

**BROWNSVILLE NAVIGATION DISTRICT
OF CAMERON COUNTY, TEXAS**

FINANCIAL REPORT

DECEMBER 31, 2010

Prepared by:

Department of Finance and Administration

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }

COUNTY OF: _____ }

I, _____
(Name of Duly Authorized District Representative)

of the _____
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Commissioners on the _____ day of _____, 2011 its annual audit report for the fiscal period ended _____ and that copies of the annual audit report have been filed in the District's office, located at _____

(Address of District)

The filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: _____, 2011

By: _____
(Signature of District Representative)

(Typed Named & Title of above District Representative)

Sworn to and subscribed to before me this _____ day of _____, 2011

(Signature of Notary)

My Commission Expires On: _____, _____

Notary Public in the State of Texas.

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Navigation and Canal Commissioners
Brownsville Navigation District of
Cameron County, Texas

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Brownsville Navigation District as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Brownsville Navigation District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Brownsville Navigation District of Cameron County, Texas, as of December 31, 2010, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2011 on our consideration of the Brownsville Navigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 9 to 17 and the Analysis of Funding Progress on page 62 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brownsville Navigation District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The financial information listed as supplementary information on pages 65 through 66 are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Brownsville, Texas
May 4, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Brownsville Navigation District of Cameron County, Texas, we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2010. We encourage readers to consider the information presented here in conjunction with the financial statements following this section and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- **Marine Highway** – The Brownsville Navigation District focused its energies on transportation projects during 2010. One of the District's major accomplishments during 2010 was to be selected to receive the U. S. Department of Transportation's designation of its Cross Gulf Container Expansion Project as a Marine Highway corridor, the "M-10". The Marine Highway initiative's purpose is to alleviate congestion on America's roadways by moving more cargo on its waterways. The Cross Gulf Container Expansion Project is a container-on-barge service that connects the Port of Brownsville directly with Port Manatee in Florida. The project was awarded a \$3.34 million grant by the Department of Transportation for infrastructure improvements and equipment at both the ports of Brownsville and Manatee. The Port is currently accepting proposals for service providers who will provide the matching funds for this grant.
- **Cameron County Regional Mobility Authority Roads Projects** – In 2004, Governor Perry approved Cameron County's request for the creation of the Cameron County Regional Mobility Authority (CCRMA). The purpose of the CCRMA is to provide Cameron County with an opportunity to accelerate needed transportation projects and have a local entity in place to make decisions on these projects that will be of benefit to its service area. The focus of the CCRMA is to enhance the economic vitality of the lower Rio Grande Valley. The Brownsville Navigation District has worked in cooperation with the CCRMA on a number of projects that enhance the landward access to the Port of Brownsville. The widening of FM 511 between Expressway 77/83 and the Port of Brownsville was completed in early 2010. This was followed by the initiation of two companion projects, the construction of a new truck route, FM 550, to bring truck traffic to the Port of Brownsville, and the construction of a connector road between an existing Port road and the terminus of FM 550. The CCRMA is also in the planning stages for the "East Loop" project which will re-route truck traffic between the Port of Brownsville and the international bridges, away from residential areas and areas of congestion. These projects coordinate with the District's internal road rehabilitation project, which is nearing completion, to improve the accessibility to the Port by its trucking industry.
- **Lease Rental Rate Increase** – The Brownsville Navigation District has approximately 5,000 acres developed for industrial use. The various sites within the Port are leased to its customers for their commercial use; in the past, land has not been sold by the District for industrial development. In 2007, the District's Board of Commissioners commissioned a study of the lease rental rates at the Port of Brownsville as a part of its master planning process. These rates had not been adjusted since 1982. As a result of the study, new lease rental rates have been established, and were officially adopted by the Board of Commissioners on December 1, 2010. These rates have already been

implemented for new leases, and will begin to be phased in for existing tenants in July, 2011. The new rates will be fully implemented by 2016. At that point, the lease rental rates at the Port of Brownsville will be subject to an annual adjustment based on the Consumer Price Index.

