Comprehensive Annual Financial Report

For The Fiscal Years Ended September 30, 2017 and 2016

PORT FREEPORT

1100 Cherry Street, Freeport, TX 77541
(979) 233-2667 / FAX (979) 373-0023

Port Freeport
Freeport, Texas

Comprehensive Annual Financial Report
For the Fiscal Years Ended
September 30, 2017 and 2016

Prepared by:

John Mannion
Chief Financial Officer

Mary Campus,
Controller

PORT FREEPORT
Freeport, Texas

Comprehensive Annual Financial Report
Fiscal Years Ended September 30, 2017 and 2016

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Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Port Freeport

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2016

Christopher P. Morrill

Executive Director/CEO

PORT FREEPORT
Mission Statement

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

1100 CHERRY ST. • FREEPORT, TX 77541
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WWW.PORTFREEPORT.COM

STATE OF THE PORT

February 5, 2018

MEMBERS OF THE PORT COMMISSION
PORT FREEPORT
FREEPORT, TEXAS

Re: **Port Freeport continues to emerge as a regional powerhouse and global trade force**

Gentlemen,

Already one of the fastest-growing ports on the U.S. Gulf Coast, Port Freeport is executing on multiple strategic endeavors to further boost its impressive multibillion-dollar impact upon the Brazoria County economy and bolster its profound role in global commerce.

Assertively moving toward a deeper ship channel, enhancing rail and highway links, expanding terminal and industrial park development and augmenting international collaboration, Port Freeport is poised to significantly add to its regional economic impact, last calculated at $ 46.2 billion and 126,000 total jobs as of 2014 by the Texas A&M Transportation Institute. At the same time, Port Freeport maintains its steadfast commitment to sustainability, safety and stewardship in the community.

Deepening of the harbor channel to 55 feet at mean lower low water (MLLW) from its present 45 feet MLLW is entering engineering and design phases, with construction anticipated to begin by early 2020. The entire federally cost-shared channel project is expected to be completed within five years of construction start.

The 55-foot-deep channel will facilitate safe movement of burgeoning oil exports via mega-tankers while welcoming a full spectrum of larger vessels, including those now able to transit the post-expansion Panama Canal. Indeed, Port Freeport has just extended for an additional five years its memorandum of understanding with the Panama Canal Authority.

Shortly after the mid-2016 opening of the expanded Panama Canal, Port Freeport began receiving calls from neo-Panamax roll-on/roll-off ships of Höegh Autoliners, delivering imported vehicles from Asia and receiving Texas built vehicles for export. As such calls continue on a regular basis and demand increases, storage and processing areas for automobiles will be expanded.

By late summer 2018, Port Freeport anticipates receipt of permitting to enlarge its Velasco terminal as well, while the port presses forward with expanding its multimodal industrial park and warehousing facilities. In August 2017, with an eye toward mid-2018 completion, the port broke ground on a new rail facility initially encompassing approximately 6,000 linear feet of lead track and 15,000 linear feet of track on its 242-acre multimodal industrial park site. Port Freeport is partnering with a national firm to package plastic resins arriving in bulk on railcars for subsequent export on containerships.

The boom in resin production is among offshoots of the oil and gas renaissance being enjoyed along the Texas Gulf Coast. Another related development is the recent inauguration of the newly constructed state-of-the-art pipe mill by port tenant Tenaris less than 45 miles from Port Freeport's docks. Facilitating the Tenaris plant's imports of steel billets and other commercial activity, the port's heavy-lift truck corridor network has recently been extended by act of the Texas Legislature.

Swift, efficient links between Port Freeport and industry are essential as many of the more than $ 25 billion of new oil-and-gas-related plants begin to come online. These private investments not only afford abundant export opportunities, but also are destinations for inbound project cargo.

Port Freeport vessel activity, which has risen 14.5% since the December 2016 opening of Phillips 66's Freeport export terminal for liquefied petroleum gas (LPG), is expected to intensify even more following the completion of the first of four liquefaction trains at the on-port Freeport LNG facility, from which initial liquefied natural gas exports are anticipated to be shipped by early 2019.

Meanwhile, Port Freeport's channel also keeps bustling with shipments by such petrochemical giants as The Dow Chemical Co. and BASF, construction aggregates leader Vulcan Materials Co., heavy-lift specialist Mammoet and on-port mill operator Riviana Foods, as well as longtime fruit importers Dole and Chiquita.

With all the activity going on Port Freeport, its tenants and stakeholders proudly remain dedicated to ensuring safety and security while incorporating environmental sustainability practices. Furthermore, Port Freeport's commitment to our community is unwavering and can be seen through the popular Take-A-Child Fishing Tournament, entering its 18th year, annual golf tournament benefiting Texas Port Ministry and participation with the United Way of Brazoria County.

As Port Freeport continues expanding its role in regional and global commerce and leadership in our community, we look forward to Port commissioners and staff alike working ever more closely with stakeholders to ensure a brighter future for all.

Most appreciatively,

Phyllis Saathoff, CPA, PPM®
Executive Director/CEO

PORT FREEPORT

Directory of Officials

Port Commission

Paul Kresta
Chairman

John Hoss
Vice Chairman

Shane Pirtle
Secretary

Bill Terry
Assistant Secretary

Rudy Santos
Commissioner

Ravi K. Singhania
Commissioner

PORT FREEPORT

Directory of Officials

Executive Staff

Phyllis Saathoff
Executive Director/CEO

John Mannion
Chief Financial Officer

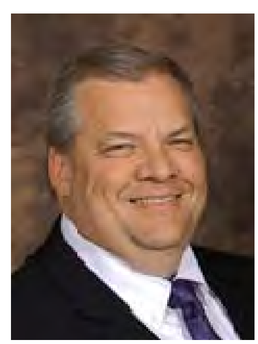
Jason Miura
Director of Business/
Economic Development

Jason Hull
Director of Engineering

Al Durel
Director of Operations

Mary Campus
Controller

Mike Wilson
Director of Economic Development
and Freight Mobility



Chris Hogan
Director of Protective Services

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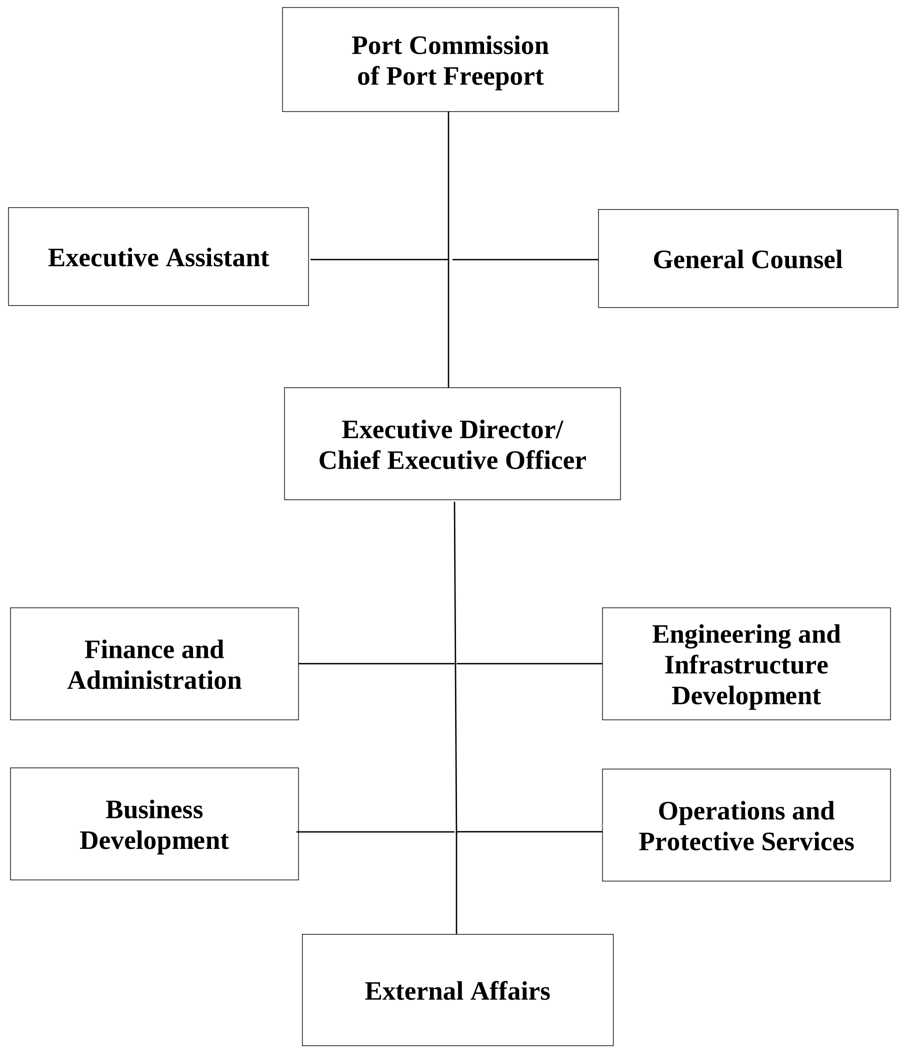
Organizational Chart



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LETTER OF TRANSMITTAL

February 5, 2018

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, 2017 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).

GENERAL

Brazoria County is one of Texas' most fertile agricultural areas, 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 and natural gas processing, offshore production maintenance services, diversified manufacturing, biochemical and electronic industries 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 southern and western portions of the county are currently experiencing substantial industrial expansion with $ 25 billion of new oil-and-gas-related plants coming online. The Brazoria County Index of Leading Economic indicators increased 4.58 percent from August 2016 to August 2017. The Leading Economic Index, which is designed to forecast the economic performance of the county over the next three to six-months, has been above the six-month moving average for ten of the last twelve months. This indicates that the county is likely entering into or is currently experiencing a period of economic growth. (Brazosport College Economic Forecasting Center, 2017).

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 for two commissioner positions held each uneven numbered year.

The Executive Director/CEO 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 September for the next fiscal year beginning October 1. Management periodically presents statements comparing actual with budget, explaining significant variances.

Other Financial information

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

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

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

Independent Auditor. The state statutes require an annual audit by independent certified public accountants. Kennemer, Masters & Lunsford, LLC, the independent certified public accountants selected by the Port Commission, audited the basic financial statements for the year ended September 30, 2017.

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, 2016. 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-eight 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

2017. As a continuation of master planning efforts initiated during 2013, the Port has established four (4) critical strategic objectives. These objectives can be summarized as follows:

- The deepening of the Port's navigational channel to the Federal authorized depth of 56 feet as well as making certain identified navigational improvements to promote safe and efficient transit
- The expansion of the Port's container facilities located on Velasco Terminal
- The establishment of the trade gateway utilizing Texas State Highway 36 and development of rail system connecting the Port to Rosenberg, Texas
- Development of integrated warehousing and rail facilities

Accomplishment of these objectives will be through a phased approach, with a focus on long-term development and reconfiguration of the Port's facilities in order to capture identified addressable market opportunities as well as maintain and grow existing lines of business.

Efforts continued from fiscal 2016 into 2017 include: identification and vetting of navigational improvements to the Freeport Harbor channel supported by vessel simulation; environmental as well as hydrological studies and updated economic analysis; the continuation of land acquisition efforts in the East End of Freeport supporting the expansion of the Port's Velasco Terminal; the completion of detailed engineering plans for the expansion of Velasco Terminal; and, finally, the award and start of construction of the rail development project at a cost of $ 23 million that is estimated to be completed in 3rd quarter 2018.

Future. With a favorable outcome for both the initial reconnaissance and subsequent feasibility studies, the United States Army Corps of Engineers (USCOE) issued its Chief's Report early in 2013 to the United States Congress recommending the deepening of the Freeport Harbor Channel. Acting on this recommendation, Congress included in the Water Resources Reform and Development Act (WRRDA) of 2014 authorization to move forward with the proposed project funding initial construction planning and design work. During 2014, as identified above, it was determined additional improvements, beyond those proposed and authorized in WRRDA, were necessary in order to accommodate the safe navigation of the feasibility study's design vessel. Based on these findings, the Port is actively engaged with the USCOE to develop a process to adjust for these additional requirements, which include bend easing and channel width increases. It is anticipated that costs associated with these improvements will not exceed limits established by Congress and additional authorization will not be necessary. Current estimated totally funded project costs are $ 293 million, which will be shared between the Federal Government and the Port based on defined cost shares.

Permitting and detailed design work for the expansion of Velasco Terminal has been completed and as recommended in the Master Plan, include the extension of Berth 7, construction of Berth 8, construction of a RoRo berth, purchase of additional ship to shore gantry cranes and development of backland to support berth operations. Permit approval is expected in the fall of 2018. Costs associated with this further build out are $ 252 million, which includes the acquisition of four (4) additional ship to shore gantry cranes, and are scheduled out over the next five years.

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

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Report could not have been accomplished without the contributions of the Controller and other Finance Department staff members. They have my sincere appreciation for their dedication and diligence in preparing this report. Thanks and appreciation are extended to the Executive Director/CEO and Commissioners, as well, for their guidance, insight and support throughout the year.

Respectfully Submitted,

John Mannion
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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El Campo Office:
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El Campo, Texas 77437
979-543-6836

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Houston, Texas 77042
281-974-3416

Independent Auditor's Report

To the Port Commissioners
Port Freeport
Freeport, Texas 77541

Report on the Financial Statements

We have audited the accompanying financial statements of Port Freeport ("the Port") as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port, as of September 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 21–31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port's basic financial statements. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
February 5, 2018

PORT FREEPORT

Management Discussion and Analysis

The management of Port Freeport (Port) offers readers this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2017, 2016 and 2015. 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

<u>September 30, 2017</u>

- Total Net Position increased by $ 6.9 million.
- Total Assets increased by $ 1.7 million primarily due to an increase in property, plant and equipment of $ 2.6 million from purchases of land, improvements and building of storage yards and an increase in cash and cash equivalents of $ 6.8 million, offset by a decrease in investments of $ 8.2 million.
- Total Liabilities decreased by $ 5.2 million due to scheduled payments on capital leases and bonds outstanding.
- Change in Net Position was higher than the prior year primarily due to asset demolition expenses in the prior year.

<u>September 30, 2016</u>

- Total Net Position increased by $ 2.3 million.
- Total Assets decreased by $ 1.9 million primarily due to a decrease in cash and cash equivalents as a result of a decrease in trade receivables of $ 1.9 million, expenditure of bond construction funds, asset demolition expenses and increases in property, plant and equipment purchases.
- Total Liabilities decreased by $ 4.2 million due to the payments on capital lease and bonds outstanding.
- The increase in net position was lower than the prior year due to asset demolition expenses.

<u>September 30, 2015</u>

- Total Net Position increased by $ 5.3 million.
- Total Assets increased by $ 34.4 million primarily due to an increase in property, plant and equipment of $ 27.4 million as a result of completion of a new open storage yard and other equipment, an increase in trade receivable of $ 1.6 million, and an increase in cash and cash equivalents of $ 18.8 million offset by a decrease in investments of $ 13.2 million.
- Total Liabilities increased by $ 29.1 million due to an increase in net revenue bonds outstanding.
- The increase in net position was slightly lower than the prior year due to additional depreciation expense.

Overview of Financial Statements

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

PORT FREEPORT

Management Discussion and Analysis

Financial Analysis

Over time, increases or decreases in the Port's net position may serve as a useful indicator of whether the Port's financial position is improving or deteriorating. For the years ended September 30, 2017, 2016 and 2015, the Port's net position increased by 3 percent, 1 percent and 3 percent to $ 209 million, $ 202 million and $ 200 million, respectively.

Net investment in capital assets at September 30, 2017, 2016 and 2015, was $ 165.6 million, $ 160.8 million and $ 146.5 million, or 79 percent, 79 percent and 73 percent of total net position, respectively. Net investment in capital assets includes land, buildings, machinery and equipment less any related debt used to acquire these assets. These net capital assets are recorded at historical cost and are net of depreciation. The remaining net position, at September 30, 2017, 2016 and 2015, are divided into three categories: restricted for debt service, $ 3.8 million, $ 1.0 million and $ 9.1 million; restricted for capital projects and improvements, $ 7.1 million, $ 3.5 million and $ 15 thousand; and unrestricted net position, $ 33.0 million, $ 37.2 million and $ 44.6 million, respectively. Restrictions do not significantly affect the availability of resources for future use.

The Port's total net position increased by $ 6.9 million in 2017, $ 2.3 million in 2016 and $ 5.3 million in 2015. These increases were provided by operating income (including depreciation) of $ 6.4 million, $ 5.7 million and $ 2.9 million; $ 0.5 million, $(3.8) million and $ 2.1 million in non-operating net revenues (expenses) including ad valorem taxes of $ 4.8 million, $ 4.7 million and $ 4.8 million and capital contributions of $ 83 thousand, $ 351 thousand and $ 270 thousand, respectively.

