fiscal Year Ending September 30	Coupon	Interest Due December 1	Interest Due June 1	Principal Due June 1	Total Principal & Interest	Principal Balance
2012						$ 34,805,000
2013	4.94 %	$ 859,684	$ 859,684	$ 1,480,000	$ 3,199,367	33,325,000
2014	4.94	823,128	823,128	1,550,000	3,196,255	31,775,000
2015	4.94	784,843	784,843	1,630,000	3,199,685	30,145,000
2016	4.94	744,582	744,582	1,710,000	3,199,163	28,435,000
2017	4.94	702,345	702,345	1,795,000	3,199,689	26,640,000
2018	4.94	658,008	658,008	1,880,000	3,196,016	24,760,000
2019	4.94	611,572	611,572	1,975,000	3,198,144	22,785,000
2020	4.94	562,790	562,790	2,070,000	3,195,579	20,715,000
2021	4.94	511,661	511,661	2,175,000	3,198,321	18,540,000
2022	4.94	457,938	457,938	2,280,000	3,195,876	16,260,000
2023	4.94	401,622	401,622	2,395,000	3,198,244	13,865,000
2024	4.94	342,466	342,466	2,515,000	3,199,931	11,350,000
2025	4.94	280,345	280,345	2,635,000	3,195,690	8,715,000
2026	4.94	215,261	215,261	2,765,000	3,195,521	5,950,000
2027	4.94	146,965	146,965	2,905,000	3,198,930	3,045,000
2028	4.94	75,212	75,212	3,045,000	3,195,423	0
		$ 8,178,417	$ 8,178,417	$ 34,805,000	$ 51,161,834	

PORT FREEPORT

Summary of Annual Cash Requirements on Bonds Outstanding
September 30, 2012

TABLE 19

Fiscal Year Ending September 30	Unlimited Tax Refunding Bonds Series 2006	Unlimited Tax Refunding Bonds Series 2009	Senior Lien Revenue Bonds Series 2008	Total
2013	$ 284,144	$ 870,350	$ 3,199,367	$ 4,353,861
2014	1,197,876		3,196,255	4,394,131
2015	1,227,676		3,199,685	4,427,361
2016	1,192,676		3,199,163	4,391,839
2017	1,192,400		3,199,689	4,392,089
2018	1,195,000		3,196,016	4,391,016
2019	1,190,800		3,198,144	4,388,944
2020			3,195,579	3,195,579
2021			3,198,321	3,198,321
2022			3,195,876	3,195,876
2023			3,198,244	3,198,244
2024			3,199,931	3,199,931
2025			3,195,690	3,195,690
2026			3,195,521	3,195,521
2027			3,198,930	3,198,930
2028			3,195,423	3,195,423
	$ 7,480,572	$ 870,350	$ 51,161,834	$ 59,512,756

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Table 20, Miscellaneous Statistical Data

The information below has been updated on a current basis. Please read tables 1-19 for a historical perspective of Port Freeport. 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	568 acres developed 7,341 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	5
Covered Dry Warehouse Space	435,400 square feet
Cold Storage Space	38,600 square feet
Port Freeport's Total Foreign Tonnage Ranking Among U.S. Ports	16th highest
Port Freeport's Total Tonnage Ranking Among U.S. Ports	27th 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	4
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[1]

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, 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.