- **Brownsville and Rio Grande International Railroad Excess Revenue Transfer** – The Brownsville and Rio Grande International Railroad (BRG) is a component unit of the District. Under an agreement between the Boards of the District and the BRG, excess revenues earned by the BRG are transferred to the District annually. On May 17, 2010, the two Boards entered into an agreement whereby these funds may be used by the BRG for capital improvements to the rail system in the Port of Brownsville with the consent of the District’s Board of Commissioners. Annually, a joint meeting of the District Board and the BRG Board is held to establish the list of capital projects to be funded out of excess revenues. Excess revenues not used for approved capital projects by the BRG are retained by the District. Excess revenues generated by the BRG to date are:

Fiscal Year 2008	\$ 747,554.00
Fiscal Year 2009	753,311.43
Fiscal Year 2010	772,925.09
Total	\$ 2,273,790.52

Projects completed by the BRG with these excess revenues have included the construction of new rail, the rehabilitation of existing rail and rail crossings, the installation of a new rail scale and improvements to the maintenance facility buildings of the BRG. Total capital expenditures were \$1,284,538.59, with the remaining balance of \$989,251.93 being carried as a receivable by the District at the end of fiscal year 2010. These funds were transferred to the District in early 2011. An agreement was executed by the two Boards on April 20, 2011 which dedicated the entire remaining balance of excess cash from fiscal years 2008 and 2009, all of the excess cash from fiscal year 2010, and enough of the excess cash from 2011 as is required to complete the project, to the construction of a new rail yard, the “North Yard”. The District will be reserving these funds for that project as they are received.

- The assets of the District exceeded its liabilities at the close of the current fiscal year by \$97,705,228 (net assets). Of this amount, \$5,406,304 (unrestricted net assets) may be used to meet the District’s ongoing obligations to creditors.
- The District’s total net assets increased by \$3,530,714, or 4%, although the District’s total unrestricted net assets decreased slightly (by \$176,972, or 3%). This is a result of the intensive investment of funds into the District’s capital projects. The increase in the District’s net assets invested in capital assets increased by \$3,578,178 during fiscal 2010.
- Operating revenues for fiscal year 2010 were \$11,030,814; in fiscal year 2009 operating revenues were \$11,779,847. This is attributable to a slow-down in cargo traffic in the first quarter of 2010.
- Revenues from vessel services related to cargo traffic were \$4,598,057 in fiscal year 2010, down from fiscal year 2009’s figure of \$5,510,892, or down 17%.
- Revenues from lease rentals and other operating revenues in fiscal year 2010 were \$6,432,757, an increase from fiscal year 2009’s figure of \$6,268,955, an increase of 3%.

- Operating expenses, other than depreciation, for fiscal year 2010 were \$8,455,421. This compares to the operating expenses for fiscal year 2009 which were \$8,030,279. Significant factors in this increase in expenses in 2010 over 2009 are the cost of the implementation of a new pension plan, which had increased costs of \$128,000, and the bi-annual election cost of \$85,000. The pension implementation costs are a one-time cost, and the cost of the election occurs every other year.
- Operating income (before depreciation) was \$2,575,393 for fiscal year 2010. This compares against the operating income for fiscal year 2009 of \$3,749,569.
- The District is recording an amortization of \$1,110,000.00 against the plans and specifications prepared for the Port Bridge Project. That project was deemed to be impaired in prior fiscal years, and the cost of the impairment was charged to Net Assets. The costs to obtain the U. S. Presidential Permit were capitalized as a component of the land that the Permit authorized for the project, and the cost of the plans and specifications delivered by the engineer on the project will be amortized over four years at \$1,110,000 per year. Fiscal year 2010 is the third year to be affected by this amortization expense.
- Non-operating income, net of non-operating expenses, was \$3,573,893 for fiscal year 2010. This compares to the prior fiscal year's non-operating income of \$4,987,176. The major component of this difference is attributable to Grant Revenues, which for fiscal year 2009 were \$1,869,900 and in fiscal year 2010 were \$1,061,585. Another factor is the reduction in interest earnings on bank deposits which were \$159,291 below fiscal year 2009 levels.
- The current fiscal year resulted in an adjusted net income of \$3,530,714, the adjusted net income for the prior fiscal year was \$5,495,298.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's basic financial statements consist of the following: (1) **Fund Financial Statements**, and (2) **Notes to the Financial Statements**.

Fund Financial Statements. A Fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state, local or quasi-governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District is a single fund government. The one fund that the District includes is a **Proprietary Fund**.

The District's **Propriety Fund** is comprised of a single enterprise fund whose activities are considered "business-type" because they are intended to recover all or a portion of their costs through fees and charges for service. Since the District maintains its activities as a single enterprise fund, its Proprietary Fund financial statements provide information about the activities of the District as a whole.