Condensed Statements of Net Position
(in thousands)

	2017	2016	2015
Current and other assets	$ 55,675	$ 56,555	$ 64,581
Capital assets, net of depreciation	242,672	240,071	233,956
Total assets	298,347	296,626	298,537
Deferred outflows of resources – refunding costs	12	13	15
Total deferred outflows of resources	12	13	15
Current liabilities	16,931	16,984	16,173
Non-current liabilities	71,982	77,158	82,168
Total liabilities	88,913	94,142	98,341
Deferred inflows of resources			
Total deferred inflows of resources	-0-	-0-	-0-
Net investment in capital assets	165,636	160,808	146,478
Restricted for debt service	3,759	997	9,133
Restricted for capital projects and improvements	7,077	3,457	15
Unrestricted	32,974	37,235	44,585
Total net position	$ 209,446	$ 202,497	$ 200,211

PORT FREEPORT

Management Discussion and Analysis

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

	2017	2016	2015
Operating revenues:			
Harbor operations	$ 8,665	$ 8,870	$ 7,978
Lease income	13,360	12,796	10,564
Miscellaneous	59	19	48
Total operating revenues	22,084	21,685	18,590
Operating expenses:			
Payroll and related	4,022	3,999	3,572
Professional services	1,887	1,916	1,731
Supplies and other	1,654	2,060	2,376
Utilities, maintenance and repairs	1,253	1,188	1,561
Depreciation	6,910	6,835	6,426
Total operating expenses	15,726	15,998	15,666
Operating income	6,358	5,687	2,924
Non-operating revenues (expenses):			
Ad valorem tax, net of collection expenses	$ 4,842	$ 4,701	$ 4,751
Investment income	414	289	117
Dredge material replacement fees		382	
Gain (loss) on sale of capital assets and other	(25)	(4,541)	3
Debt interest and fees	(2,958)	(3,166)	(1,922)
Other	(1,765)	(1,417)	(837)
Total non-operating revenues (expenses)	508	(3,752)	2,112
Income before capital contributions	6,866	1,935	5,036
Capital contributions - grants	83	351	270
Change in net position	6,949	2,286	5,306
Total net position – beginning	202,497	200,211	194,905
Total net position – ending	$ 209,446	$ 202,497	$ 200,211

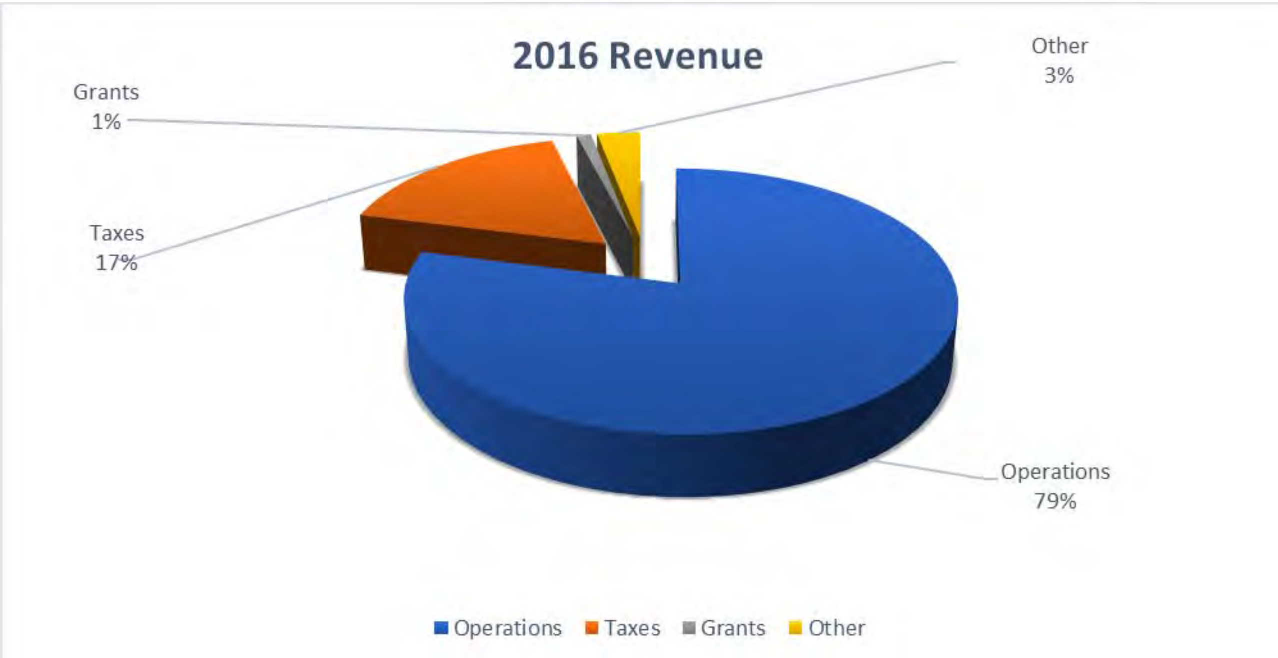
Total revenues, including capital contributions, have been relatively consistent comparing the current year with the prior year and an increase reflected over the past two years. Total revenues for 2017, 2016, and 2015, were $ 27.4 million, $ 27.4 million, and $ 23.7 million, respectively. Operating revenues increased by $ 399 thousand in 2017 to $ 22.1 million, increased by $ 3.1 million in 2016 to $ 21.7 million, and increased $ 1.6 million in 2015 to $ 18.6 million. Tonnage overall decreased 30 percent to 2.1 million tons in 2017 while ship calls increased 3 percent and barge calls decreased 23 percent. Tonnage overall increased 2 percent to 3.0 million tons in 2016 while ship calls increased 3 percent and barge calls increased 34 percent. Tonnage overall increased 14 percent to 2.9 million tons in 2015 while ship calls increased 3 percent and barge calls decreased 8 percent. Green fruit imports decreased 11 percent or 39 thousand tons, increased 1 percent or 4 thousand tons, and increased 10 percent or 31 thousand tons, in 2017, 2016 and 2015, respectively. Rice exports increased 66 percent to 38 thousand tons in 2017, decreased 42 percent to 58 thousand tons in 2016, and increased 70 percent to 99 thousand tons in 2015. Domestic rice activity decreased 51 percent to 27 thousand tons in 2017, increased 101 percent to 55 thousand tons in 2016, and increased 9 percent to 27 thousand tons in 2015. This was also directly related to the 23 percent increase in barge calls for 2017, 34 percent increase in barge calls for 2016, and 8 percent increase in barge calls for 2015. There were no imports of liquefied natural gas for 2017, imports of 139 thousand tons in 2016 and 125 thousand tons in 2015.

PORT FREEPORT

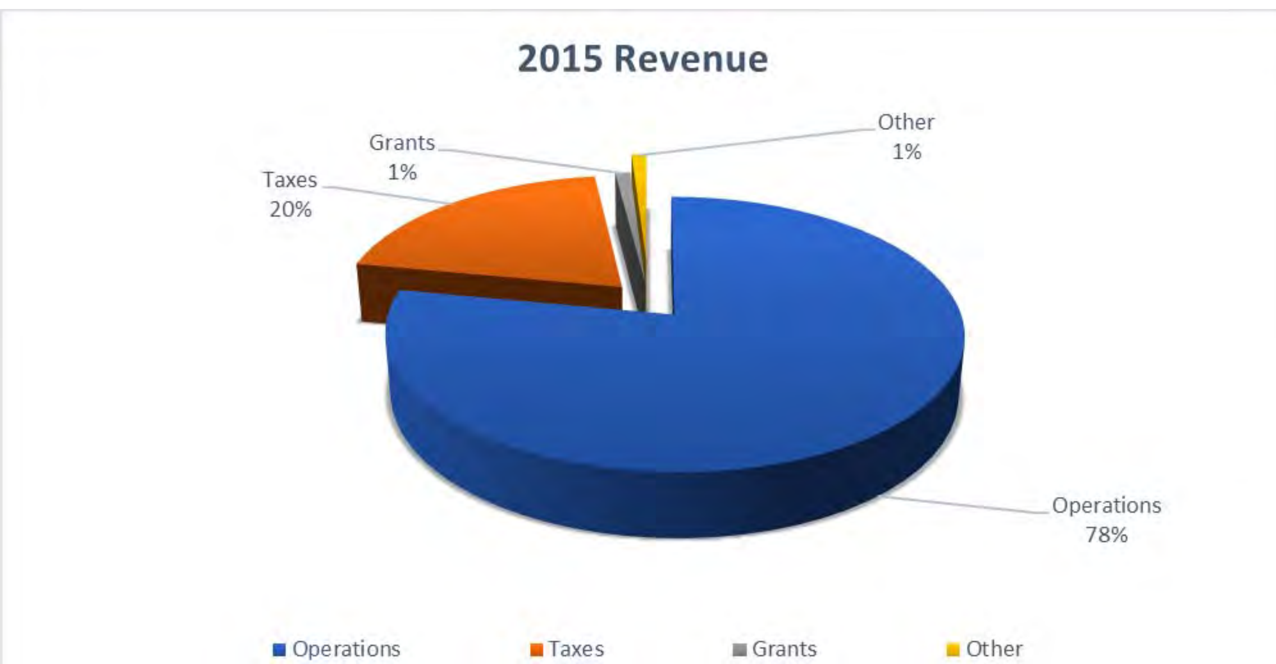
Management Discussion and Analysis

There were no exports of liquefied natural gas for 2017, 134 thousand tons in 2016, and there were no export liquefied natural gas tonnages in 2015. Bulk limestone decreased 42 percent to 599 thousand tons in 2017, decreased 14 percent to 1.4 million tons in 2016, and increased 37 percent to 1.6 million tons in 2015. Ro-Ro cargo tonnage decreased 41 thousand tons in 2017 to 183 thousand tons, increased 339% to 224 thousand tons in 2016 and began in 2015 at 51 thousand tons. General export cargo decreased 12 percent to 477 thousand tons in 2017, increased 7 percent to 546 thousand tons in 2016, and increased 3 percent to 512 thousand tons in 2015. Total lease revenue increased 4.4 percent in 2017, increased 21.1 percent in 2016, and increased 51.9 percent in 2015; ground lease revenue increased \$ 0.5 million in 2017, increased \$ 1.9 million in 2016, and increased \$ 3.6 million in 2015 due to new customers as well as contractual rate adjustments. Other leases increased \$ 58 thousand in 2017 and increased \$ 333 thousand in 2016 due to new customers and remained relatively consistent for 2015 as comparing 2014.

Ad valorem tax revenue was \$ 4.8 million, \$ 4.7 million and \$ 4.8 million in 2017, 2016 and 2015, respectively. The tax rate reduced from 4.1304 to 4.01 cents per hundred-dollar valuation in 2017, the tax rate reduced from 4.5 to 4.1304 cents per hundred-dollar valuation in 2016, and the tax rate remained the same in total for 2015 as compared to 2014. Investment income increased by \$ 125 thousand in 2017 as compared to 2016 due to increases in interest rates and in funds available for investment, investment income increased by \$ 172 thousand in 2016 as compared to 2015 as a result of increase funds available for investment, and investment income decreased by \$ 148 thousand in 2015 as compared to 2014 due to a net change in investment market values. Grant revenues in 2017 decreased to \$ 83 thousand, increased in 2016 to \$ 351 thousand, and decreased in 2015 to \$ 270 thousand due to a decrease in Port Security grant expenditures and related revenue. Capital contributions in 2017, 2016 and 2015 were directly related to contributions to others made by the Port for grant and capital related projects. Loss on sale of capital assets and other in 2016 included \$ 3.4 million loss on capital assets disposal and \$ 1.1 million demolition expenses.



2016 Revenue
Grants
1%
Other
3%
Taxes
17%
Operations
79%
Operations
Taxes
Grants
Other



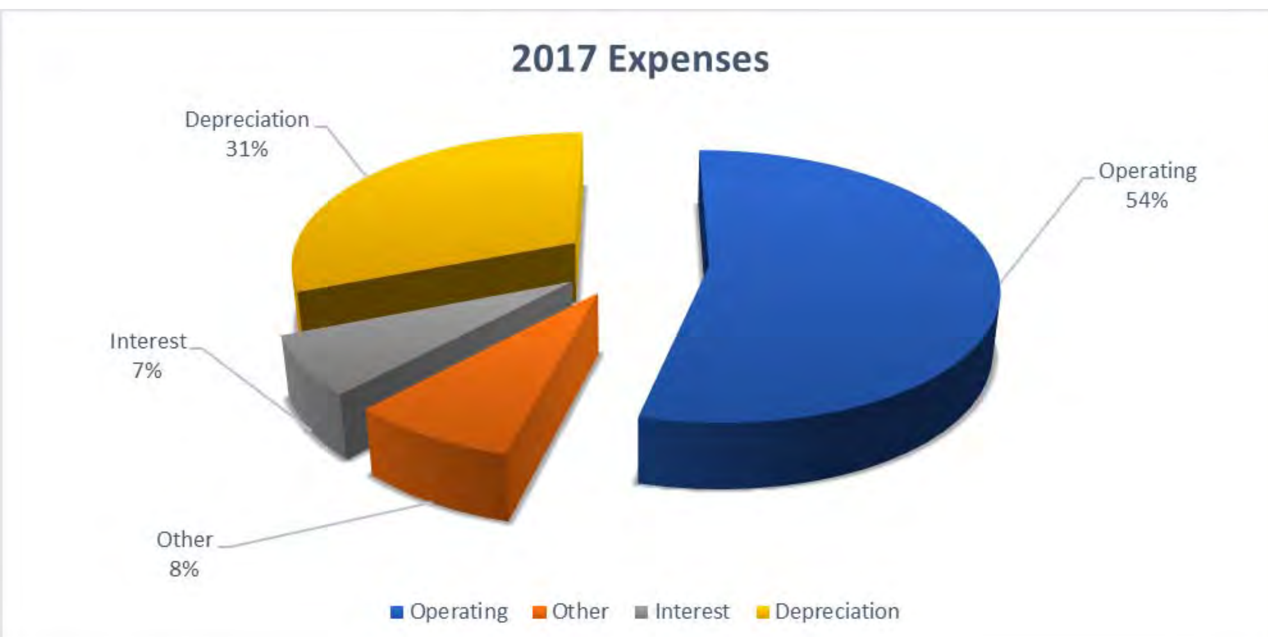
2015 Revenue
Grants
1%
Other
1%
Taxes
20%
Operations
78%
Operations
Taxes
Grants
Other

PORT FREEPORT

Management Discussion and Analysis

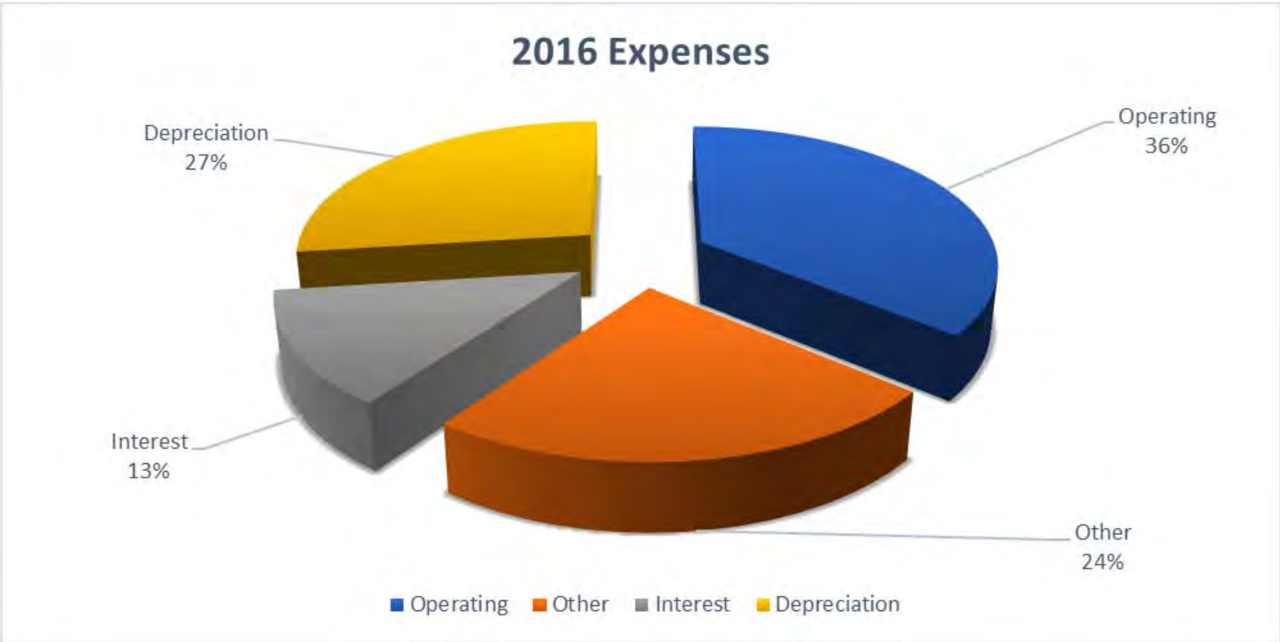
Total expenses decreased 19 percent to 20.5 million from 25.1 million in 2017, increased 36 percent to 25.1 million from 18.4 million in 2016, and increased 7 percent to $ 18.4 million from $ 17.2 million in 2015. Operating expenses, including depreciation, were $ 15.7 million in 2017 decreasing $ 273 thousand or 2 percent, $ 16.0 million in 2016 increasing $ 332 thousand or 2 percent, and $ 15.7 million in 2015 increasing $ 1.2 million or 8 percent. Payroll and related expenses in 2017 were consistent with 2016, increased by 12 percent in 2016 primarily due to open positions in 2015 which were filled, and general compensation adjustments, and decreased by 11 percent in 2015 primarily due to five open positions during the year and an increase in compensation. Professional services expenses in 2017 was consistent with 2016, increased by $ 185 thousand in 2016 and $ 298 thousand in 2015 due to the increase of fees associated with security. Supplies and other expenses have decreased $ 406 thousand in 2017 as compared to 2016, decreased $ 316 thousand in 2016 as compared to 2015 both due to decreases in business insurance expense, and contracted services, relatively consistent in 2015 as compared to 2014 with no significant changes in port operations. Utilities and maintenance expenses were consistent in 2017 and in 2016 as compared to the prior years, and increased by $ 307 thousand in 2015 as compared to 2014 due to maintenance of the crane and other cargo equipment. Depreciation expense in 2017 was consistent with 2016, in 2016 increased by 6%, and in 2015 increased by 21% both due to the addition of new equipment and capital assets.