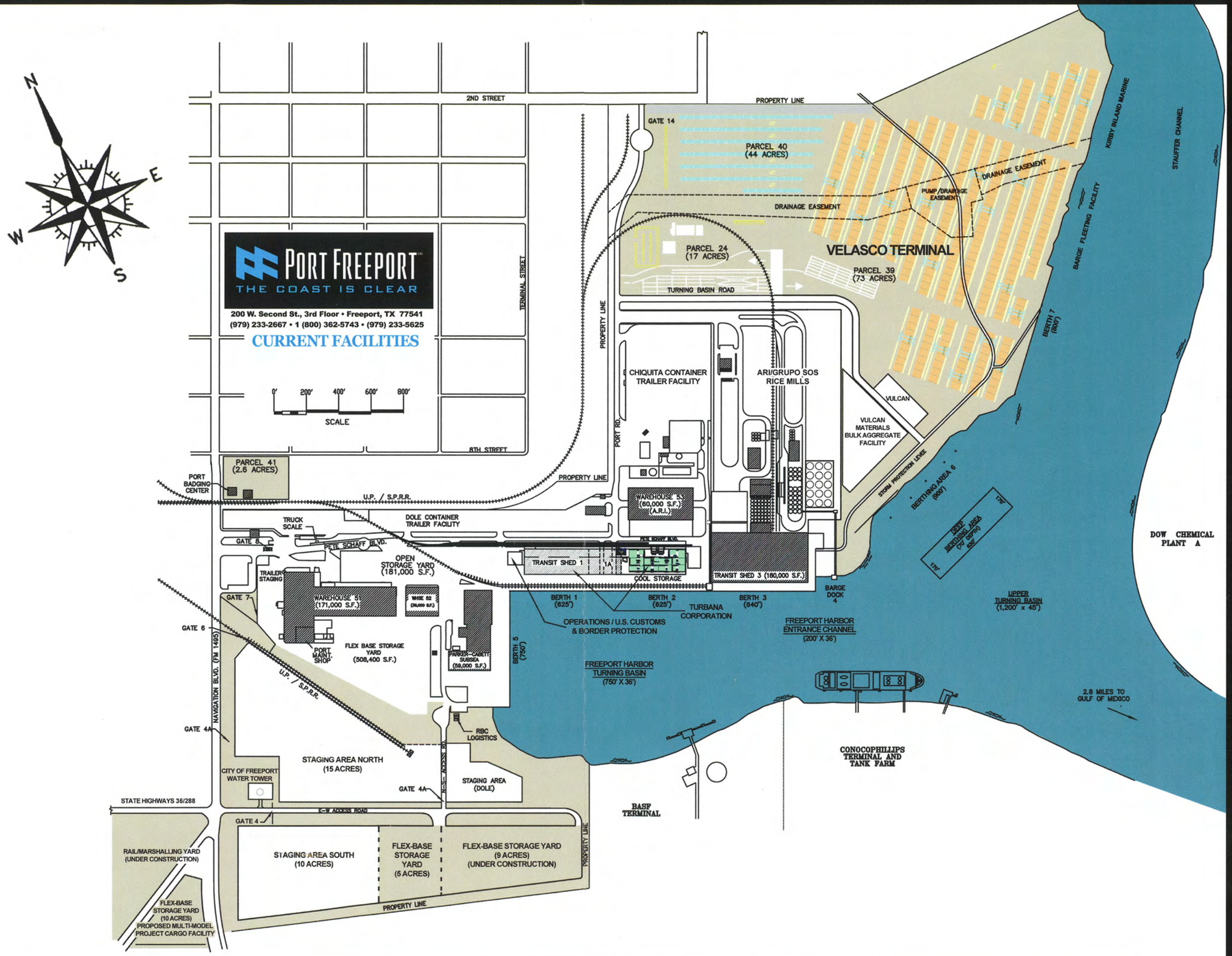
The Port completed construction of a 60-acre project cargo area that is being leased for storage of wind power production components in 2009 at Parcel 25. In addition, the first 5-acres of an additional project cargo area at Parcel 19 was completed and the design for the next 10-acres was completed in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