The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators as to whether the District's financial health is improving or not.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected leases and earned, but unused vacation leave).

The Statement of Cash Flows reports how the District's cash and cash equivalents were used in and provided by its operating, non-capital financing, capital and related financing, and investing activities during the periods reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash and cash equivalent balances at December 31, 2010. These statements are prepared on a cash basis and only present cash receipts and cash disbursement information. The District uses the direct method of presenting cash flows, which includes a reconciliation of operating activities to operating income.

Notes to the Financial Statements. The financial statement disclosures are an integral part of the financial statements. Such disclosures are essential to a full understanding of the information provided in the fund financial statements. These notes can be found on pages 27-60.

FINANCIAL ANALYSIS

The District's financial health is reflected in the current year financial statements. The fiscal year ending December 31, 2010 showed total net assets of \$97,705,228, which are summarized as follows:

	<u>Net Assets</u>	
	<u>12/31/2010</u>	<u>12/31/2009</u>
Current and Other Assets	\$ 33,720,103	\$ 36,492,354
Capital Assets	\$ 107,936,781	\$ 106,072,614
Total Assets	\$ 141,656,884	\$ 142,564,968
Long-Term liabilities outstanding	\$ 32,745,434	\$ 34,711,989
Other liabilities	\$ 11,206,222	\$ 13,678,468
Total Liabilities	\$ 43,951,656	\$ 48,390,457
Net Assets:		
Invested in capital assets, net of related debt	\$ 85,432,090	\$ 81,853,912
Restricted for:		
Revenue bond debt retirement and contingency	\$ 3,143,835	\$ 3,071,701
General obligation bond debt service	\$ 3,722,998	\$ 3,665,627
Unrestricted	\$ 5,406,305	\$ 5,583,274
Total Net Assets	<u>\$ 97,705,228</u>	<u>\$ 94,174,514</u>

Key elements of the analysis of net assets reflect the following:

- The reduction in current assets was impacted in fiscal year 2010 due to the draw-down of accumulated funds in the operating reserve for capital projects. Cash was used to finance capital improvements during fiscal year 2010; a total of \$4,422,878. was utilized from the operating reserve for capital improvements fund that was in place at the end of fiscal year 2009, the remaining capital improvements during fiscal year 2010 were financed out of operating revenues.
- No new long-term debt was issued during the current fiscal year. The change in long-term debt represents principal payments on the outstanding bonds and the note payable for the mobile harbor crane and capital appreciation on the capital appreciation bond during the fiscal year.
- The increase in the assets restricted for the General Obligation bond debt service is reflective of a tax collection rate that was higher at the end of December, 2010 (72%), than at the end of December, 2009 (68%). The debt service to be paid from the 2010 tax levy is only \$25,350 higher than the debt service that was to be paid from the 2009 tax levy.

Changes in net assets are summarized as follows:

Changes in Net Assets

	<u>Fiscal 2010</u>	<u>Fiscal 2009</u>	<u>Change</u>
Operating revenues	\$ 11,030,814	\$ 11,779,847	\$ (749,033)
Operating expenses	\$ 11,846,920	\$ 11,271,726	575,194
Operating income (loss)	\$ (816,106)	\$ 508,121	(1,324,227)
Non-operating revenues, net	\$ 3,573,893	\$ 4,987,176	(1,413,283)
Income before capital contributions	\$ 2,757,787	\$ 5,495,297	(2,737,510)
Capital contributions	\$ 772,927	\$ 2,623,215	(1,850,288)
Increase (decrease) in net assets	\$ 3,530,714	\$ 8,118,512	(4,587,798)
Net assets - beginning	\$ 94,174,514	\$ 87,014,208	7,160,306
Prior period adjustment	\$ -	\$ (958,206)	958,206
Net assets - ending	<u>\$ 97,705,228</u>	<u>\$ 94,174,514</u>	<u>\$ 3,530,714</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	<u>12/31/2010</u>	<u>12/31/2009</u>
Inland channel, turning basin, & jetties	\$ 51,160,011	\$ 52,116,635
Land	\$ 10,891,652	9,935,027
Easements	\$ 20,760	20,760
Docks and appurtenances	\$ 44,581,517	44,517,227
Water and sewer systems	\$ 8,226,822	8,036,202
Railroads	\$ 5,416,145	5,381,042
Land improvements and roads	\$ 14,109,444	11,628,956
Administration building	\$ 751,355	751,354
Industrial equipment	\$ 4,687,683	4,908,722
Furniture and equipment	\$ 507,038	507,038
Intangible Assets	\$ 5,895,274	5,895,274
Construction in progress	\$ 12,403,426.00	9,929,946
Total	<u>\$ 158,651,126</u>	<u>\$ 153,628,183</u>