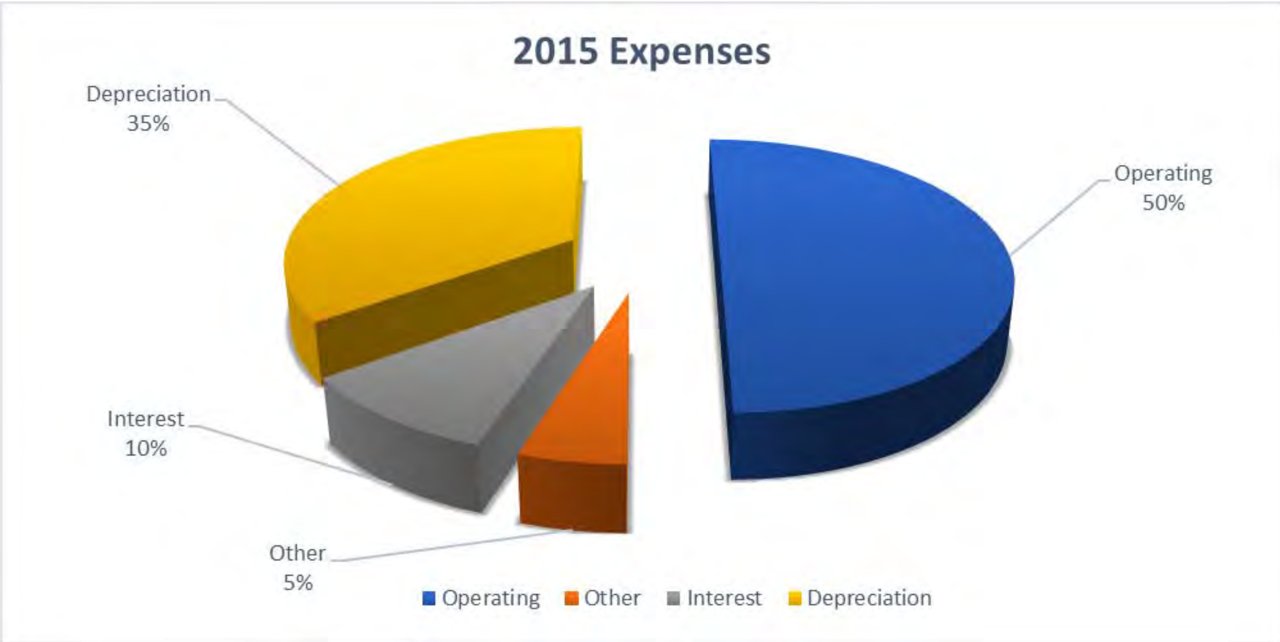
The Port had a small loss on the sale of capital assets in 2017, $ 4.5 million loss on sale of capital assets and others, which included $ 3.4 million loss on capital assets disposal and $ 1.1 million on demolition expenses in 2016, and a small gain on the sale of capital assets in 2015. Debt interest and fees were 3.0 million in 2017, $ 3.2 million in 2016, and $ 1.9 million in 2015 for paying outstanding debt. Other expenses of $ 1.8 million in 2017, $ 1.4 million in 2016, and $ 837 thousand in 2015 were capital contribution made to others.



PORT FREEPORT

Management Discussion and Analysis





PORT FREEPORT

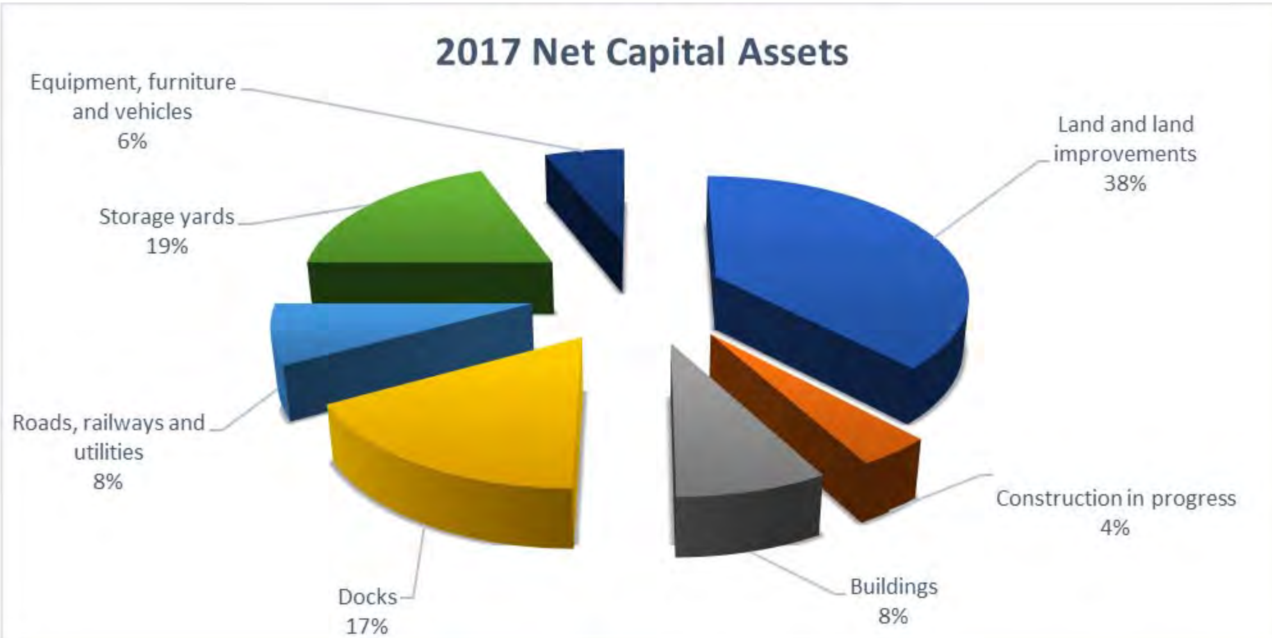
Management Discussion and Analysis

Capital Assets and Long Term Debt

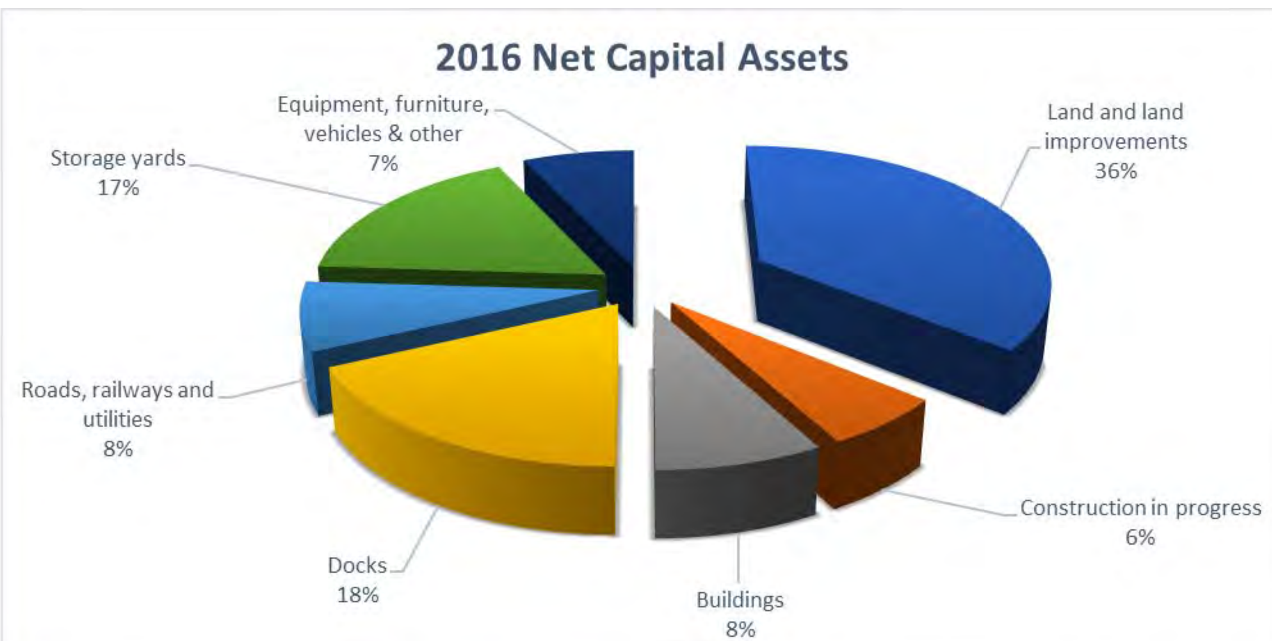
The Port's capital assets are $ 242.7 million, 240.1 million and $ 234.0 million, net of depreciation, as of September 30, 2017, 2016 and 2015, respectively. The capital assets include land and land improvements, docks and appurtenances, buildings, storage yards, equipment, roads and railways, utilities and construction in progress. In 2017, 2016 and 2015 there were additions of $ 9.5 million, $ 16.4 million, and $ 33.8 million (net of construction in progress placed in service) with depreciation of $ 6.9 million, $ 6.8 million, and $ 6.4 million, respectively.

Regarding additions, the new Administration building added $ 6.6 million to buildings in 2016, security gate improvements added $ 353 thousand to buildings in 2015, and administration office renovations added $ 116 thousand to buildings in 2014. Land and improvements additions were $ 4.7 million, $ 1.7 million, and $ 247 thousand 2017, 2016, and 2015, respectively, primarily related to the Velasco Terminal civil site work, and land acquisitions of properties adjacent to the Port. Inner Harbor Berth repairs added $ 120 thousand in 2016 and $ 704 thousand in 2015. Road repairs for 2017 totaled $ 30 thousand, railroad track renovations and repairs for 2016 totaled $ 385 thousand. Storage yard additions totaled $ 6.7 million in 2017 and $ 2.2 million in 2016. Equipment, furniture, vehicles and other additions totaled $ 216 thousand in 2017, $ 820 thousand in 2016 and $ 577 thousand in 2015 with the purchase of tools and equipment. Railroad track renovations and repairs to the electrical distribution system for 2015 totaled $ 2.1 million. Storage yard additions totaled $ 25.1 million in 2015. Gross additions to construction in progress were $ 4.1 million in 2017, $ 8.3 million in 2016, and $ 6.6 million in 2015, including the Freeport Channel improvements and Velasco Terminal improvements. Construction in progress placed in service totaled $ 7.2 million in 2017, $ 3.8 million in 2016, and $ 1.9 million in 2015, respectively. Additional information on capital assets can be found in Note 4 on pages 45-47 of this report.

Total bonds payable are $ 65.7 million at September 30, 2017, $ 69.3 million at September 30, 2016, and $ 73.4 million at September 30, 2015. Senior Lien Revenue Bonds, Series 2013A, 2013B and 2013C were issued in June of 2013. The 2013A series bonds were issued to refund the 2008 Series bonds, which were set to mature in 2028. The 2013B and 2013C series bonds were issued to complete the construction of the new Velasco Terminal and resulting expansion of related business. 2013B series were refunded in 2015 and 2013C series were paid off in 2014. Senior Lien Revenue and Refunding Bonds, Series 2015A, were issued in September 23, 2015. The 2015A series bonds were issued to refund the Port's outstanding Senior Lien Revenue Notes, Series 2013B and to provide for financing to acquire, construct and develop repairs and improvements to and equip a container terminal complex and an automobile processing facility. As of September 30, 2017, the amount outstanding on these revenue bonds was $ 63.4 million, $ 66.0 million at September 30, 2016 and $ 69.1 million at September 30, 2015. 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, 2017, the Port had general obligation bonds payable of $ 2.3 million, $ 3.3 million at September 30, 2016 and $ 4.3 million at September 30, 2015. The final maturity for these general obligation bonds is 2019. The debt service for these bonds is paid from ad valorem tax revenue. On September 30, 2014, the Port entered into a capital lease financing agreement ("Master Lease-Purchase Financing Agreement") with Chase Bank in the amount of $ 14.1 million with a balance at September 30, 2017 of $ 10.2 million, at September 30, 2016 of $ 11.5 million, and at September 30, 2015 of $ 12.8 million. The agreement calls for annual principal and interest payments beginning on September 30, 2015 and ending on September 30, 2024. The Capital lease represents a refinancing of the two cranes purchased during the year ended September 30, 2014 based on a Reimbursement Agreement (Resolution Expressing Intent to Finance Expenditures Incurred) adopted by the Board of Commissioners' on August 8, 2013. Additional information on long-term debt activity can be found in Note 5 on pages 48-50 of this report.



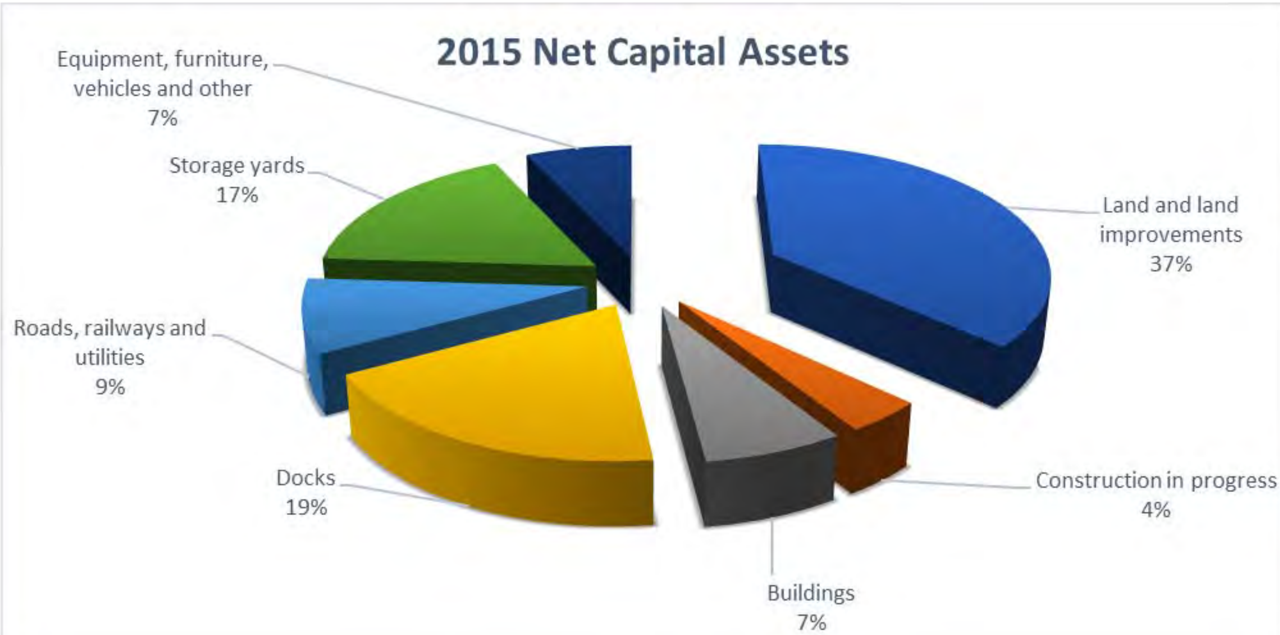
2017 Net Capital Assets
Equipment, furniture and vehicles 6%
Land and land improvements 38%
Storage yards 19%
Roads, railways and utilities 8%
Construction in progress 4%
Docks 17%
Buildings 8%



2016 Net Capital Assets
Equipment, furniture, vehicles & other 7%
Land and land improvements 36%
Storage yards 17%
Roads, railways and utilities 8%
Construction in progress 6%
Docks 18%
Buildings 8%

PORT FREEPORT

Management Discussion and Analysis



Outlook

There are a number of significant developments known at this time, which will affect the future financial performance of the Port, both in the long- and mid-term time periods. With the opening of the first phase of the Velasco Container Terminal Berth 7 and improvements to existing Port facilities to establish an automobile and heavy equipment-processing terminal, Port Freeport is positioned to continue its growth, creating additional opportunities for existing clientele and offering opportunities for new lines of business.

With the completion of the initial reconnaissance and subsequent feasibility study, The U.S. Army Corps of Engineers (USCOE) issued a Chiefs report in January of 2013 indicating a Federal interest, supported by favorable project economics, to deepen the Port Freeport Navigational Channel to a depth of up to 56 feet from the current 46 feet. At present, the project is authorized as part of the Water Resources Reform and Development Act of 2014 (WRRDA). During 2014, it was determined additional improvements, beyond those proposed and authorized in WRRDA, were necessary for the safe navigation of the feasibility study's design vessel. Based on these findings, the Port has been actively engaged with the USCOE to produce a General Reevaluation Report (GRR) outlining a process to adjust for these additional requirements, which include bend easing and channel width increases. The GRR is anticipated to be approved by September 2018 with construction of the proposed improvements beginning in early 2019. Following the GRR phase, development of the preliminary engineering and design (PED) and the project management plan (PMP) will begin, taking approximately a year to complete. Following approval of the PED and PMP, project construction will be completed over a five year period at an estimated totally funded cost of $ 293 million to be cost-shared between the Federal government and the Port on a 50-50 basis for depths below 56 feet and on a 75-25 basis for depths less than 51 feet. These planned improvements will allow the Port and other harbor users to bring in larger vessels and a greater volume of ships, providing for a fuller utilization of existing and planned facilities.

Included in the Port's developmental planning efforts is the build-out of Velasco Container Terminal. Designs for the extension of Berth 7, construction of Berth 8, and a RoRo ramp as well as development of backland to support the berths has been completed and the permit application has been submitted to the USCOE. Permit approval is expected in the fall of 2018. Costs associated with this plan are $ 252 million, scheduled over the next five years and including the acquisition of four (4) additional ship to shore gantry cranes and properties located in the East End of Freeport.

PORT FREEPORT

Management Discussion and Analysis

A combination of public and private funding sources is anticipated to fund this project. Any resulting partnership with the private sector will likely provide revenue streams in the form of fixed annual facility payments and throughput on cargos handled across the terminals berths.

Other development plans include the stabilization of additional land for laydown areas for project cargo, automotive and heavy equipment, the construction of warehousing, and rail facilities. These initiatives are estimated to cost $ 54 million and will further enhance the capabilities and service offerings of the Port. Long-term funding for the rail development is anticipated through issuance of Port Revenue Bonds. The development of warehousing facilities and stabilization of laydown areas will be funded through a combination of public and private sources.