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.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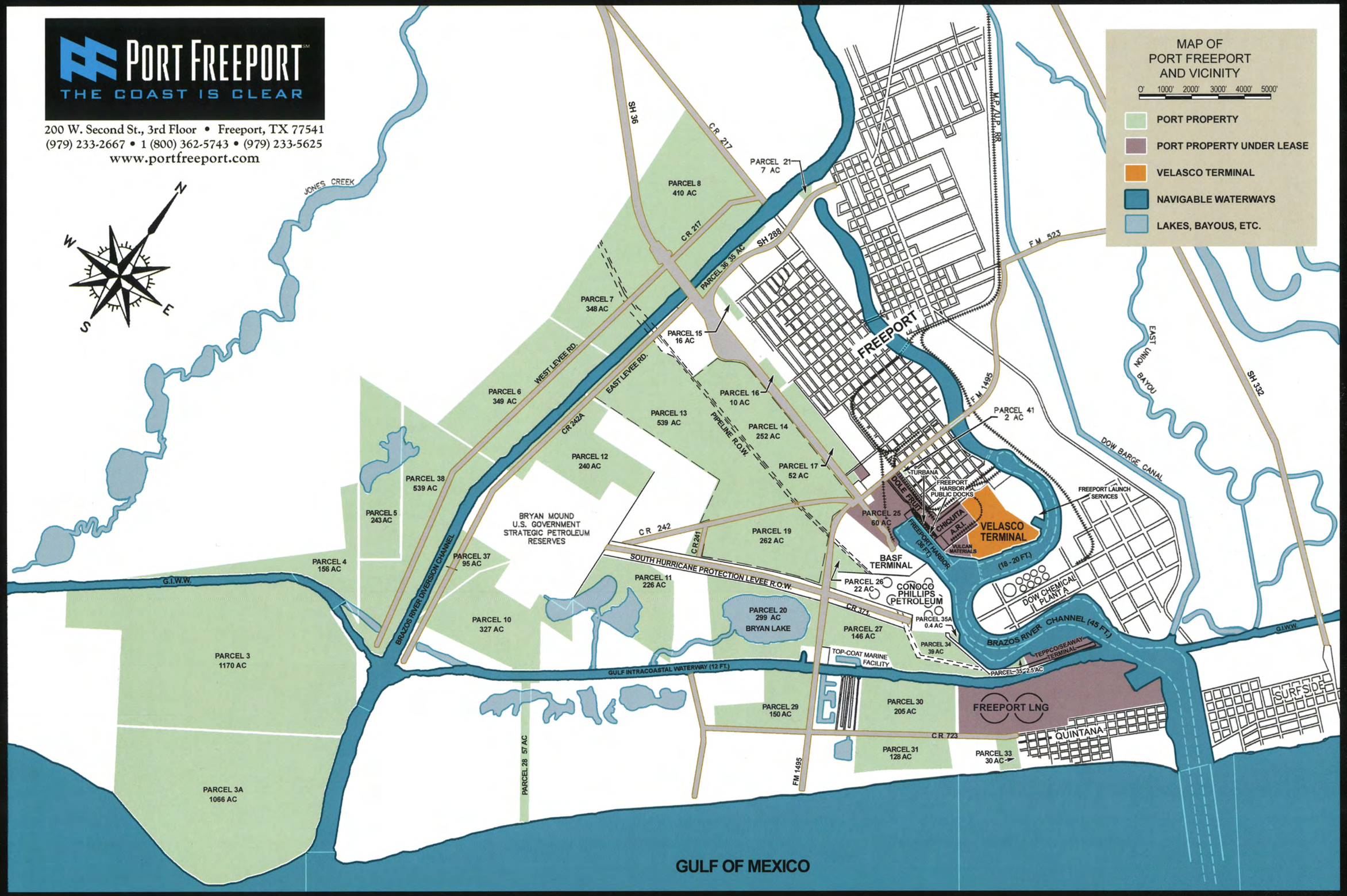
200 W. Second St., 3rd Floor • Freeport, TX 77541
(979) 233-2667 • 1 (800) 362-5743 • (979) 233-5625
CURRENT FACILITIES
0' 200' 400' 600' 800'
SCALE
2ND STREET
8TH STREET
TERMINAL STREET
PROPERTY LINE
GATE 14
PARCEL 40
(44 ACRES)
DRAINAGE EASEMENT
PUMP/DRAINAGE EASEMENT
PARCEL 24
(17 ACRES)
TURNING BASIN ROAD
VELASCO TERMINAL
PARCEL 39
(73 ACRES)
KIRBY INLAND MARINE
STAUFFER CHANNEL
BARGE FLEETING FACILITY
BERTH 7
(800')
CHIQUITA CONTAINER
TRAILER FACILITY
ARI/GRUPO SOS
RICE MILLS
VULCAN
VULCAN
MATERIALS
BULK AGGREGATE
FACILITY
PORT RD.
STORM PROTECTION LEVEE
BERTHING AREA 6
(640')
DEEP
BERTHING AREA
(70' DEPTH)
WAREHOUSE 53
(60,000 S.F.)
(A.R.I.)
PARCEL 41
(2.6 ACRES)
PORT
BADGING
CENTER
U.P. / S.P.R.R.
DOLE CONTAINER
TRAILER FACILITY
TRUCK
SCALE
GATE 8
PETE SCHAFF BLVD.
OPEN
STORAGE YARD
(181,000 S.F.)
TRAILER
STAGING
WAREHOUSE 51
(171,000 S.F.)
WHSE 52
(26,000 S.F.)
TRANSIT SHED 1
COOL STORAGE
TRANSIT SHED 3 (180,000 S.F.)
BERTH 1
(625')
BERTH 2
(625')
BERTH 3
(640')
TURBANA
CORPORATION
OPERATIONS / U.S. CUSTOMS
& BORDER PROTECTION
BARGE
DOCK
4
UPPER
TURNING BASIN
(1,200' x 45')
DOW CHEMICAL
PLANT A
GATE 7
GATE 6
NAVIGATION BLVD. (FM 1495)
PORT
MAINT.
SHOP
FLEX BASE STORAGE
YARD
(508,400 S.F.)
PARKER-CABOT
SUBSEA
(58,000 S.F.)
BERTH 5
(700')
FREEPORT HARBOR
ENTRANCE CHANNEL
(200' X 36')
FREEPORT HARBOR
TURNING BASIN
(750' X 36')
2.8 MILES TO
GULF OF MEXICO
GATE 4A
RBC
LOGISTICS
STAGING AREA NORTH
(15 ACRES)
CITY OF FREEPORT
WATER TOWER
STAGING AREA
(DOLE)
CONOCOPHILLIPS
TERMINAL AND
TANK FARM
STATE HIGHWAYS 36/288
E-W ACCESS ROAD
GATE 4
BASF
TERMINAL