In the years prior to 2008 and 2009, the District had deferred much-needed on-going facility maintenance and equipment replacement. During late 2008 and continuing on into 2009 and 2010, the District has embarked on an aggressive capital improvement program. Major capital asset transactions during the fiscal year ending December 31, 2010 included the following:

- **Channel Deepening and Widening Feasibility Study** – This is a long-term project to investigate the feasibility of deepening and/or widening the Port of Brownsville Ship Channel. It is viewed by the staff as a critical initiative for the future of the Port of Brownsville. This project is being performed by the U. S. Corps of Engineers as federal funding is appropriated. The District is required to match the federally funded portion with a 100% match. The appropriation for 2010 was \$538,000, requiring an equal match from the District. This match is paid to the U. S. Corps of Engineers on request, and it was not requested during calendar 2010, the request was made during the first quarter of 2011 for a matching contribution of \$511,000, which was net of the District's in-kind contributions to the project.
- **Turning Basin Road Rehabilitation Project** – The District has received federal funding in the amount of \$2,087,285 to be used for the rehabilitation of approximately 6 miles of roads in the Turning Basin area. The project manager for the pass-through funding was the Texas Department of Transportation. The District has contracted with TxDOT to manage this project. The District has a 20% match for the funding for this project, however, due to the scope of the project, the District's share will exceed the matching contribution. The District's anticipated cost for this project is \$3,320,250. The District has paid for the engineering costs as an in-kind contribution to this cost share. In addition, the District has contracted with one of its lessees to provide the limestone for the project at a substantial cost savings, has contracted with the Brownsville Public Utilities Board for the relocation of a number of utility poles and has contracted with another lessee for the relocation of a number of lift stations and utility service lines. These costs will be credited toward the District's cost share. This project began in early 2010 with an anticipated completion date in the second quarter 2011.
- **Turning Basin Sewer Treatment Plant Clarifier Rehabilitation** – The condition of the clarifier at the Turning Basin Sewer Plant has been of concern to the District's staff for a number of years, finally requiring that the District take it out of service and to temporarily utilize the District's settling ponds. During fiscal year 2009, the District engaged the services of an engineer to provide the plans and specifications for this project. This contract was completed during fiscal year 2010 at a cost of \$221,383, and the plant is now fully operational.
- **TIGER Grant Funding Projects** – As a part of the ARRA economic stimulus, the Federal government had a grant program for transportation projects entitled the Transportation Investment Generating Economic Recovery (TIGER) Grant Program. This grant program was specified for "shovel-ready" projects. The District applied for funding of a comprehensive transportation project that included a new general purpose cargo dock, a new fuel dock, a new rail yard, rail on two general cargo docks and a new mobile harbor crane. These new infrastructure enhancements at the Port of Brownsville complemented road projects underway by the Texas Department of Transportation, the Regional Mobility Authority and the East Loop project. Plans and specifications for the construction of the two docks were prepared to the point of being able to advertise for

bids at a cost to the District of \$3,000,000. The total application was for \$73.5 million in 2009. Although the District's grant application scored well in the preliminary evaluation of the projects, the District was not successful in receiving funding under this first TIGER grant process. The Federal government announced a second round of TIGER grants in early 2010, with smaller project limitations. The District redrafted its application, and submitted a more limited request, which was also not successful. The District will continue to consider participation in any future TIGER Grant Programs as they are announced.

- **Homeland Security Enhancements** – Homeland Security has placed a number of requirements for enhanced security in the Port of Brownsville in the past several years. The District has applied for project funding under four grant offerings, receiving awards of a total of \$9,410,308 which require a funding match by the District of \$3,114,727. These projects are underway, and are providing security enhancements at the Port of Brownsville. As new grants are announced, the District will continue to apply for the funding provided.
- **New Cargo Storage Areas** - During the years 2007 through 2009, the District invested in upgrading its mobile equipment. A total of \$1.1 million was spent on updating and enhancing the District's rolling stock and construction equipment. This new fleet of equipment has been put to use in increasing the District's capacity by clearing and stabilizing new cargo storage areas. During fiscal year 2010, approximately 10 acres of new cargo storage area were constructed.
- **New Area for Industrial Development** – As a companion project to the cargo storage area project, the staff has identified areas in the port for green-field development. These areas are being cleared to be placed in the District's inventory of land that is ready for development for commercial clients. During fiscal year 2010, approximately 150 acres of property have been cleared.
- **Operating Reserve Fund** - The District has established a savings account, separate from the operating funds, which will be accumulated at a rate of \$250,000 per year with the goal of reaching a balance that will provide 6 months of operating expenses as protection against economic slow-downs. At the end of the current fiscal year, this fund contained \$910,076.