In 2004 Freeport LNG Development, L.P. (FLNP) received approval from the Federal Energy Regulatory Commission (FERC) for construction of a re-gas facility to receive and store imported liquefied natural gas (LNG), convert the product back to a gas form and transport it to commercial and industrial users via pipeline. This facility was completed and placed in operation in the second quarter of 2008. With the announcement of shale oil and gas plays in Texas and other regions of the United States, FLNG refocused its operations on the exportation of LNG and began the permitting process with FERC in 2010. To date they have received all of the necessary permits. With the closing on the necessary funding, construction commenced on three (3) export facilities during 2016 and will be brought online one facility, at a time, at six-month intervals beginning during the Fall of 2018. This operation has and will continue to provide significant increases to the Port's lease and cargo revenues as operations ramp up.

In response to the aforementioned oil and gas shale plays, Tenaris Global Services (U.S.A.) Corporation, a wholly owned subsidiary of Tenaris, S.A., began construction in 2015 of a seamless pipe fabrication facility located in Bay City, Texas. Operations commenced in the fourth quarter of 2017 and are projected to provide substantial revenues to the Port from both cargo handling and leasing activities. The Port expects to receive both imports of raw materials in the form of steel billets to be transported to the production facility and a portion of the plant's finished products for short-term storage at the Port and export shipment.

Lastly, spurred by the general U.S. and Texas state economic recoveries as well as expansion of domestic oil and gas production, the Freeport based polymer manufacturers and other petrochemical companies have resumed planned development and expansion of production facilities. This has created opportunities to handle both bulk as well as project cargo construction materials, which utilized the Port's berths, warehouse spaces and cargo lay down areas. These activities are expected to increase operating revenues over the next 3-5 years.

Requests for Information

This financial report is designed to provide a general overview of Port Freeport's finances and the Port's accountability for the money it receives. If you have questions about this report or need additional information, contact John Mannion, Chief Financial Officer, at Port Freeport, 1100 Cherry Street, Freeport, Texas 77541.

PORT FREEPORT

Statements of Net Position

September 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets:		
Cash and cash equivalents	$ 19,845,128	$ 18,919,591
Investments	20,597,200	26,448,818
Receivables:		
Trade accounts (less allowance for uncollectible accounts - 2017, $ 21,824; 2016, $ 15,867)	1,559,600	1,239,263
Property taxes (less allowance for uncollectible accounts - 2017, $ 41,135; 2016, $ 47,409)	74,241	68,232
Other	109,836	86,430
Other governments	678,008	671,043
Accrued interest	44,325	53,869
Prepaid	641,568	589,956
Inventory	422,292	327,672
Total unrestricted current assets	43,972,198	48,404,874
Restricted Current Assets:		
Cash and cash equivalents	9,349,083	3,492,405
Investments	2,317,615	4,620,467
Receivables:		
Property taxes (less allowance for uncollectible accounts - 2017, $ 12,187; 2016, $ 13,904)	24,216	22,617
Accrued interest receivable	11,290	13,076
Other	687	1,520
Total restricted current assets	11,702,891	8,150,085
Total current assets	55,675,089	56,554,959
Property, plant and equipment (less accumulated depreciation - 2017, $ 64,759,503; 2016, $ 57,970,942)	242,672,190	240,070,776
Total non-current assets	242,672,190	240,070,776
Total assets	298,347,279	296,625,735
Deferred Outflows of Resources:		
Deferred outflows of resources – Refunding costs	12,418	13,581
Total deferred outflows of resources	12,418	13,581

(continued)

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities:		
Accounts payable and accrued expenses	$ 6,833,511	$ 7,149,951
Unearned lease income	3,935,400	3,789,752
Accrued compensated absences	120,000	120,000
Total current liabilities	10,888,911	11,059,703
Current Liabilities Payable from Restricted Assets:		
Accrued bond interest payable	866,656	899,001
Capital lease	1,359,680	1,329,033
Bonds payable	3,816,033	3,696,033
Total current liabilities payable from restricted assets	6,042,369	5,924,067
Total current liabilities	16,931,280	16,983,770
Non-current Liabilities:		
Capital lease	8,842,417	10,202,097
Bonds payable	63,030,069	66,846,102
Accrued compensated absences	109,385	109,654
Total non-current liabilities	71,981,871	77,157,853
Total liabilities	88,913,151	94,141,623
Deferred Inflows of Resources:		
Deferred inflows of resources		
Total deferred inflows of resources	-0-	-0-
Net Position:		
Net investment in capital assets	165,636,409	160,808,124
Restricted:		
Debt service	3,758,737	997,405
Capital projects and improvements	7,077,498	3,456,647
Unrestricted	32,973,902	37,235,517
Total net position	$ 209,446,546	$ 202,497,693

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

PORT FREEPORT℠

PORT FREEPORT

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenues:		
Harbor Operations:		
Wharfage	$ 4,847,411	$ 4,334,632
Dockage	1,246,826	1,556,143
Service, facility use and other fees	2,571,349	2,978,082
Lease income	13,359,626	12,796,464
Miscellaneous	58,580	19,420
Total operating revenues	22,083,792	21,684,741
Operating Expenses:		
Payroll and related	4,022,319	3,998,844
Professional services	1,886,579	1,916,292
Supplies and other	1,653,856	2,060,069
Utilities	531,284	517,132
Maintenance and repairs	722,055	671,078
Depreciation	6,909,551	6,834,913
Total operating expenses	15,725,644	15,998,328
Operating income	6,358,148	5,686,413
Non-Operating Revenues (Expenses):		
Ad valorem tax, net of collection expenses	4,841,680	4,701,307
Investment income	414,302	289,226
Dredge material placement fees		381,872
Loss on sale of capital assets	(25,722)	(4,541,318)
Debt interest and fees	(2,957,986)	(3,165,710)
Other	(1,764,954)	(1,417,291)
Total non-operating revenues (expenses)	507,320	(3,751,914)
Income before capital contributions	6,865,468	1,934,499
Capital contributions - grants	83,385	351,434
Change in net position	6,948,853	2,285,933
Total net position – beginning	202,497,693	200,211,760
Total net position – ending	$ 209,446,546	$ 202,497,693

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, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Cash received from customers	$ 21,888,316	$ 23,621,909
Cash paid to suppliers for goods and services	(5,256,446)	(4,517,376)
Cash paid to employees for services and benefits	(4,022,588)	(3,975,605)
Net cash provided by operating activities	12,609,282	15,128,928
Cash Flows from Non-capital Financing Activities:		
Property tax receipts	4,891,465	4,784,505
Property tax collection expenses	(57,393)	(56,872)
Dredge disposal fee		381,872
Contribution to others	(1,748,304)	(1,417,291)
Emergency recovery efforts	(16,650)	
Demolition expenses		(1,097,568)
Net cash provided by non-capital financing activities	3,069,118	2,594,646
Cash Flows from Capital and Related Financing Activities:		
Principal payments under bond obligations	(3,696,033)	(4,121,034)
Principal payments under capital leased obligations	(1,329,033)	(1,299,076)
Interest and fees paid under debt obligations	(2,989,168)	(2,601,541)
Land & equipment purchases	(9,536,687)	(16,392,777)
Grants received	76,420	422,685
Net cash used by capital and related financing activities	(17,474,501)	(23,991,743)
Cash Flows from Investing Activities:		
Purchase of investments	(12,953,105)	(40,021,479)
Proceeds from sale and maturity of investments	21,070,000	17,208,000
Investment earnings	461,421	286,561
Net cash provided by (used by) investing activities	8,578,316	(22,526,918)
Increase (decrease) in cash and cash equivalents	6,782,215	(28,795,087)
Cash and cash equivalents, October 1,	22,411,996	51,207,083
Cash and cash equivalents, September 30,	$ 29,194,211	$ 22,411,996

(continued)

PORT FREEPORT

Statements of Cash Flows - Continued
For the Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	$ 6,358,148	$ 5,686,413
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	6,909,551	6,834,913
Change in assets and liabilities:		
Accounts receivable	(320,337)	1,897,408
Other receivables	(20,787)	(58,461)
Inventory	(94,620)	(39,395)
Prepaid and other	(51,612)	150,275
Accounts payable and accrued expenses	(316,440)	536,315
Unearned lease income	145,648	98,221
Accrued compensated absences	(269)	23,239
Net cash provided by operating activities	$ 12,609,282	$ 15,128,928
Non-cash Transactions Affecting Financial Position:		
Change in value of investments – from cost to fair value	$ 29,687	$ 37,575
Net effect of non-cash transactions	$ 29,687	$ 37,575

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, 2017 and 2016

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Note **Page**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Port's reporting entity. Individual financial statements for each component unit can be obtained from the office of Port Freeport.

Included within the reporting entity:

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

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

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

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

B. BASIS OF ACCOUNTING

The Port follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all GASB pronouncements as well as the Financial Accounting Standards Board ("FASB") pronouncements issued, 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

No amounts for 2016 have been reclassified to conform to the 2017 presentation.

D. NEW PRONOUNCEMENTS

GASB No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68” was issued June 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” was issued June 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was issued June 2015. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” was issued June 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77, “Tax Abatement Disclosures” was issued in August 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans” was issued in December 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79, “Certain External Investment Pools and Pool Participants” was issued in December 2015. The statement was implemented and did not have a material impact on the Port’s financial statements. This statement is effective for periods beginning after December 15, 2015.

PORT FREEPORT

Notes to Financial Statements
For the Years Ended September 30, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. NEW PRONOUNCEMENTS - Continued

GASB No. 80 "Blending Requirements for Certain Component Units and amendment of GASB No. 14" was issued in January 2016. The statement was implemented and did not have a material impact on the Port's financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 "Irrevocable Split-Interest Agreements" was issued in March 2016. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 "Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73" was issued in March 2016. The statement was implemented and did not have a material impact on the Port's financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

GASB No. 83 "Certain Asset Retirement Obligations" was issued in November 2016. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 "Fiduciary Activities" was issued in January 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 "Omnibus 2017" was issued in March 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 86 "Certain Debt Extinguishment Issues" was issued in May 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 "Leases" was issued in June 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this Statement are effective for periods beginning after December 15, 2019.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value.

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

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. No interest was capitalized for the year ended September 30, 2017 and 2016.

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 unrestricted and restricted for debt service based on the percent of the levy available for maintenance and operations, and general obligation bond debt service.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. PROPERTY TAXES - Continued

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, 2017 and 2016, the Commission levied taxes at a rate of $ 0.009754 and $ 0.010396 for debt service and a rate of $ 0.030346 and $ 0.030908 for operation and maintenance, for a total tax rate of $ 0.0401 and $ 0.041304 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.

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, 2017 and 2016 were $ 229,385 and $ 229,654, respectively.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as expenses in the current period. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 2. DEPOSITS AND INVESTMENTS

The Port classifies deposits and investments for financial statement purposes as cash and temporary investments and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments and investments, as reported on the statements of net position at September 30, 2017 and 2016, are as follows:

September 30, 2017	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 1,390	$	$ 1,390
Financial Institution Deposits:			
Demand deposits	6,364,095	633,838	6,997,933
State Treasury Investment Pool:			
Texpool	13,479,643	8,715,245	22,194,888
Total cash and temporary investments	$ 19,845,128	$ 9,349,083	$ 29,194,211
Investments:			
Investments Held by Broker-Dealers:			
U.S. Agencies	$ 20,597,200	$ 2,317,615	$ 22,914,815
Total investments	$ 20,597,200	$ 2,317,615	$ 22,914,815

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

September 30, 2016	Unrestricted	Restricted	Total
Cash and Temporary Investments:			
Cash (petty cash accounts)	$ 1,390	$	$ 1,390
Financial Institution Deposits:			
Demand deposits	1,607,519	43,500	1,651,019
State Treasury Investment Pool:			
Texpool	17,310,682	3,448,905	20,759,587
Total cash and temporary investments	$ 18,919,591	$ 3,492,405	$ 22,411,996
Investments:			
Investments Held by Broker-Dealers:			
U.S. Agencies	$ 26,448,818	$ 4,620,467	$ 31,069,285
Total investments	$ 26,448,818	$ 4,620,467	$ 31,069,285

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, 2017, the carrying amount of the Port's deposits was $ 16,696,933 while the financial institution balances totaled $ 17,163,995. Of the financial institution balances, $ 264,273 was covered by federal deposit insurance, $ 14,217,362 was covered by the Securities Investor Protection Corporation insurance, and $ 2,682,360 was covered by collateral held by the Port's agent in the Port's name. At September 30, 2016, the carrying amount of the Port's deposits was $ 14,781,019 while the financial institution balances totaled $ 14,981,763. Of the financial institution balances, $ 264,710 was covered by federal deposit insurance, $ 13,188,627 was covered by the Securities Investor Protection Corporation insurance, and $ 1,528,426 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.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

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

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

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

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, 2017 and 2016 TexPool had a weighted average maturity of 37 and 48, respectively. Although TexPool portfolios had a weighted average maturity of 37 and 48 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, 2017 and 2016.

	September 30, 2017		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 13,479,643	$ 8,715,245	$ 22,194,888
Certificates of deposit	7,840,000	1,860,000	9,700,000
U.S. Government Bonds	12,193,961	244,082	12,438,043
Municipal Bonds	563,239	213,533	776,772
Total investments	$ 34,076,843	$ 11,032,860	$ 45,109,703

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

	September 30, 2016		
Investment Type	Unrestricted	Restricted	Total
Local government investment pool	$ 17,310,682	$ 3,448,905	$ 20,759,587
Certificates of deposit	11,270,000	1,860,000	13,130,000
U.S. Governmental Bonds	14,858,802	2,213,919	17,072,721
Municipal Bonds	320,016	546,548	866,564
Total investments	$ 43,759,500	$ 8,069,372	$ 51,828,872

Unrestricted Funds

As of September 30, 2017, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 13,479,643	37
Certificates of deposit	7,840,000	117
U.S. Government Bonds	12,193,961	354
Municipal Bonds	563,239	339
	$ 34,076,843	174

As of September 30, 2016, the Port's unrestricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 17,310,682	48
Certificates of deposit	11,270,000	159
U. S. Government Bonds	14,858,802	540
Municipal Bonds	320,016	731
	$ 43,759,500	248

Credit Risk – As of September 30, 2017, the LGIP (which represent approximately 39% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The remaining portfolio is made up of certificates of deposit (which represent approximately 23% of the unrestricted portfolio), U.S government bonds (which represent approximately 36% of the unrestricted portfolio), and Municipal bonds (which represent approximately 2% of the unrestricted portfolio). As of September 30, 2016, the LGIP (which represent approximately 39% of the unrestricted portfolio) is rated AAAm by Standard and Poor's. The remaining portfolio is made up of certificates of deposit (which represent approximately 26% of the unrestricted portfolio), U.S government bonds (which represent approximately 34% of the unrestricted portfolio), and Municipal bonds (which represent approximately 1% of the unrestricted portfolio).

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

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, 2017, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 8,715,245	37
Certificates of deposit	1,860,000	1283
U.S. Treasuries	244,082	1369
Municipal Bonds	213,533	435
	$ 11,032,860	284

As of September 30, 2016, the Port's restricted funds had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pool	$ 3,448,905	48
Certificates of deposit	1,860,000	272
U.S. Governmental Bonds	2,213,919	84
Municipal Bonds	546,548	124
	$ 8,069,372	115

Credit Risk – As of September 30, 2017, the LGIP (which represents approximately 79% of the restricted portfolio) is rated AAAm by Standard and Poor's. The remaining portfolio is made up of certificates of deposits (which represent approximately 17% of the restricted portfolio), U.S. governmental bonds (which represent approximately 2% of the restricted portfolio) Municipal Bonds (which represent approximately 2% of the restricted portfolio). As of September 30, 2016, the LGIP (which represents approximately 43% of the restricted portfolio) is rated AAAm by Standard and Poor's. The remaining portfolio is made up of certificates of deposits (which represent approximately 23% of the restricted portfolio), U.S. governmental bonds (which represent approximately 27% of the restricted portfolio) Municipal Bonds (which represent approximately 7% of the restricted portfolio).

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

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Calculation of the net increase (decrease) in fair value of investments as of September 30, 2017 and 2016 utilizing the aggregate method is as follows:

	2017		
	Unrestricted	Restricted	Total
Fair value at September 30, 2017	$ 20,597,200	$ 2,317,615	$ 22,914,815
Add: Proceeds of investments sold	18,775,000	2,295,000	21,070,000
Less: Cost of investments purchased	(12,945,217)		(12,945,217)
Less: Fair value at September 30, 2016	(26,448,818)	(4,620,467)	(31,069,285)
Changes in fair value of investments for the year ended September 30, 2017	$(21,835)	$(7,852)	$(29,687)

	2016		
	Unrestricted	Restricted	Total
Fair value at September 30, 2016	$ 26,448,818	$ 4,620,467	$ 31,069,285
Add: Proceeds of investments sold	13,985,000	3,223,000	17,208,000
Less: Cost of investments purchased	(33,949,724)	(6,071,755)	(40,021,479)
Less: Fair value at September 30, 2015	(7,052,003)	(1,241,378)	(8,293,381)
Changes in fair value of investments for the year ended September 30, 2016	$(567,909)	$ 530,334	$(37,575)

These changes in fair value for the years ended September 30, 2017 and 2016 are reported as investment income.

Fair Value – The Port categorizes its fair value measurements within the fair value hierarchy established by GASB No 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NOTE 2. DEPOSITS AND INVESTMENTS - Continued

Investments - Continued

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Total fair values of investment of $ 22,914,815 at September 30, 2017 and $ 31,069,285 at September 30, 2016 were measured by level 1 measurement.

Derivatives

The Port made no direct investments in derivatives during the years ended September 30, 2017 and 2016, and held no direct investments in derivatives at September 30, 2017 and 2016. 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, 2017 and 2016 was $ 53,322 and $ 61,313, 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, 2017 and 2016 was $ 21,824 and $ 15,867, respectively.