RAIL/MARSHALLING YARD
(UNDER CONSTRUCTION)
STAGING AREA SOUTH
(10 ACRES)
FLEX-BASE
STORAGE
YARD
(5 ACRES)
FLEX-BASE STORAGE YARD
(9 ACRES)
(UNDER CONSTRUCTION)
FLEX-BASE
STORAGE YARD
(10 ACRES)
PROPOSED MULTI-MODEL
PROJECT CARGO FACILITY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200 W. Second St., 3rd Floor • Freeport, TX 77541
(979) 233-2667 • 1 (800) 362-5743 • (979) 233-5625
www.portfreeport.com
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 21
7 AC
PARCEL 8
410 AC
CR 217
SH 288
PARCEL 36 35 AC
M.P./U.P. RR
F.M. 523
PARCEL 7
348 AC
PARCEL 15
16 AC
FREEPORT
EAST UNION BAYOU
SH 332
WEST LEVEE RD.
EAST LEVEE RD.
PARCEL 6
349 AC
PARCEL 16
10 AC
F.M. 1495
PARCEL 41
2 AC
CR 242A
PARCEL 13
539 AC
PIPELINE R.O.W.
PARCEL 14
252 AC
DOW BARGE CANAL
PARCEL 12
240 AC
PARCEL 17
52 AC
TURBANA
FREEPORT HARBOR PUBLIC DOCKS
FREEPORT LAUNCH SERVICES
PARCEL 38
539 AC
DOLE FRUIT
PARCEL 25
60 AC
CHIQUITA
A.R.I.
VULCAN MATERIALS
VELASCO TERMINAL
PARCEL 5
243 AC
BRYAN MOUND
U.S. GOVERNMENT
STRATEGIC PETROLEUM
RESERVES
CR 242
CR 241
PARCEL 19
262 AC
FREEPORT HARBOR (36 FT.)
(18 - 20 FT.)
BASF TERMINAL
PARCEL 4
156 AC
PARCEL 37
95 AC
SOUTH HURRICANE PROTECTION LEVEE R.O.W.
PARCEL 11
226 AC
PARCEL 26
22 AC
CONOCO PHILLIPS PETROLEUM
DOW CHEMICAL PLANT A
G.I.W.W.
BRAZOS RIVER DIVERSION CHANNEL
PARCEL 10
327 AC
PARCEL 20
299 AC
BRYAN LAKE
CR 371
PARCEL 35A
0.4 AC
PARCEL 27
146 AC
BRAZOS RIVER CHANNEL (45 FT.)
PARCEL 34
39 AC
TEPPCO/SEAWAY TERMINAL
G.I.W.W.
PARCEL 3
1170 AC
TOP-COAT MARINE FACILITY
PARCEL 35 2.5 AC
GULF INTRACOASTAL WATERWAY (12 FT.)
PARCEL 29
150 AC
PARCEL 30
205 AC
FREEPORT LNG
SURFSIDE
CR 723
QUINTANA
PARCEL 28 57 AC
FM 1495
PARCEL 31
128 AC
PARCEL 33
30 AC
PARCEL 3A
1066 AC
GULF OF MEXICO