Additional information on the District's capital assets can be found in Note D to the financial statements on pages 38-39 of this report.

The District's outstanding debt is summarized as follows:

	<u>Outstanding Debt</u>	
	<u>12/31/2010</u>	<u>12/31/2009</u>
Revenue bonds, net	\$ 11,686,151	\$ 12,850,427
General obligation bonds, net	18,696,851	19,695,560
Notes payable	-	-
Capital lease obligations	575,822	884,780
Total	<u>\$ 30,958,824</u>	<u>\$ 33,430,767</u>

Additional information on the District's long-term debt can be found in Note E on pages 41-47 of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide the reader with a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance and Administration, 1000 Foust Road, Brownsville, Texas 78521.

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BASIC FINANCIAL STATEMENTS

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS

December 31, 2010

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Totals Reporting Entity (Memorandum Only)
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 12,494,966	\$ 3,723,923	\$ 16,218,889
Accounts receivable, net of allowance for doubtful receivables	643,252	1,101,259	1,744,511
Notes receivable, current	231,708	-	231,708
Taxes receivable, net of estimated uncollectible taxes	298,941	-	298,941
Other receivables and accrued interest	1,662,829	-	1,662,829
Inventories	6,618	153,497	160,115
Prepaid expenses	346,036	32,916	378,952
Total Current Assets	<u>15,684,350</u>	<u>5,011,595</u>	<u>20,695,945</u>
Restricted Assets - District			
Obligations:			
Cash - revenue bond fund	3,618,188	-	3,618,188
Cash - general obligation bond fund	2,390,241	-	2,390,241
Cash - overweight permits	5,764	-	5,764
Total cash and cash equivalents	<u>6,014,193</u>	<u>-</u>	<u>6,014,193</u>
Taxes Receivable - G.O., net of estimated uncollectible taxes	1,332,757	-	1,332,757
Bond Proceeds Receivable - BRG	2,071,667	-	2,071,667
Total Restricted Assets - District Obligations	<u>9,418,617</u>	<u>-</u>	<u>9,418,617</u>
Restricted Assets - Utilized By			
Others			
Installment sale agreement receivable, pollution control and environmental improvement revenue project	4,600,000	-	4,600,000
Total Restricted Assets - Utilized By Others	<u>4,600,000</u>	<u>-</u>	<u>4,600,000</u>

(continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2010

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Totals Reporting Entity (Memorandum Only)
Capital Assets:			
Property, plant, and equipment	158,651,127	9,905,044	168,556,171
Less accumulated depreciation	(50,714,345)	(4,520,676)	(55,235,021)
	<u>107,936,782</u>	<u>5,384,368</u>	<u>113,321,150</u>
Other Assets:			
Notes receivable, non-current	3,147,410	-	3,147,410
Prepaid bond principal		353,392	353,392
Deferred charges	573,757	138,252	712,009
Other assets	295,970	-	295,970
Total Other Assets	<u>4,017,137</u>	<u>491,644</u>	<u>4,508,781</u>
Total Assets	<u>\$ 141,656,884</u>	<u>\$ 10,887,607</u>	<u>\$ 152,544,491</u>

(continued)