NOTE 4. CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended September 30, 2017:

	Useful Life in Years	Balance 10-01-16	Additions	Deletions	Balance 9-30-17
Capital assets, not being depreciated:					
Land & improvements		$ 87,422,000	$ 4,664,498	$	$ 92,086,498
Construction in progress		13,620,325	4,078,206	7,234,514	10,464,017
Total capital assets, not being depreciated		101,042,325	8,742,704	7,234,514	102,550,515
Capital assets, being depreciated					
Buildings	50	29,510,480	67,219		29,577,699
Docks & appurtenances	5-50	57,656,273		102,888	57,553,385
Utilities	20-50	21,352,303	1,042,276		22,394,579
Roads, lots & railways	50	10,027,024	29,552		10,056,576
Storage yards	50	48,384,878	6,740,711		55,125,589
Equipment, furniture & vehicles	5-50	28,620,240	148,739	43,824	28,725,155
Other	10-50	1,448,195			1,448,195
Total capital assets, being depreciated		196,999,393	8,028,497	146,712	204,881,178

(continued)

NOTE 4. CAPITAL ASSETS – Continued

	Useful Life in Years	Balance 10-01-16	Additions	Deletions	Balance 9-30-17
Accumulated depreciation:					
Buildings		$ 10,415,415	$ 763,301	$	$ 11,178,716
Docks & appurtenances		15,234,999	1,282,008	77,166	16,439,841
Utilities		7,227,330	915,662		8,142,992
Roads, lots & railways		3,346,282	375,041		3,721,323
Storage yards		7,841,605	1,551,791		9,393,396
Equipment, furniture & vehicles		13,067,849	1,907,234		14,975,083
Other		837,462	114,514	43,824	908,152
Total accumulated depreciation		57,970,942	6,909,551	120,990	64,759,503
Total capital assets, being depreciated, net		139,028,451	1,118,946	25,722	140,121,675
Total capital assets, net		$ 240,070,776	$ 9,861,650	$ 7,260,236	$ 242,672,190

The following is a summary of capital asset activity for the year ended September 30, 2016:

	Useful Life in Years	Balance 10-01-15	Additions	Deletions	Balance 9-30-16
Capital assets, not being depreciated:					
Land & improvements		$ 85,674,133	$ 1,747,867	$	$ 87,422,000
Construction in progress		9,150,883	8,290,649	3,821,207	13,620,325
Total capital assets, not being depreciated		94,825,016	10,038,516	3,821,207	101,042,325
Capital assets, being depreciated:					
Buildings	50	31,392,981	6,625,394	8,507,895	29,510,480
Docks & appurtenances	5-50	57,536,512	119,761		57,656,273
Utilities	20-50	21,423,200		70,897	21,352,303
Roads, lots & railways	50	9,641,775	385,249		10,027,024
Storage yards	50	46,165,576	2,219,302		48,384,878
Equipment, furniture & vehicles	5-50	27,861,840	820,211	61,811	28,620,240
Other	10-50	1,442,644	5,551		1,448,195
Total capital assets, being depreciated		195,464,528	10,175,468	8,640,603	196,999,393
Accumulated depreciation:					
Buildings		14,599,332	931,467	5,115,384	10,415,415
Docks & appurtenances		13,930,536	1,304,463		15,234,999
Utilities		6,341,277	906,368	20,315	7,227,330
Roads, lots & railways		3,048,895	297,387		3,346,282
Storage yards		6,459,849	1,381,756		7,841,605
Equipment, furniture & vehicles		11,233,076	1,895,927	61,154	13,067,849
Other		719,917	117,545		837,462
Total accumulated depreciation		56,332,882	6,834,913	5,196,853	57,970,942
Total capital assets, being depreciated, net		139,131,646	3,340,555	3,443,750	139,028,451
Total capital assets, net		$ 233,956,662	$ 13,379,071	$ 7,264,957	$ 240,070,776

NOTE 4 CAPITAL ASSETS – Continued

The Port has entered into contracts for construction as of September 30, 2017 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
Professional/Consulting	$ 355,060	$ 194,150	$ 160,910	$
Parcel 14 and Parcel 19 Development	28,259,166	4,325,932	23,933,234	
Freeport Harbor Channel Improvement	2,825,160	853,164	1,971,996	
Velasco Terminal Berth 8 & 9, Area 5 & 6	4,801,065	4,092,886	708,179	
East End Property Acquisition	6,483,380	3,345,728	3,137,652	
Others	2,877,795	1,253,823	1,623,972	
Total	$ 45,601,626	$ 14,065,683	$ 31,535,943	$ -0-

The Port has entered into contracts for construction as of September 30, 2016 as follows:

	Project Authori-zation	Expended To Date	Remaining Commitment	Required Further Financing
Professional/Consulting	$ 100,000	$ 7,612	$ 92,388	$
Road Repairs	4,168,095	3,278,062	890,033	
Demolition of Property	225,000		225,000	
Parcel 14 & Parcel 19 Development	4,907,900	2,575,471	2,332,429	
Freeport Harbor Channel Improvement	1,269,500	775,028	494,472	
Berth 2 Floodwall Modification	1,084,462	698,541	385,921	
Velasco Terminal-Berth 8 & 9, Area 5 & 6	5,831,324	4,589,365	1,241,959	
Utility Infrastructure Development	815,437		815,437	
Administration Building	5,746,500	5,689,550	56,950	
East End Property Acquisition	3,261,060	2,085,844	1,175,216	
Others	211,425	111,396	100,029	
Total	$ 27,620,703	$ 19,810,869	$ 7,809,834	$ -0-

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

Non-current liabilities activity for the year ended September 30, 2017 was as follows:

	Balance 10-01-16	Additions	Reductions	Balance 9-30-17	Due Within One Year
General obligation bonds	$ 3,310,000	$	$ 1,060,000	$ 2,250,000	$ 1,105,000
Revenue bonds	66,025,000		2,580,000	63,445,000	2,655,000
Capital lease (Note 6)	11,531,130		1,329,033	10,202,097	1,359,680
Components of Long-Term Debt:					
Premium on bonds	1,207,135		56,033	1,151,102	56,033
Accrued bond interest	899,001	866,656	899,001	866,656	866,656
Compensated absences	229,654	147,268	147,537	229,385	120,000
Total non-current liabilities	$ 83,201,920	$ 1,013,924	$ 6,071,604	$ 78,144,240	$ 6,162,369

Non-current liabilities activity for the year ended September 30, 2016 was as follows:

	Balance 10-01-15	Additions	Reductions	Balance 9-30-16	Due Within One Year
General obligation bonds	$ 4,315,000	$	$ 1,005,000	$ 3,310,000	$ 1,060,000
Revenue bonds	69,085,000		3,060,000	66,025,000	2,580,000
Capital lease (Note 6)	12,830,206		1,299,076	11,531,130	1,329,033
Components of Long-Term Debt:					
Premium on bonds	1,263,169		56,034	1,207,135	56,033
Accrued bond interest	335,995	899,001	335,995	899,001	899,001
Compensated absences	206,415	146,212	122,973	229,654	120,000
Total non-current liabilities	$ 88,035,785	$ 1,045,213	$ 5,879,078	$ 83,201,920	$ 6,044,067

General Obligation Bonds Payable:

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

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

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

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

General Obligation Bonds Payable – Continued

For the years ended September 30, 2017 and 2016, the amount of ad valorem taxes collected for interest and sinking was $ 1,157,237 and $ 1,164,386, while the debt service requirements for principal and interest were $ 1,192,400 and $ 1,192,676 which utilized a portion of existing net position. The bond resolutions provide no express remedies in the event of default and make no provision for acceleration of maturity of the bonds.

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

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2018	$ 1,105,000	$ 90,000	$ 1,195,000
2019	1,145,000	45,800	1,190,800
Total	$ 2,250,000	$ 135,800	$ 2,385,800

Revenue Bonds Payable:

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

On June 13, 2013, the Port also issued $ 13,670,000 of Senior Lien Revenue Notes (Bonds), Series 2013B. The proceeds of the issuances were used to complete the construction of the new Velasco Terminal and the resulting expansion of the related business. The Series 2013B notes were refunded in 2015.

On September 23, 2015, the Port issued $ 39,635,000 of Senior Lien Revenue and Refunding Bonds, Series 2015A. The proceeds of issuances were used to refund the Port's outstanding Senior Lien Revenue Notes, Series 2013B and to provide for financing to acquire, construct and develop repairs and improvements to and equip a container terminal complex. The Port placed the proceeds of $ 6,444,282 in an escrow fund for the payment of principal and interest on the issues being refunded. The difference between the reacquisition price and the net carrying amount of the old debt was $ 4,282 and reported as a deferred outflow of resources. The economic gain resulting from the transaction was not calculated since the transaction was not a refunding for savings. The Series 2015A bonds have a final maturity date of June 1, 2045 and bear interest monthly at 3.0% - 5.0%.

PORT FREEPORT

Notes to Financial Statements
For the Years Ended September 30, 2017 and 2016

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

Revenue Bonds Payable - Continued

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

Series 2013A:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2018	$ 1,990,000	$ 789,558	$ 2,779,558
2019	2,055,000	728,266	2,783,266
2020	2,115,000	664,972	2,779,972
2021	2,185,000	599,830	2,784,830
2022	2,250,000	532,532	2,782,532
2023-2027	12,340,000	1,578,962	13,918,962
2028	2,700,000	83,160	2,783,160
	$ 25,635,000	$ 4,977,280	$ 30,612,280

Series 2015A:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2018	$ 665,000	$ 1,770,838	$ 2,435,838
2019	700,000	1,737,588	2,437,588
2020	735,000	1,702,588	2,437,588
2021	770,000	1,665,838	2,435,838
2022	815,000	1,627,338	2,442,338
2023-2027	4,720,000	7,483,690	12,203,690
2028-2032	5,985,000	6,215,628	12,200,628
2033-2037	7,385,000	4,816,000	12,201,000
2038-2042	9,325,000	2,862,776	12,187,776
2043-2045	6,710,000	612,676	7,322,676
	$ 37,810,000	$ 30,494,960	$ 68,304,960

Total Revenue Bonds:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2018	$ 2,655,000	$ 2,560,396	$ 5,215,396
2019	2,755,000	2,465,854	5,220,854
2020	2,850,000	2,367,560	5,217,560
2021	2,955,000	2,265,668	5,220,668
2022	3,065,000	2,159,870	5,224,870
2023-2027	17,060,000	9,062,652	26,122,652
2028-2032	8,685,000	6,298,788	14,983,788
2033-2037	7,385 ,000	4,816,000	12,201,000
2038-2042	9,325,000	2,862,776	12,187,776
2043-2045	6,710,000	612,676	7,322,676
	$ 63,445,000	$ 35,472,240	$ 98,917,240

NOTE 6. CAPITAL LEASE

On September 30, 2014, the Port entered into a Master Lease-Purchase Financing Agreement with Chase Bank in the amount of $ 14,100,000 under a lease classified as a capital lease for a refinancing of two cranes purchased. The interest rate related to the lease obligation is 2.306% and the maturity date is September 2024. During the year ended September 30, 2017, $ 1,329,033 of lease expenses and $ 265,908 of interest expenses related to the lease were paid. During the year ended September 30, 2016, $ 1,299,076 of lease expenses and $ 295,865 of interest expenses related to the lease were paid.

The following is a schedule showing the future minimum lease payments:

Fiscal Year Ending September 30	Principal	Interest	Total Principal and Interest
2018	$ 1,359,680	$ 235,260	$ 1,594,940
2019	1,391,034	203,906	1,594,940
2020	1,423,112	171,829	1,594,941
2021	1,455,929	139,012	1,594,941
2022	1,489,502	105,438	1,594,940
2023-2024	3,082,840	107,040	3,189,880
	$ 10,202,097	$ 962,485	$ 11,164,582

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, 2017 or 2016.

NOTE 8. LITIGATION

The Port currently is not involved in any nor is the Port aware of any threatened litigation, claims or assessments.

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.

NOTE 9. FREEPORT HARBOR IMPROVEMENT PROJECTS - Continued

The following is a summary of the activity in the Escrow Fund for the years ended September 30, 2017 and 2016:

	2017	2016
Escrow balance, October 1,	$ 12,577	$ 13,069
Investment earnings	61	8
Fiduciary fees	(500)	(500)
Escrow balance, September 30,	$ 12,138	$ 12,577

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. $ 641,051 was reported as accounts receivable as of September 30, 2017 and 2016.

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 2043. 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, 2017 and 2016 was $ 73,950,500 and $ 73,106,287, respectively, and accumulated depreciation was $ 22,654,026 and $ 22,654,026, respectively. Lease revenue for the years ended September 30, 2017 and 2016 was $ 13,359,626 and $ 12,796,464, respectively.

Minimum future rentals to be received on noncancelable leases as of September 30, 2017 are as follows:

Fiscal Year Ending September 30	Amount
2018	$ 16,724,404
2019	16,368,612
2020	15,283,842
2021	14,453,423
2022	14,222,662
2023-2027	61,622,913
2028-2032	53,137,234
2033-2037	50,874,000
2038-2044	62,702,917
Total minimum future rentals	$ 305,390,007

NOTE 11. GRANT REVENUE

The following is a schedule of port grant revenue for the years ended September 30, 2017 and 2016.

Agency	Grant Number	Total Entitlement	Pre-2016 Revenues	Revenue 9-30-16	Revenue 9-30-17	Remaining Project 9-30-17
US Department of Homeland Security:						
Public Assistance	FEMA 1791 DR TX	$ 227,363	$ 227,363	$(15,510)	$	$
Port Security Grant	2013-PU-00457-S01	296,537	296,537			
Port Security Grant	2014-PU-00637-S01	373,798		366,944		6,854
Port Security Grant	2015-PU-00613-S01	215,250			83,385	131,865
Port Security Grant	2016-PU-00602-S01	791,588				791,588
Totals		$ 1,904,536	$ 523,900	$ 351,434	$ 83,385	$ 930,307

Accounts receivable related to these grants as of September 30, 2017 and 2016 totaled $ 36,957 and $ 29,992, respectively and are included in the receivables from other governments line item in the accompanying Statements of Net Position.

NOTE 12. RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port maintains commercial insurance for these types of risks. There have been no significant changes in insurance coverage, and no settlements have significantly exceeded insurance coverage for the years ending September 30, 2017 and 2016. The Port provides a commercial medical insurance program for its employees.

NOTE 13. RETIREMENT PLANS

Profit Sharing Plan: The Port provides a flexible, nonstandardized safe harbor profit sharing plan (Plan), defined contribution type, for the benefit of its employees that is administered by 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.

The Port Freeport Retirement Plan ("Plan") became effective on December 1, 2000 and maintains a calendar year end. The Port contributed $ 156,272 ($ 38,583 calendar year 2016 and $ 117,689 for calendar 2017) to the plan for the year ended September 30, 2017. The Port contributed $ 140,392 ($ 32,596 calendar year 2015 and $ 107,796 for calendar 2016) to the plan for the year ended September 30, 2016. Participants do not contribute to the plan. The trustees of the plan distribute any benefits provided by the plan from net position available for plan benefits. The participants become fully vested in their account after five years of service (years 1 and 2 at 0%, year 3 at 50%, year 4 at 75%, and year 5 at 100%). All of an employee's years of vesting service with the Port are counted to determine the vesting percentage in the participant's individual account.

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

NOTE 13. RETIREMENT PLANS - Continued

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 $ 66,965 and $ 54,039 to the 457 Plan for the years ended September 30, 2017 and 2016, respectively. Participant contributions for the years ended September 30, 2017 and 2016 totaled $ 184,382 and $ 160,714, respectively. The trustee of the plan distributes any benefits provided by the plan from net position available for plan benefits. Contributions made by participants vest immediately in their accounts; however, contributions made by the Port vest in the participants' accounts fully over five years of service (years 1 and 2 at 0%, year 3 at 50%, year 4 at 75% and year 5 at 100%). All of an employee's years of vesting service with the Port are counted to determine the vesting percentage in the participant's individual account. An employee must maintain 1,000 hours of service to constitute a year of vesting service, and 500 hours of service must be exceeded to avoid a break in vesting service. Forfeited invested amounts are allocated first to the payment of the plan's administrative expenses and any excess applied to reduce the Port's discretionary contributions for any plan year subsequent to the plan year for which the forfeitures arise. When a participant retires, terminates employment or becomes disabled, he/she is entitled to receive all amounts in which he/she has a vested interest in either a lump-sum payment, periodic installments, or an annual annuity contract. Participants are allowed to make hardship withdrawals and loans as defined by the 457 Plan. The 457 Plan has met the ERISA minimum funding requirements.

The amount of plan fees and expenses were $ 1,744 and the amount of forfeitures was $ 0 as of September 30, 2017. The amount of plan fees and expenses were $ 1,776 and the amount of forfeitures was $ 0 as of September 30, 2016. There is no outstanding pension liability as of September 30, 2017 and 2016 since the Port made 100% of required contribution during the year.

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.

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

Pollution Control Revenue Bond series issued by Port Freeport on behalf of others with principal still outstanding at September 30, 2017 and 2016 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-17	Balance Outstanding 9-30-16
Dow Chemical Company	2002	2033	$ 466,650,000	$ 252,650,000	$ 252,650,000
Dow Chemical Company	2007	2029	15,000,000	15,000,000	15,000,000
Dow Chemical Company	2008	2038	75,000,000	75,000,000	75,000,000
BASF Corporation	1996	2031	25,000,000	25,000,000	25,000,000
BASF Corporation	1997	2032	25,000,000	25,000,000	25,000,000
BASF Corporation	2001	2036	25,000,000	25,000,000	25,000,000
BASF Corporation	2002	2037	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	1998	2018	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	2000	2020	25,000,000	25,000,000	25,000,000
Merey Sweeny, L.P.	2001	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2001	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2002	2021	12,500,000	12,500,000	12,500,000
Merey Sweeny, L.P.	2002	2021	12,500,000	12,500,000	12,500,000
Total			$ 756,650,000	$ 542,650,000	$ 542,650,000

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

Industrial Development Bond series issued by the IDC on behalf of others with principal still outstanding at September 30, 2017 and 2016 are as follows:

Name of Receiving Entity	Issue Date	Maturity Date	Original Issue	Balance Outstanding 9-30-17	Balance Outstanding 9-30-16
American Rice, Inc.	2007	2025	$13,300,000	$13,300,000	$13,300,000
American Rice, Inc.	2007	2037	15,000,000	15,000,000	15,000,000
BASF Corporation	2001	2022	26,500,000	26,500,000	26,500,000
BASF Corporation	2003	2038	25,000,000	25,000,000	25,000,000
BASF Corporation	2006	2036	50,000,000	50,000,000	50,000,000
Total			$129,800,000	$ 129,800,000	$ 129,800,000

NOTE 15. ECONOMIC DEPENDENCY

Operating revenues: During the year ended September 30, 2017, three customers represented approximately 37%, 15% and 11% of the Port's operating revenue. During the year ended September 30, 2016, three customers represented approximately 38%, 16% and 11% of the Port's operating revenue. The loss of these customers would have a significant impact on the Port's financial position.