KENNEMER, MASTERS & LUNSFORD
CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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Independent Auditor's Report
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

February 14, 2013

Port Commissioners
Port Freeport
Freeport, Texas

We have audited the basic financial statements of Port Freeport (the "Port") as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated February 14, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or a significant deficiency, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We have performed tests designed to verify the Port's compliance with the requirements of the Public Funds Investment Act. During the year ended September 30, 2012, no instances of non compliance were found.

This report is intended solely for the information and use of management, the Port Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Rungford, LLC

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Independent Auditor's Report
Report on Compliance with Requirements That Would Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

February 14, 2013

Port Commissioners
Port Freeport
Freeport, Texas

Compliance

We have audited the compliance of Port Freeport (the "Port"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Port's management. Our responsibility is to express an opinion on the Port's compliance based on our audit.

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. Our audit does not provide a legal determination on the Port's compliance with those requirements.

In our opinion, the Port, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of the Port is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Port's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Port Commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kennemer, Masters & Rungford, LLC

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

I. Summary of auditor's results:

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

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: Unqualified.

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.
   97.116 Port Security Grant (ARRA).

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.

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Schedule of Status of Prior Findings
Year Ended September 30, 2012

PRIOR YEAR'S FINDING/NONCOMPLIANCE

None.

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Corrective Action Plan
Year Ended September 30, 2012

None.

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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

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 Grants	97.056	2007-GB-T7-0044	$ 416,638
Port Security Grants	97.056	2008-GB-T8-K056	351,212
Port Security Grants	97.056	2009-PU-T9-K026	57,077
Port Security Grants	97.056	2011-OUK-00058	47,285
			872,212
Port Security Grant (ARRA)	97.116	2009-PU-R1-0179	1,389,270
Public Assistance Grant Hurricane Ike	97.036	FEMA 1791 DR TX	29,035
TOTAL DEPARTMENT OF HOMELAND SECURITY			$ 2,290,517
TOTAL FEDERAL ASSISTANCE			$ 2,290,517

See notes to supplement Schedule of Expenditures of Federal Awards.

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Notes on Accounting Policies for Federal Awards
Year Ended September 30, 2012

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 invested in capital assets, net of related debt, and restricted or unrestricted net assets. 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, 2007 through 2012 were as follows:

	Pass-Through Grantor's Number	Program Matching Required	Direct Matching Expenses Years Ended September 30, 2011 & Prior	2012	Total
2005 Port Security Grant Program 97.056	2005-GB-T5-0090	$ 100,000	$ 100,000	$	$ 100,000
2006 Port Security Grant Program 97.056	2006-GB-T6-0084	400,032	400,032		400,032
2007 Port Security Grant Program 97.056	2007-GB-T7-0044	825,266	791,373	23,243	814,616
2008 Port Security Grant Program 97.056	2008-GB-T8-K056	878,750	22,834	61,659	84,493
2009 Port Security Grant Program 97.056	2009-PU-T9-K026	829,874	-0-	7,149	7,149
			$ 1,314,239	$ 92,051	$ 1,406,290

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