The accompanying notes are an integral part of the Financial Statement

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2010

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Totals Reporting Entity (Memorandum Only)
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,605,221	\$ 770,712	\$ 2,375,933
Accrued liabilities	883,341	-	883,341
Deferred lease rentals	1,781,517	-	1,781,517
Deferred property tax revenue	3,236,988	-	3,236,988
Other current liabilities	550,000	808,019	1,358,019
Current obligations under capital leases	308,958	-	308,958
Total Current Liabilities - Unrestricted	<u>8,366,025</u>	<u>1,578,731</u>	<u>9,944,756</u>
Current Liabilities - Restricted - District:			
Obligations:			
Current maturities of long-term debt - bonds	<u>2,840,197</u>	<u>130,000</u>	<u>2,970,197</u>
Noncurrent District Obligations:			
Revenue bonds	10,451,151	2,050,000	12,501,151
General obligation bonds	17,091,653	-	17,091,653
Capital lease obligations	266,864	-	266,864
Due to Brownsville and Rio Grande International Railroad	<u>335,766</u>	<u>-</u>	<u>335,766</u>
Total Noncurrent District Obligations	<u>28,145,434</u>	<u>2,050,000</u>	<u>30,195,434</u>
Noncurrent Obligations Serviced			
By Others:			
Pollution control and environmental improvement revenue bonds	<u>4,600,000</u>	<u>-</u>	<u>4,600,000</u>
Total Liabilities	<u>43,951,656</u>	<u>3,758,731</u>	<u>47,710,387</u>

(continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS

December 31, 2010

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Totals Reporting Entity (Memorandum Only)</u>
NET ASSETS			
Invested in capital assets, net of related debt	85,432,090	3,204,368	88,636,458
Restricted for:			
Revenue bond debt retirement and contingency	3,143,836	353,392	3,497,228
General obligation bond debt service	3,722,999	-	3,722,999
Unrestricted	5,406,303	3,571,116	8,977,419
Total Net Assets	<u>\$ 97,705,228</u>	<u>\$ 7,128,876</u>	<u>\$ 104,834,104</u>

The accompanying notes are an integral part of the Financial Statements.

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS**

For the Year Ended December 31, 2010

	Primary <u>Government</u> Enterprise <u>Fund</u>	<u>Component Unit</u> BRG International <u>Railroad</u>	Totals Reporting Entity (Memorandum Only)
OPERATING REVENUES			
Vessel services	\$ 4,598,057	\$ -	\$ 4,598,057
Lease rentals			
Port system	4,103,159	-	4,103,159
Other lease rentals	907,461	-	907,461
Other operating revenue	1,422,137	115,166	1,537,303
Switching	-	7,381,903	7,381,903
Incidental	-	178,980	178,980
Car repair	-	138,822	138,822
Demurrage	-	376,105	376,105
Total Operating Revenues	<u>11,030,814</u>	<u>8,190,976</u>	<u>19,221,790</u>
OPERATING EXPENSES, OTHER THAN DEPRECIATION			
Operating expenses	<u>8,455,421</u>	<u>7,153,135</u>	<u>15,608,556</u>
Income from operations before depreciation	2,575,393	1,037,841	3,613,234
Amortization	1,110,000	-	1,110,000
Depreciation	<u>2,281,499</u>	<u>368,538</u>	<u>2,650,037</u>
OPERATING INCOME (LOSS)	(816,106)	669,303	(146,803)
NON-OPERATING INCOME			
Interest income on investments and direct financing leases - port system	411,473	12,250	423,723
Interest income - other	91,518		91,518
Tax income - net of bad debt and collection expenses			
Penalties and interest	129,549	-	129,549
Maintenance and operations	612,400	-	612,400
General obligation bond debt service	2,543,903	-	2,543,903
Interest expense	(1,450,407)	(91,518)	(1,541,925)
Amortization of bond issuance costs	(69,752)	-	(69,752)
Bond service fees	(7,000)	-	(7,000)
Grant revenue	1,061,585	-	1,061,585

(continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - CONTINUED**

For the Year Ended December 31, 2010

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Totals Reporting Entity (Memorandum Only)</u>
NON-OPERATING INCOME (EXPENSE) - CONTINUED			
Other non-operating income (expense)	<u>250,624</u>	<u>(656,795)</u>	<u>(406,171)</u>
Total Other Income (Expense)	<u>3,573,893</u>	<u>(736,063)</u>	<u>2,837,830</u>
 Income (Loss) Before Contributions and Extraordinary Items	 <u>2,757,787</u>	 <u>(66,760)</u>	 <u>2,691,027</u>
Capital contributions	<u>772,927</u>	<u>-</u>	<u>772,927</u>
Increase (decrease) in net assets	<u>3,530,714</u>	<u>(66,760)</u>	<u>3,463,954</u>
Net assets at beginning of year	<u>94,174,514</u>	<u>7,195,640</u>	<u>101,370,154</u>
Net assets at end of year	<u>\$ 97,705,228</u>	<u>\$ 7,128,880</u>	<u>\$ 104,834,108</u>