Ad valorem taxes: During the years ended September 30, 2017 and 2016, one taxpayer represented approximately 18% and 21% of the total assessed valuation.

NOTE 16. TAX ABATEMENTS

The Port enters into property tax abatements with local businesses under the Section 312.206(a) of Subchapter B of the Texas Property Redevelopment and Tax Abatement Act, V.A.T.S. Tax Code, Chapter 312 and other applicable sections of said statute, provide that if property taxes are abated within the taxing jurisdiction of a municipality, the governing body of any other taxing unit in which the property is located may execute a written agreement with such owner of the property.

The Port Commission approves the application after it is determined that the request meets the applicable guidelines and criteria adopted by the Port Commission, which will promote the development of industry within the Port boundaries, provide additional employment, and strengthen the economy of the area.

The Port has the following tax abatement agreements as of September 30, 2017:

Business Type	Purpose	Percentage of Taxes Abated During the Fiscal Year	Abated Amount	Amount of Taxes Abated During the Fiscal Year
Manufacturing	New Construction	100%	$ 2,556,389,000	$ 1,025,112
Manufacturing	New Construction	50%	11,142,970	4,468
Health Care	New Construction	Scheduled	11,092,230	4,448
Total			$ 2,578,624,200	$ 1,034,028

NOTE 17. EVALUATION OF SUBSEQUENT EVENTS

The Port has evaluated subsequent events through February 5, 2018, the date which the financial statements were available to be issued.

PORT FREEPORT
Environmental Statement

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

Management and Staff Commitment

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

Public Outreach

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

Regulatory Compliance

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

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PORT FREEPORT

Statistical Section
For the Years Ended September 30, 2017 and 2016

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Ten Year Cargo Quantities Analysis[1]
for the Fiscal Years Ended September 30, 2008 through 2017

TABLE 1

	Cargo Quantities Short Tons	Percent Total Port Tonnage
Rice	2,032,279	9.37 %
Bananas and Misc. Fruit[6]	3,879,472	17.89
Misc./General Cargo[3]	5,245,689	24.19
Dry Bulk Material[5]	6,944,528	32.02
Liquid Bulk Material[4]	3,129,521	14.43
Project Cargo[7]	456,917	2.10
Chemicals[2]	0	0.00
	21,688,406	100.00 %

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

Container Traffic Statistics[1]
Twenty-Foot Equivalent Units (T.E.U.)
for the Fiscal Years Ended September 30, 2008 through 2017

TABLE 2

Fiscal Year	Inbound T.E.U.	Outbound T.E.U.	Total	Percent Growth/(Reduction) From Prior Year
2008	37,296	37,326	74,622	(0.46) %
2009	35,182	35,952	71,134	(4.67)
2010	35,416	36,706	72,122	1.39
2011	33,416	33,894	67,310	(6.67)
2012	35,052	35,528	70,580	4.86
2013	50,140	50,676	100,816	42.83
2014	48,733	49,317	98,050	(2.74)
2015	48,456	50,448	98,904	0.87
2106	49,595	50,971	100,566	1.68
2017	48,878	51,065	99,943	(0.62)

[1] Source-Port Freeport

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Cargo Traffic Statistics[1]
for the Fiscal Years Ended September 30, 2008 through 2017

	2017		2016		2015		2014	
1. Rice	213,005	11 %	210,565	8 %	222,055	8 %	170,431	7 %
2. Bananas/Misc. Fruit[6]	305,574	14	344,494	11	340,021	11	371,458	14
3. Misc./General Cargo[3]	667,599	31	721,703	24	513,794	17	495,255	19
4. Dry Bulk Material[5]	806,915	38	1,405,692	46	1,638,790	55	1,195,603	45
5. Liquid Bulk Material[4]	0	0	320,478	10	215,451	7	370,130	14
6. Project Cargo[7]	135,382	6	57,813	1	65,645	2	33,995	1
7. Chemicals[2]	0	0	0	0	0	0	0	0
Annual Port Tonnage[8] -Short Tons	2,128,475	100 %	3,060,745	100 %	2,995,756	100 %	2,636,872	100 %
Percent Export	32.59 %		27.67 %		26.84 %		28.79 %	
Percent Import	61.91		67.34		69.06		66.95	
Percent Domestic	5.50		5.00		4.10		4.26	

[1] Source-Port Freeport

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

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

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

[5] Components: Aggregate

[6] Components: Containerized Fruit/Palletized Fruit

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

[8] TARE weight not included

TABLE 3

2013		2012		2011		2010		2009		2008	
285,618	19 %	293,234	18 %	189,867	10 %	137,766	8 %	126,316	7 %	183,422	10 %
451,622	30	412,113	24	391,023	19	429,347	24	444,757	30	389,063	23
473,092	31	409,254	24	428,066	20	492,474	27	444,545	30	599,907	35
455,346	30	196,814	12	155,809	7	381,943	21	315,045	21	392,571	23
336,061	22	380,706	22	911,795	43	345,087	19	123,195	8	126,618	7
14,443	1	14,162	1	25,871	1	19,758	1	53,029	4	36,819	2
0	0	0		0		0		0		0	
2,016,182	133 %	1,706,283	100 %	2,102,431	100 %	1,806,375	100 %	1,506,887	100 %	1,728,400	100 %
34.69 %		38.73 %		45.73 %		34.91 %		29.20 %		31.41 %	
55.21		48.10		48.12		61.13		66.42		63.50	
10.09		13.17		6.15		3.96		4.38		5.09	

PORT FREEPORT

Net Position by Component
For The Years 2008 Through 2017

	2017	2016	2015	2014
Net Position:				
Net investment in capital assets	$ 165,636,409	$ 160,808,124	$ 146,478,032	$ 149,413,568
Restricted:				
Debt Service	3,758,737	997,405	9,133,081	2,762,928
Capital Projects	7,077,498	3,456,647	15,202	15,700
Unrestricted	32,973,902	37,235,517	44,585,445	42,713,203
Total net position	$ 209,446,546	$ 202,497,693	$ 200,211,760	$ 194,905,399

TABLE 4

2013	2012 (Restated)	2011 (Restated)	2010	2009	2008
$ 132,423,882	$ 142,112,999	$ 141,431,909	$ 139,263,051	$ 124,837,211	$ 106,041,805
2,767,814	2,471,425	2,677,543	2,562,125	2,654,335	2,284,365
16,199	16,698	17,196	21,495	25,888	15,020,117
53,881,956	35,071,249	33,506,284	29,368,269	37,082,280	33,888,790
$ 189,089,851	$ 179,672,371	$ 177,632,932	$ 171,214,940	$ 164,599,714	$ 157,235,077

PORT FREEPORT

Summary of Revenues, Expenses and Changes in Net Position
For The Years 2008 Through 2017

	2017	2016	2015	2014
Operating Revenues:				
Harbor Operations:				
Wharfage	$ 4,847,411	$ 4,334,632	$ 3,567,651	$ 3,896,689
Dockage	1,246,826	1,556,143	1,324,691	1,763,042
Service, facility use and other fees	2,571,349	2,978,082	3,086,171	4,191,757
Lease income	13,359,626	12,796,464	10,564,284	6,955,488
Miscellaneous	58,580	19,420	47,938	188,619
Total operating revenues	22,083,792	21,684,741	18,590,735	16,995,595
Operating Expenses:				
Payroll and related	4,022,319	3,998,844	3,571,566	4,005,446
Professional services	1,886,579	1,916,292	1,731,553	1,432,875
Supplies and other	1,653,856	2,060,069	2,376,075	2,489,337
Utilities	531,284	517,132	563,186	494,540
Maintenance and repairs	722,055	671,078	998,167	760,060
Depreciation	6,909,551	6,834,913	6,425,843	5,310,409
Total operating expenses	15,725,644	15,998,328	15,666,390	14,492,667
Operating income (loss)	6,358,148	5,686,413	2,924,345	2,502,928
Non-Operating Revenues (Expenses):				
Ad valorum tax collections, net of collection expenses	4,841,680	4,701,307	4,750,726	4,672,390
Investment income	414,302	289,226	116,636	265,046
Gain (loss) on sale of capital assets	(25,722)	(4,541,318)	3,500	
Debt interest and fees	(2,957,986)	(3,165,710)	(1,922,216)	(1,285,213)
Other	(1,764,954)	(1,035,419)	(836,997)	(1,381,819)
Total non-operating revenues (expenses)	507,320	(3,751,914)	2,111,649	2,270,404
Income (loss) before capital contributions	6,865,468	1,934,499	5,035,994	4,773,332
Capital contributions -grants	83,385	351,434	270,367	1,042,216
Capital contributions -other	0	0	0	0
Total capital contributions	83,385	351,434	270,367	1,042,216
Extraordinary Revenues (Expenses):				
Insurance and other proceeds - Berth 7				
Construction cost - Berth 7				
Legal and expert fees - Berth 7				
Total extraordinary revenues (expenses)	0	0	0	0
Change in net position	$ 6,948,853	$ 2,285,933	$ 5,306,361	$ 5,815,548

TABLE 5

2013	2012 (Restated)	2011 (Restated)	2010	2009	2008
$ 3,149,424	$ 3,236,202	$ 2,951,064	$ 3,130,735	$ 2,577,245	$ 1,908,272
1,353,107	1,605,188	1,977,324	1,463,269	1,246,154	1,407,643
4,112,112	3,757,046	4,950,088	3,929,599	3,715,210	3,349,964
6,344,343	5,944,957	5,696,372	5,513,072	5,104,487	5,461,429
35,402	228,024	11,583	14,571	31,881	465,182
14,994,388	14,771,417	15,586,431	14,051,246	12,674,977	12,592,490
3,858,186	3,607,483	3,710,206	3,520,049	3,350,988	3,216,104
1,634,189	1,535,977	1,386,515	1,006,587	1,387,336	1,177,484
2,316,959	2,056,434	2,210,135	2,167,854	2,093,330	2,133,667
553,874	546,062	579,698	602,286	541,352	481,707
998,932	571,759	574,300	781,548	564,802	683,182
4,502,480	3,998,418	3,709,807	3,272,302	3,021,853	2,976,874
13,864,620	12,316,133	12,170,661	11,350,626	10,959,661	10,669,018
1,129,768	2,455,284	3,415,770	2,700,620	1,715,316	1,923,472
5,246,302	5,017,130	5,060,167	5,255,410	5,650,052	5,641,225
(59,682)	114,273	142,015	674,309	597,457	1,699,266
17,965		4,500		2,350	5,383
(2,163,797)	(2,034,252)	(2,195,700)	(2,354,736)	(1,125,130)	(521,691)
(1,188,604)	122,074	(476,356)	(632,829)	(719,886)	(442,597)
1,852,184	3,219,225	2,534,626	2,942,154	4,404,843	6,381,586
2,981,952	5,674,509	5,950,396	5,642,774	6,120,159	8,305,058
4,682,926	2,290,517	2,269,196	747,749	1,087,132	518,996
0	0	0	224,703	157,346	17,723
4,682,926	2,290,517	2,269,196	972,452	1,244,478	536,719
13,095,000	970,541	5,659,125			
(9,236,010)	(5,773,285)	(5,946,339)			
(2,106,388)	(1,122,843)	(1,115,013)			
1,752,602	(5,925,587)	(1,402,227)	0	0	0
$ 9,417,480	$ 2,039,439	$ 6,817,365	$ 6,615,226	$ 7,364,637	$ 8,841,777

PORT FREEPORT

Property Tax Rates[3]
Direct and Overlapping Governments
for the Levy Years 2007 through 2016[1][2]

	2016	2015	2014
Port Freeport	$ 0.040100	$ 0.041304	$ 0.045000
<u>Overlapping Governments:</u>			
Alvin I.S.D.	1.450000	1.417000	1.417000
Alvin Community College	0.191744	0.204009	0.204009
Angleton, City of	0.707598	0.717598	0.723500
Angleton Drainage District	0.155164	0.166619	0.176597
Angleton I.S.D.	1.455200	1.455200	1.455200
Angleton-Danbury Hospital	0.302817	0.321751	0.346854
Brazoria, City of	0.790700	0.790700	0.770700
Brazoria County	0.457405	0.426000	0.438500
Brazoria County FWD #1	0.00	0.00	0.00
Brazosport College	0.285040	0.277510	0.280878
Brazosport I.S.D.	1.255300	1.255300	1.255300
Clute, City of	0.643000	0.659000	0.672000
Columbia/Brazoria I.S.D.	1.284700	1.284700	1.284700
Commodore Cove I.D.	0.205984	0.399327	0.439336
Danbury, City of	0.768701	0.799313	0.829169
Brazoria County Drainage District #8 (Danbury)	0.276115	0.307812	0.325442
Danbury I.S.D.	1.256600	1.255000	1.240000
Freeport, City of	0.628005	0.645642	0.675586
Jones Creek, Village of	0.410000	0.410000	0.410000
Lake Jackson, City of	0.337500	0.360000	0.387500
Liverpool, City of	0.193770	0.215304	0.216473
Oak Manor U.D.	0.500000	0.540000	0.510000
Oyster Creek, City of	0.303816	0.332273	0.476394
Quintana, Town of	0.012938	0.013046	0.013046
Richwood, City of	0.672580	0.735680	0.735680
Surfside, Village of	0.359506	0.375204	0.397940
Sweeny, City of	0.747062	0.842869	0.908000
Sweeny Hospital District	0.527302	0.510351	0.483126
Sweeny I.S.D.	1.211700	1.211700	1.211700
Treasure Island M.U.D.	0.503878	0.518997	0.553152
Varner Creek M.U.D.	0.710000	0.760000	0.830000
Velasco Drainage District	0.091501	0.093878	0.098018
West Brazoria County Drainage District #11	0.020000	0.020000	0.020000
West Columbia, City of	0.830000	0.830000	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

2013	2012	2011	2010	2009	2008	2007
$ 0.045000	$ 0.051500	$ 0.053500	$ 0.053500	$ 0.053500	$ 0.053500	$ 0.056000
1.329100	1.329100	1.344100	1.304100	1.304100	1.328200	1.328200
0.199756	0.199756	0.199485	0.199830	0.199830	0.199832	0.210280
0.723500	0.723500	0.723500	0.706000	0.706000	0.706000	0.706000
0.175448	0.176563	0.176563	0.183900	0.183900	0.183900	0.170850
1.455200	1.455200	1.455200	1.455200	1.455200	1.314000	1.197000
0.362678	0.359592	0.299592	0.380692	0.246500	0.246500	0.246500
0.770700	0.762300	0.762300	0.762300	0.728300	0.728300	0.728300
0.432020	0.425900	0.413100	0.403010	0.366286	0.330000	0.311396
0.00	0.250000	0.280000	0.280000	0.295000	0.300000	0.310000
0.267309	0.259436	0.239198	0.190175	0.175754	0.156488	0.121000
1.255300	1.259500	1.241500	1.241500	1.228500	1.192200	1.133900
0.672000	0.672000	0.672000	0.672000	0.672000	0.693000	0.698000
1.296500	1.296500	1.296500	1.296500	1.296500	1.296500	1.296500
0.467538	0.461570	0.475693	0.472234	0.620318	0.597220	0.597220
0.829169	0.826940	0.826940	0.769538	0.762014	0.760600	0.766940
0.349474	0.366000	0.366000	0.366000	0.366000	0.361000	0.353723
1.141081	1.136445	1.137000	1.135400	1.143900	1.134900	1.134900
0.675586	0.700000	0.680000	0.708266	0.708266	0.700000	0.710000
0.410000	0.380000	0.380000	0.380000	0.340000	0.340000	0.310000
0.390000	0.390000	0.390000	0.390000	0.390000	0.390000	0.385000
0.230463	0.230463	0.236850	0.236850	0.236852	0.175800	0.175800
0.520000	0.505000	0.500000	0.480000	0.451178	0.421852	0.363000
0.476394	0.473161	0.431106	0.423154	0.401142	0.395000	0.387211
0.022882	0.023640	0.024413	0.024413	0.033365	0.027140	0.032000
0.735680	0.735680	0.693660	0.693660	0.693660	0.693660	0.681080
0.432601	0.432601	0.402610	0.408801	0.442056	0.352392	0.342392
0.887456	0.844034	0.782818	0.772818	0.741595	0.762105	0.750000
0.470003	0.429109	0.393133	0.279998	0.349917	0.323170	0.298289
1.211700	1.211700	1.211700	1.211700	1.211700	1.211700	1.211700
0.575262	0.551848	0.604590	0.576368	1.258218	0.563556	0.595802
0.890000	0.928000	0.888220	0.858000	0.858000	0.814000	0.661890
0.100226	0.094805	0.094214	0.090907	0.087130	0.082075	0.082075
0.020000	0.020000	0.020000	0.020000	0.020000	0.020000	0.020000
0.831900	0.831900	0.831900	0.831900	0.831900	0.831900	0.831900

PORT FREEPORT

Valuation, Exemptions and General Obligation Debt
for Fiscal Year Ended September 30, 2017
(In Thousands)

TABLE 7

2016 Market Valuation:[①] (excluding totally exempt property)		
Land, Homesite	$ 942,475	
Land, Non Homesite	999,149	
Land, Ag and Timber Market	1,057,942	
Improvement, Homesite	4,566,331	
Improvement, Non-Homesite	9,430,846	
Non Real, Personal Property	2,573,384	
Non Real, Mineral	35,617	
Total Market Value Before Exemptions		$ 19,605,744
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	$ 910,280	
Over 65 Homesteads Exemptions	780,115	
Disabled Exemptions	135,468	
Abatements	2,565,439	
Freeport Loss	0	
Pollution Control	708,929	
Productivity Loss	1,017,558	
Tax Exempt	1,229,731	
Other	495,889	
Total Exemptions		$ 7,843,409
Net 2016 Taxable Valuation		$ 11,762,335

[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 2008 through 2017
(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]
2008	$ 12,334,116	$ 2,391,067	$ 4,857,589	$ 9,867,594	4.70 %	$ 0.056000
2009	13,327,255	2,720,091	5,502,506	10,544,840	6.86	0.053500
2010	12,608,414	2,593,214	5,580,518	9,621,110	(8.76)	0.053500
2011	12,156,069	2,355,464	5,190,492	9,321,041	(3.12)	0.053500
2012	12,091,652	2,677,361	5,463,411	9,305,602	(0.17)	0.053500
2013	12,063,258	2,886,275	5,377,878	9,571,655	2.86	0.051500
2014	12,381,744	2,842,272	4,719,891	10,504,125	9.74	0.045000
2015	12,843,780	2,923,286	5,403,575	10,363,491	(1.34)	0.045000
2016	14,362,925	2,826,243	6,113,078	11,076,090	6.88	0.041304
2017	16,996,743	2,609,001	7,843,409	11,762,335	6.20	0.040100
Taxable Valuation 2008-2017					19.20	

[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 2008 through 2017

TABLE 9

Fiscal Year	Total[2] Levy Amount	Levy Adjustments	Adjusted Levy Amount	Total Current Year Collections	Percent of Current Year Collections	Delinquent Tax Collections	Total Gross Collections	Percent of Total Collections
2008	$ 5,668,728	$ 142,875	$ 5,525,853	$ 5,594,596	98.69 %	$ 62,600	$ 5,657,196	99.80 %
2009	5,673,491	32,001	5,641,490	5,593,590	98.59	66,484	5,660,074	99.76
2010	5,261,212	113,918	5,147,294	5,178,848	98.43	70,666	5,249,514	99.78
2011	5,139,874	34,583	5,105,291	5,001,518	97.31	95,174	5,096,692	99.16
2012	5,018,556	40,059	4,978,497	4,949,272	98.62	148,610	5,097,882	101.58
2013	5,135,924	206,479	4,929,445	5,069,539	98.71	56,640	5,126,179	99.81
2014	4,679,020	118,085	4,560,935	4,632,114	99.00	34,846	4,666,960	99.74
2015	4,767,574	103,877	4,663,697	4,721,937	99.04	32,853	4,754,790	99.73
2016	4,701,834	126,869	4,574,965	4,659,846	99.11	20,672	4,680,518	99.55
2017	4,716,780	141,011	4,575,769	4,806,562	101.90	-	4,806,562	101.90

[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

PORT FREEPORT

Principal Taxpayers[1]
Current Year and Nine Years Ago

September 30, 2017
(In Thousands)

TABLE 10

Entity	2016[2] Market Valuation	Percent of Total Market Valuation	2016 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 3,294,567	16.80 %	$ 2,120,583	18.03 %
Blue Cube Operations LLC	$ 773,161	3.94	$ 576,644	4.90
Phillips 66 Company	1,417,181	7.23	525,915	4.47
Chevron Phillips Chemical Company	820,996	4.19	498,367	4.24
BASF Corp. Chemicals Div.	582,945	2.97	397,538	3.38
Freeport LNG	201,174	1.03	159,232	1.35
Air Liquide Large Industries	118,094	0.60	116,809	0.99
Shintech, Inc.	145,614	0.74	111,933	0.95
Seaway Crude Pipeline	103,871	0.53	98,617	0.84
Sweeny Cogenerations Ltd	95,811	0.49	89,486	0.76
TOTAL	$ 7,553,414	38.52 %	$ 4,695,124	39.91 %

September 30, 2008
(In Thousands)

Entity	2007[2] Market Valuation	Percent of Total Market Valuation	2007 Taxable Valuation	Percent of Total Taxable Valuation
Dow Chemical Company	$ 3,819,454	25.94 %	$ 2,694,969	26.40 %
BASF Corp. Chemicals Div.	896,796	6.09	689,160	6.75
Conoco/Phillips Company	1,065,555	7.24	633,028	6.20
Chevron Phillips Chemical Company	501,555	3.41	334,639	3.28
Shintech, Inc.	177,496	1.21	145,859	1.43
Hicorp Energy Co	122,471	0.83	119,857	1.17
Sweeny Cogenerations Ltd	116,145	0.79	108,202	1.06
Oyster Creek Limited/Delta Power Co	87,517	0.59	87,517	0.86
Centerpoint Energy Inc	79,053	0.54	79,046	0.77
Schenectady International	110,413	0.75	76,558	0.75
TOTAL	$ 6,976,455	47.39 %	$ 4,968,835	48.67 %

[1] Source--Brazoria County Appraisal District
[2] Property taxes levied for the 2017 fiscal year were based on 2016 market valuations.
[3] Property taxes levied for the 2008 fiscal year were based on 2007 market valuations.

PORT FREEPORT

Computation of Legal Debt Margin
Levy Year 2017
(In Thousands)

TABLE 11

Taxable valuations:			
Taxable value			$ 11,762,335
Add back: exempt real property			7,843,409
Total market value:			$ 19,605,744
Legal debt margin:			
Debt limitation - 25 percent of total taxable value			$ 4,901,436
Total debt		$ 65,695	
Less:	Revenue bonds	63,445	
	Amount available for repayment of general obligation bonds	108	
Total debt applicable to limitation			2,142
Legal debt margin			$ 4,899,294

PORT FREEPORT

Ratio of Outstanding Debt by Type
for the Fiscal Years Ended September 30, 2008 through 2017
(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
2008	$ 10,505	$ 40,000	$ -	$ 50,505	$ 5,940,051	297	0.8502	$ 170
2009	9,725	38,835	-	48,560	5,940,051	297	0.8175	164
2010	8,825	37,555	-	46,380	6,263,610	313	0.7405	148
2011	8,000	36,215	-	44,215	6,269,896	313	0.7052	141
2012	7,112	34,805	-	41,917	6,328,218	316	0.6624	133
2013	6,248	52,600	-	58,848	6,506,825	325	0.9044	181
2014	5,391	37,710	14,100	57,201	6,526,846	326	0.8764	175
2015	4,375	70,288	12,830	87,493	6,671,478	333	1.3115	263
2016	3,355	67,187	11,531	82,073	6,997,340	350	1.1729	235
2017	2,279	64,567	10,202	77,048	6,997,340	350	1.1011	220

[1] Source Texas State Data Center 2008-2017

PORT FREEPORT

Ratio of Net General Bonded Debt to Taxable Value
and to Net Bonded Debt Per Capita [1]
(In Thousands)
For Fiscal Years 2008 through 2017

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
2008	$ 9,867,594	$ 10,505	$ 172	$ 10,333	0.0010	297	$ 35
2009	10,544,840	9,725	185	9,540	0.0009	297	32
2010	9,621,110	8,825	247	8,578	0.0009	313	27
2011	9,321,041	8,000	46	7,954	0.0009	313	25
2012	9,305,602	7,111	34	7,077	0.0008	316	22
2013	9,571,655	6,248	59	6,189	0.0006	325	19
2014	10,504,125	5,391	235	5,156	0.0005	326	16
2015	10,363,491	4,375	219	4,156	0.0004	333	12
2016	11,076,090	3,355	201	3,154	0.0003	350	9
2017	11,762,335	2,279	108	2,171	0.0002	350	6

[1] Source: 2008-2017 Source: Texas State Data Center

PORT FREEPORT

Computation of Direct and Overlapping
Bonded Debt of General Obligation Bond Issues
9/30/2017

TABLE 14

Taxing Entity	Net Bonded Debt Amount	As of	Percent Overlapping	Amount Overlapping
Alvin I.S.D.	$ 684,700,000	9-30-17	6.39 %	$ 43,752,330
Alvin Community College	11,125,000	9-30-17	6.47	719,788
Angleton, City of	15,235,000	9-30-17	100.00	15,235,000
Angleton Drainage District	0	9-30-17	100.00	0
Angleton I.S.D.	126,229,993	9-30-17	72.85	91,958,550
Angleton/Danbury Medical	7,810,000	9-30-17	100.00	7,810,000
Brazoria, City of	605,000	9-30-17	100.00	605,000
Brazoria County	75,150,000	9-30-17	51.34	38,582,010
Brazosport I.S.D.	191,264,050	9-30-17	100.00	191,264,050
Brazosport College	55,995,000	9-30-17	100.00	55,995,000
Clute, City of	13,570,000	9-30-17	100.00	13,570,000
Columbia/Brazoria I.S.D.	34,294,998	9-30-17	100.00	34,294,998
Danbury, City of	1,315,000	9-30-17	100.00	1,315,000
Danbury I.S.D.	2,395,000	9-30-17	100.00	2,395,000
Freeport, City of	2,486,000	9-30-17	100.00	2,486,000
Lake Jackson, City of	31,535,000	9-30-17	100.00	31,535,000
Manvel, City of	9,010,000	9-30-17	2.90	261,290
Oyster Creek, Village of	50,000	9-30-17	100.00	50,000
Richwood, City of	2,195,000	9-30-17	100.00	2,195,000
Sweeny, City of	4,036,000	9-30-17	100.00	4,036,000
Sweeny Hospital District	0	9-30-17	100.00	0
Sweeny I.S.D.	40,920,000	9-30-17	100.00	40,920,000
Varner Creek UD	6,980,000	9-30-17	100.00	6,980,000
West Columbia, City of	50,000	9-30-17	100.00	50,000
Sub-total Bonded Debt	$ 1,316,951,041	Sub-total Overlapping Debt		$ 586,010,016
Port Freeport	$ 2,250,000	9-30-17	100.00 %	$ 2,250,000
Total Direct & Overlapping General Obligation Issue Debt	$ 1,319,201,041			$ 588,260,016
Ratio of Overlapping Debt to Direct 2017 Taxable Valuation				0.050 %

PORT FREEPORT

Bond Indebtedness Coverage
for Fiscal Years 2008 through 2017
(In Thousands)

	2017	2016	2015	2014
Operating Revenue	$ 22,084	$ 21,685	$ 18,591	$ 16,996
Operating Expenses (Net of Depreciation)	(8,816)	(9,163)	(9,241)	(9,183)
Ad Valorem Tax Collections	4,842	4,701	4,751	4,672
Investment Income	414	289	117	265
Other Income ②	$ -	382		
Net Revenues Available for Debt Service	$ 18,524	$ 17,894	$ 14,218	$ 12,750
Annual Bonded Debt Service	$ 6,410	$ 6,418	$ 6,422	$ 4,062
Percent of Coverage	289%	279%	221%	314%
Maximum Debt Service	$ 6,412	$ 6,418	$ 6,422	$ 8,569
Percent of Coverage ①	289%	279%	221%	149%

①Indicates 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 2019.

②Other income included in 2013 as it was ultimately used to payoff a large portion of the 2013 series bonds.

TABLE 15

2013	2012	2011	2010	2009	2008
$ 14,994	$ 14,771	$ 15,586	$ 14,051	$ 12,675	$ 12,592
(9,363)	(8,318)	(8,460)	(8,078)	(7,938)	(7,692)
5,246	5,017	5,060	5,255	5,650	5,641
(59)	114	142	674	597	1,699
13,785	1,334	5,708	232		473
$ 24,603	$ 12,918	$ 18,036	$ 12,134	$ 10,984	$ 12,713
$ 17,123	$ 4,353	$ 4,354	$ 4,354	$ 4,421	$ 4,425
144%	297%	414%	279%	248%	287%
$ 17,123	$ 4,394	$ 4,394	$ 4,394	$ 4,427	$ 4,427
144%	294%	410%	276%	248%	287%

PORT FREEPORT

Unlimited Tax Refunding Bonds, Series 2006
September 30, 2017

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
2017						$ 2,250,000
2018	4.00 %	$ 45,000	$ 45,000	$ 1,105,000	$ 1,195,000	1,145,000
2019	4.00	22,900	22,900	1,145,000	1,190,800	0
		$ 67,900	$ 67,900	$ 2,250,000	$ 2,385,800	

Senior Lien Revenue Refunding Bonds, Series 2013A
September 30, 2017

TABLE 17

Fiscal Year Ending September 30	Coupon	Interest Due December 1	Interest Due June 1	Principal Due June 1	Total Principal & Interest	Principal Balance
2017						$ 25,635,000
2018	3.08 %	$ 394,779	$ 394,779	$ 1,990,000	$ 2,779,558	23,645,000
2019	3.08	364,133	364,133	2,055,000	2,783,266	21,590,000
2020	3.08	332,486	332,486	2,115,000	2,779,972	19,475,000
2021	3.08	299,915	299,915	2,185,000	2,784,830	17,290,000
2022	3.08	266,266	266,266	2,250,000	2,782,532	15,040,000
2023	3.08	231,616	231,616	2,320,000	2,783,232	12,720,000
2024	3.08	195,888	195,888	2,395,000	2,786,776	10,325,000
2025	3.08	159,005	159,005	2,465,000	2,783,010	7,860,000
2026	3.08	121,044	121,044	2,540,000	2,782,088	5,320,000
2027	3.08	81,928	81,928	2,620,000	2,783,856	2,700,000
2028	3.08	41,580	41,580	2,700,000	2,783,160	0
		$ 2,488,640	$ 2,488,640	$ 25,635,000	$ 30,612,280	

PORT FREEPORT

Senior Lien Revenue and Refunding Bonds, Series 2015A
September 30, 2017

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
2017						$ 37,810,000
2018	5.00 %	$ 885,419	$ 885,419	$ 665,000	$ 2,435,838	37,145,000
2019	5.00	868,794	868,794	700,000	2,437,588	36,445,000
2020	5.00	851,294	851,294	735,000	2,437,588	35,710,000
2021	5.00	832,919	832,919	770,000	2,435,838	34,940,000
2022	5.00	813,669	813,669	815,000	2,442,338	34,125,000
2023	5.00	793,294	793,294	855,000	2,441,588	33,270,000
2024	5.00	771,919	771,919	895,000	2,438,838	32,375,000
2025	5.00	749,544	749,544	945,000	2,444,088	31,430,000
2026	5.00	725,919	725,919	990,000	2,441,838	30,440,000
2027	5.00	701,169	701,169	1,035,000	2,437,338	29,405,000
2028	5.00	675,294	675,294	1,090,000	2,440,588	28,315,000
2029	5.00	648,044	648,044	1,145,000	2,441,088	27,170,000
2030	4.00	619,419	619,419	1,200,000	2,438,838	25,970,000
2031	4.13	595,419	595,419	1,250,000	2,440,838	24,720,000
2032	4.13	569,638	569,638	1,300,000	2,439,276	23,420,000
2033	4.25	542,825	542,825	1,355,000	2,440,650	22,065,000
2034	4.25	514,031	514,031	1,410,000	2,438,062	20,655,000
2035	4.25	484,069	484,069	1,475,000	2,443,138	19,180,000
2036	5.00	452,725	452,725	1,535,000	2,440,450	17,645,000
2037	5.00	414,350	414,350	1,610,000	2,438,700	16,035,000
2038	5.00	374,100	374,100	1,690,000	2,438,200	14,345,000
2039	5.00	331,850	331,850	1,775,000	2,438,700	12,570,000
2040	5.00	287,475	287,475	1,860,000	2,434,950	10,710,000
2041	4.50	240,975	240,975	1,955,000	2,436,950	8,755,000
2042	4.50	196,988	196,988	2,045,000	2,438,976	6,710,000
2043	4.50	150,975	150,975	2,140,000	2,441,950	4,570,000
2044	4.50	102,825	102,825	2,235,000	2,440,650	2,335,000
2045	4.50	52,538	52,538	2,335,000	2,440,076	0
		$ 15,247,480	$ 15,247,480	$ 37,810,000	$ 68,304,960	

PORT FREEPORT

Capital Lease
September 30, 2017

TABLE 19

Fiscal Year Ending September 30	Coupon	Interest Due Sept. 30	Principal Due Sept. 30	Total Principal & Interest	Principal Balance
2017					$ 10,202,097
2018	2.31 %	$ 235,260	$ 1,359,680	$ 1,594,940	8,842,417
2019	2.31	203,906	1,391,034	1,594,940	7,451,383
2020	2.31	171,829	1,423,112	1,594,941	6,028,271
2021	2.31	139,012	1,455,929	1,594,941	4,572,342
2022	2.31	105,438	1,489,502	1,594,940	3,082,840
2023	2.31	71,090	1,523,850	1,594,940	1,558,990
2024	2.31	35,950	1,558,990	1,594,940	0
		$ 962,485	$ 10,202,097	$ 11,164,582	

PORT FREEPORT

Summary of Annual Cash Requirements on Debt Outstanding
September 30, 2017

TABLE 20

Fiscal Year Ending September 30	Unlimited Tax Refunding Bonds Series 2006	Senior Lien Revenue Refunding Bonds Series 2013A	Senior Lien Revenue and Refunding Bonds Series 2015A	Capital Lease	Total
2018	$ 1,195,000	$ 2,779,558	$ 2,435,838	$ 1,594,940	$ 8,005,336
2019	1,190,800	2,783,266	2,437,588	1,594,940	8,006,594
2020		2,779,972	2,437,588	1,594,941	6,812,501
2021		2,784,830	2,435,838	1,594,941	6,815,609
2022		2,782,532	2,442,338	1,594,940	6,819,810
2023		2,783,232	2,441,588	1,594,940	6,819,760
2024		2,786,776	2,438,838	1,594,940	6,820,554
2025		2,783,010	2,444,088		5,227,098
2026		2,782,088	2,441,838		5,223,926
2027		2,783,856	2,437,338		5,221,194
2028		2,783,160	2,440,588		5,223,748
2029			2,441,088		2,441,088
2030			2,438,838		2,438,838
2031			2,440,838		2,440,838
2032			2,439,276		2,439,276
2033			2,440,650		2,440,650
2034			2,438,062		2,438,062
2035			2,443,138		2,443,138
2036			2,440,450		2,440,450
2037			2,438,700		2,438,700
2038			2,438,200		2,438,200
2039			2,438,700		2,438,700
2040			2,434,950		2,434,950
2041			2,436,950		2,436,950
2042			2,438,976		2,438,976
2043			2,441,950		2,441,950
2044			2,440,650		2,440,650
2045			2,440,076		2,440,076
	$ 2,385,800	$ 30,612,280	$ 68,304,960	$ 11,164,582	$ 112,467,622

PORT FREEPORT

Table 21, Miscellaneous Statistical Data

Located in Texas's Central Gulf Coast, Port Freeport currently encompasses approximately 85% of Brazoria County. Occupying the only frontal mainland coastline in Brazoria County, it also offers one of Texas's most fertile agricultural areas. The primary economic bases of the county include chemical manufacturing, petroleum processing, offshore production and maintenance services, diversified manufacturing, biochemical, electronics, 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	37
Geographical Location	Southeast Coast of Texas on the Gulf of Mexico Approximately 60 miles South of Houston
Port Owned Property	Approximately 540 acres developed Approximately 8,000 acres undeveloped
Elevation	3-12 feet above sea level
Tidal Range-Inner Harbor	Plus (minus) 2.5 feet
Aerial Clearance	No restriction
Climate Type	Sub-tropical
Temperature - Annual Average	71.6 degrees F.
Precipitation - Annual Average	52.17
Number of Public Docks	8
Covered Dry Warehouse Space	434,400 square feet
Port Freeport's Total Foreign Tonnage Ranking Among U.S. Ports	26th highest
Port Freeport's Total Tonnage Ranking Among U.S. Ports	31st highest
Major Trade Areas of Port	Central America, South America, Middle East, Africa, EU and Asia
Major Import Commodities	Agriculture products, bulk chemicals, clothing, crude oil, aggregate, liquefied natural gas, automobiles, construction equipment, steel pipe and billets, and project cargo
Major Export Commodities	Bulk chemicals, automobiles, general cargo, clothing, rice, paper goods, plastic resin, crude oil, LNG, and liquidities petroleum gas (LPG)
Number of Truck Lines Serving Port Freeport	47
Number of Barge Lines Serving Port Freeport	3
Number of Railroad Lines Serving Port Freeport	1
Number of Shipping Lines Calling Port Freeport	19
Area of County	1,386.4 square miles
Brazoria County's Total Assessed Valuation Among Texas Counties	12th 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	$ 46.2 billion annually / 16,400 local direct jobs; 69,500 local indirect and induced jobs, 126,000 jobs economy-wide directly or indirectly supported by operations

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 were 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

PORT FREEPORT

History of the Port[1]

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.

PORT FREEPORT

History of the Port[①]

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 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 to 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 were completed and the design for the next 10-acres was completed in 2009.

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

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

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

In 2014, the Port purchased two Post Panamax ship to shore container cranes for Velasco Terminal. Mediterranean Shipping Company, S.A. began servicing the Port in a vessel sharing agreement with Chiquita Brands International. In preparation of its new export facility, Freeport LNG signed an agreement with Port Freeport to widen the entrance of the channel.

In 2015 Hoegh Autoliners joined our family of partners in June of 2015 and has now created the first major OEM P3 Ro/Ro facility on the Gulf Coast offering all services to ocean carriers who move of all kinds of rolling stock. Port Freeport also signed leases with Zachry which started the construction phase for Freeport LNGs three new “trains”.

Congress approved the Water Resource Development Act designating the Port as an “authorized project”

PORT FREEPORT

History of the Port[1]

which places our GRR and 55’ channel deepening project as one of the top federal projects considered for funding.

In 2016, the Port demolished its chiller, making additional open storage area alongside Berth 2 and to facilitate and expedite ro/ro ship discharge and loading operations. Port Freeport also welcomed the first Post-Panamax vessel to call the Port. The MV HOEGH TARGET is the largest Pure Car Pure Truck Carrier in the world with the capacity to carry about 8,500 Car Equivalent Units (CEUs).

Freeport LNG (FLNG) commenced construction of three new export LNG trains and announced plans for an additional fourth train.

During 2016, Port Freeport reached a milestone in its history, surpassing three million tons of cargo handled at the public berths.

2017 was another banner year which saw the Port and the USAC partnering again on significant projects. The Port and the USAC approved the Freeport Placement 1 Containment Dike Raising, which will create significant new capacity for dredge material placement. The USAC and Port also approved a new study as part of our current GRR (General Re-evaluation Review) that would look at navigation enhancements as they relate to widening the current channel.

One of the Port’s newest tenants, Tenaris opened their new seamless pipe manufacturing facility in Bay City Texas. This $ 1.7 billion-dollar facility’s feedstock began arriving by vessel weekly in August, 2017. Approximately 330,000 tons of steel billets and or steel pipes are expected each year.

The Port also received approval of its’ first M-69 Marine Highway Designation and route from MARAD. This new marine highway will offer service routes for container on barge operations and will lower truck emissions by offering alternative barge services to and from the POHA and Port Freeport.

The Port expanded its’ HLC (Heavy-lift Truck Corridor) this year, by adding an additional route from Sweeny Texas to Bay City Texas to its’ list of routes offered to local industry. This route will help facilitate the delivery of steel products by truck to and from Bay City and Port Freeport.

Port Freeport reached a major milestone this year by approving its’ first major rail project. This project will add 3 x 5,500’ rail lines on our Parcel 14, which is a 242-acre site designed for multi-modal operations. The Port and our service partners UPRR will be offering manifest rail services options to our Ro/Ro and petrochemical clients.

In addition to the new rail, the Port will also be offering new warehousing for plastics bagging, container stuffing, and more rail storage/service options for high and heavy cargo such as construction equipment, cranes, and heavy lift project cargo.

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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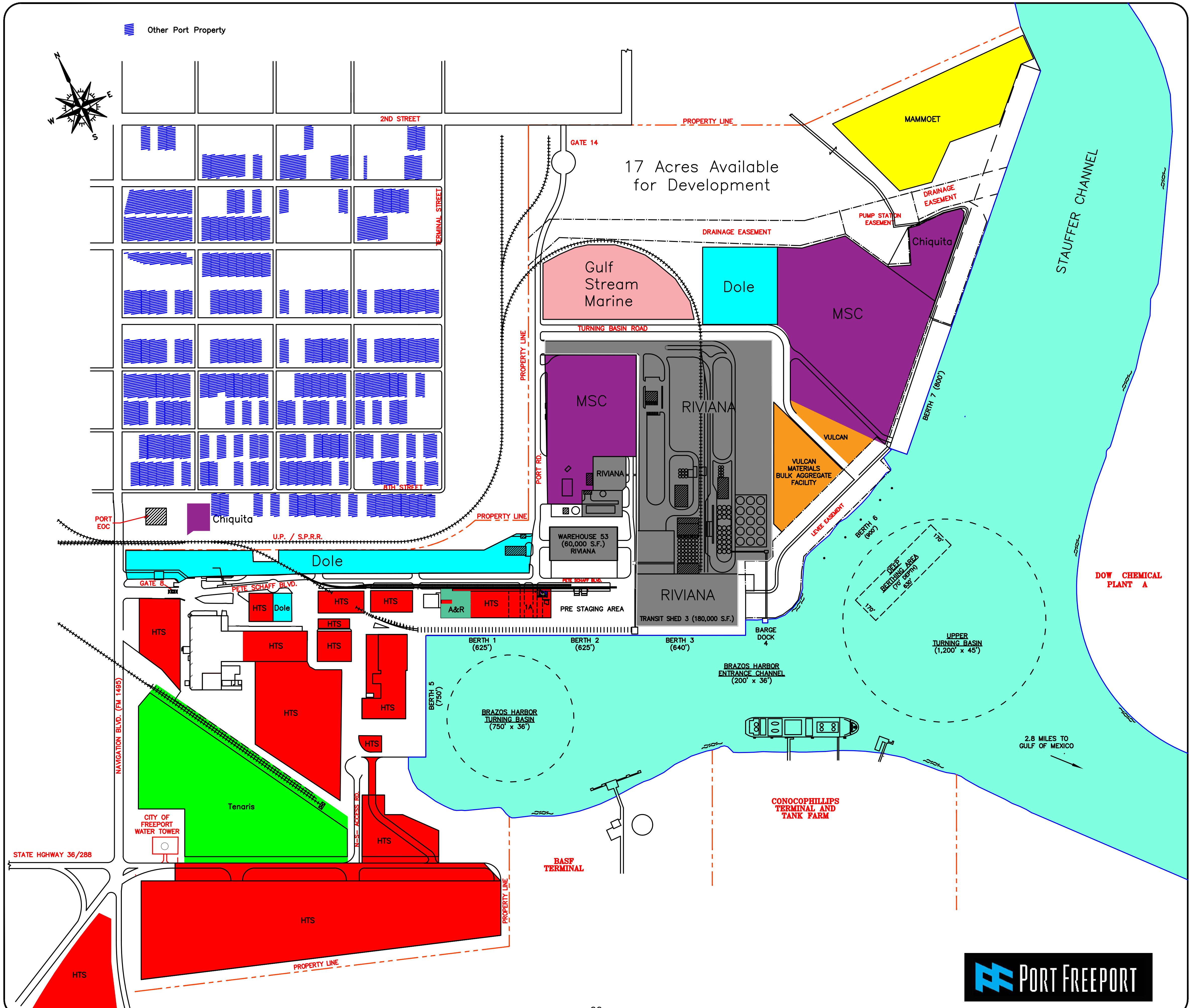
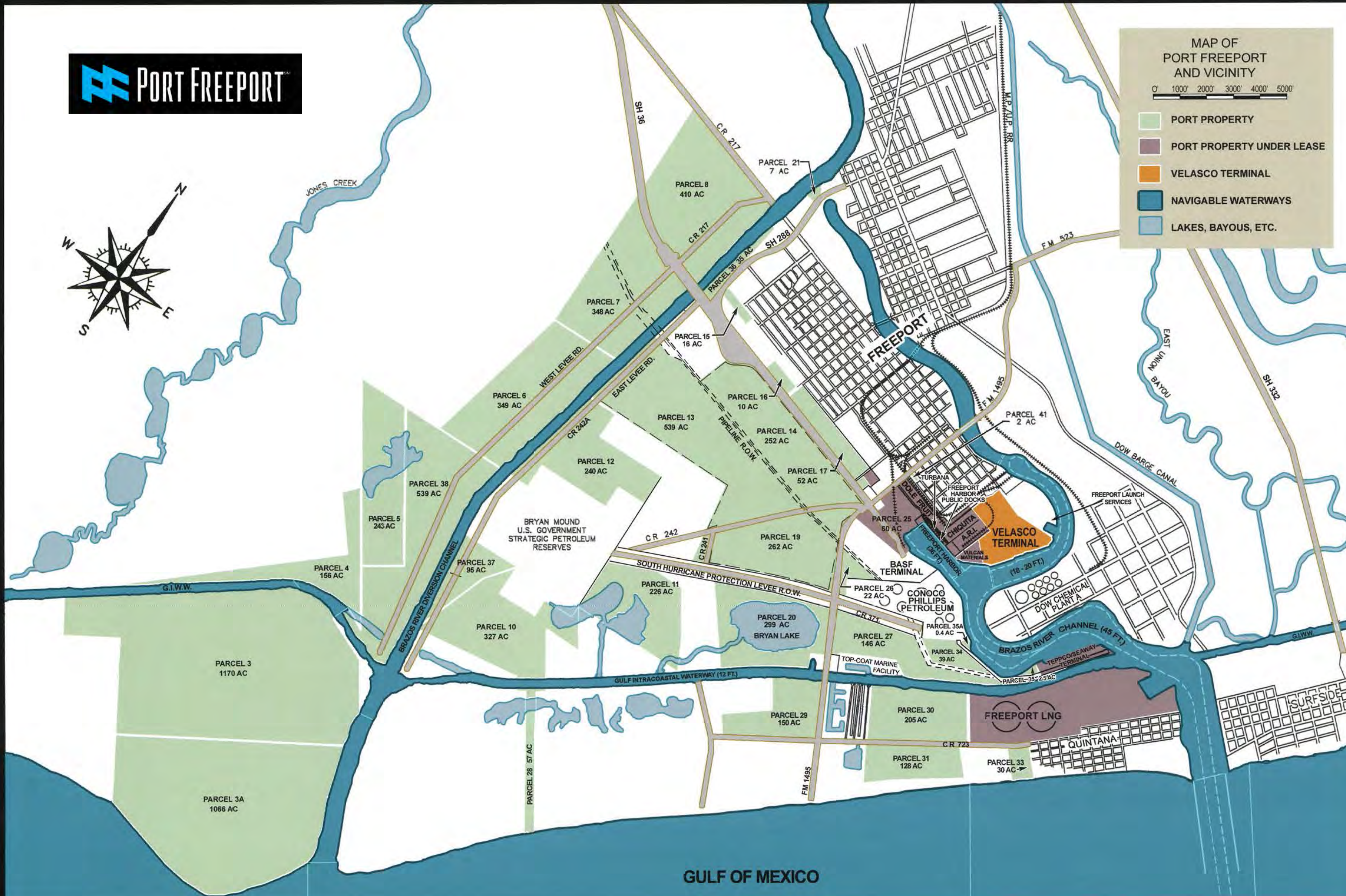


Other Port Property
N
E
S
W
2ND STREET
TERMINAL STREET
8TH STREET
PROPERTY LINE
GATE 14
17 Acres Available for Development
MAMMOET
DRAINAGE EASEMENT
PUMP STATION EASEMENT
DRAINAGE EASEMENT
Chiquita
Gulf Stream Marine
Dole
MSC
TURNING BASIN ROAD
STAUFFER CHANNEL
MSC
RIVIANA
RIVIANA
VULCAN
VULCAN MATERIALS BULK AGGREGATE FACILITY
BERTH 7 (800')
PORT RD
PROPERTY LINE
PORT EOC
Chiquita
U.P. / S.P.R.R.
WAREHOUSE 53 (60,000 S.F.) RIVIANA
Dole
LEVEE EASEMENT
BERTH 6 (900')
DEEP BERTHING AREA (70' DEPTH)
GATE 8
PETE SCHAFF BLVD.
HTS
Dole
A&R
PRE STAGING AREA
RIVIANA
TRANSIT SHED 3 (180,000 S.F.)
BARGE DOCK 4
DOW CHEMICAL PLANT A
BERTH 1 (625')
BERTH 2 (625')
BERTH 3 (640')
UPPER TURNING BASIN (1,200' x 45')
BRAZOS HARBOR ENTRANCE CHANNEL (200' x 36')
BERTH 5 (750')
BRAZOS HARBOR TURNING BASIN (750' x 36')
NAVIGATION BLVD. (FM 1495)
2.8 MILES TO GULF OF MEXICO
Tenaris
CITY OF FREEPORT WATER TOWER
N.S. ACCESS RD
CONOCOPHILLIPS TERMINAL AND TANK FARM
BASF TERMINAL
STATE HIGHWAY 36/288
PROPERTY LINE
PROPERTY LINE
PORT FREEPORT

MAMM


PORT FREEPORT
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.
JONES CREEK
FREEPORT
PARCEL 3 1170 AC
PARCEL 3A 1066 AC
PARCEL 4 156 AC
PARCEL 5 243 AC
PARCEL 6 349 AC
PARCEL 7 348 AC
PARCEL 8 410 AC
PARCEL 10 327 AC
PARCEL 11 226 AC
PARCEL 12 240 AC
PARCEL 13 539 AC
PARCEL 14 252 AC
PARCEL 15 16 AC
PARCEL 16 10 AC
PARCEL 17 52 AC
PARCEL 19 262 AC
PARCEL 20 299 AC BRYAN LAKE
PARCEL 21 7 AC
PARCEL 25 50 AC
PARCEL 26 22 AC
PARCEL 27 146 AC
PARCEL 28 57 AC
PARCEL 29 150 AC
PARCEL 30 205 AC
PARCEL 31 128 AC
PARCEL 33 30 AC
PARCEL 34 39 AC
PARCEL 35A 0.4 AC
PARCEL 35 2.5 AC
PARCEL 36 35 AC
PARCEL 37 95 AC
PARCEL 38 539 AC
PARCEL 41 2 AC
BRYAN MOUND U.S. GOVERNMENT STRATEGIC PETROLEUM RESERVES
SH 36
SH 288
SH 332
CR 217
CR 242
CR 242A
CR 241
CR 371
CR 723
FM 1495
FM 523
MP/UP RR
WEST LEVEE RD.
EAST LEVEE RD.
PIPELINE R.O.W.
SOUTH HURRICANE PROTECTION LEVEE R.O.W.
G.I.W.W.
BRAZOS RIVER DIVERSION CHANNEL
GULF INTRACOASTAL WATERWAY (12 FT.)
BRAZOS RIVER CHANNEL (45 FT.)
FREEPORT HARBOR (36 FT.)
(18 - 20 FT.)
TURBANA
DOLE FRUIT
FREEPORT HARBOR PUBLIC DOCKS
CHIQUITA
A.R.I.
VULCAN MATERIALS
VELASCO TERMINAL
FREEPORT LAUNCH SERVICES
BASF TERMINAL
CONOCO PHILLIPS PETROLEUM
DOW CHEMICAL PLANT A
TEPPCO/SEAWAY TERMINAL
TOP-COAT MARINE FACILITY
FREEPORT LNG
QUINTANA
SURFSIDE
DOW BARGE CANAL
EAST UNION BAYOU
GULF OF MEXICO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