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2010

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Totals Reporting Entity (Memorandum Only)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: - (Continued)			
Interest paid	(1,429,917)	-	(1,429,917)
Interest paid to Brownsville Navigation District	-	(91,518)	(91,518)
Bond premium	6,411	-	6,411
Acquisition and construction of capital assets	(5,022,941)	(253,115)	(5,276,056)
Principal paid to bond reserve fund		(2,060)	(2,060)
Capital lease principal payments	(308,958)	-	(308,958)
Other expenses	11,548	-	11,548
Net cash used in capital and related financing activities	<u>(5,405,561)</u>	<u>(464,443)</u>	<u>(5,870,004)</u>
Net increase (decrease) in cash and cash equivalents	(2,022,227)	(72,853)	(2,095,080)
Cash and cash equivalents at beginning of year	<u>20,531,386</u>	<u>3,796,776</u>	<u>24,328,162</u>
Cash and cash equivalents at end of year	<u>\$ 18,509,159</u>	<u>\$ 3,723,923</u>	<u>\$ 22,233,082</u> (continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Totals Reporting Entity (Memorandum Only)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 11,110,335	\$ 8,274,833	\$ 19,385,168
Receipts from sale of surplus materials	41,768	116,130	157,898
Payment to suppliers	(5,503,960)	(4,550,507)	(10,054,467)
Payment to employees	<u>(3,300,810)</u>	<u>(2,675,941)</u>	<u>(5,976,751)</u>
Net cash provided (used) by operating activities	<u>2,347,333</u>	<u>1,164,515</u>	<u>3,511,848</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers to Brownsville Navigation district		(772,925)	(772,925)
Collections from maintenance and operation taxes	625,569	-	625,569
Collections from penalties and interest	29,595	-	29,595
Expenses paid net of county adjustments for maintenance and operation taxes	(13,169)	-	(13,169)
Discounts for maintenance and operation taxes	(11,056)	-	(11,056)
Interest received from unrestricted investments	<u>405,063</u>	<u>-</u>	<u>405,063</u>
Net cash provided (used) by noncapital financing activities	<u>1,036,002</u>	<u>(772,925)</u>	<u>263,077</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest received	91,518	12,250	103,768
Collections from general obligation taxes	2,600,313	-	2,600,313
Collections from penalties and interest	99,954	-	99,954
Expenses paid net of county adjustments for general obligation taxes	(56,410)	-	(56,410)
Discounts for general obligation taxes	(50,205)	-	(50,205)
Capital contributions	(216,327)	-	(216,327)
Change in note receivable	219,629	-	219,629
Principal paid on bonds	(2,706,376)	(130,000)	(2,836,376)
Grant revenue	1,061,585	-	1,061,585
Other income	294,615	-	294,615

(continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2010

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Totals Reporting Entity (Memorandum Only)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: - (Continued)			
Interest paid	(1,429,917)	-	(1,429,917)
Interest paid to Brownsville Navigation District	-	(91,518)	(91,518)
Bond premium	6,411	-	6,411
Acquisition and construction of capital assets	(5,022,941)	(253,115)	(5,276,056)
Principal paid to bond reserve fund		(2,060)	(2,060)
Capital lease principal payments	(308,958)	-	(308,958)
Other expenses	11,548	-	11,548
Net cash used in capital and related financing activities	<u>(5,405,561)</u>	<u>(464,443)</u>	<u>(5,870,004)</u>
Net increase (decrease) in cash and cash equivalents	(2,022,227)	(72,853)	(2,095,080)
Cash and cash equivalents at beginning of year	<u>20,531,386</u>	<u>3,796,776</u>	<u>24,328,162</u>
Cash and cash equivalents at end of year	<u>\$ 18,509,159</u>	<u>\$ 3,723,923</u>	<u>\$ 22,233,082</u> (continued)

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2010

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Totals Reporting Entity (Memorandum Only)</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (816,106)	\$ 669,303	\$ (146,803)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,281,499	368,538	2,650,037
Amortization	1,110,000	11,367	1,121,367
Payments for sale of surplus	-	116,130	116,130
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	121,289	17,171	138,460
(Increase) decrease in taxes receivable	15,551	-	15,551
(Increase) decrease in inventories	23,896	(21,498)	2,398
(Increase) decrease in prepaid expenses	78,209	(9,640)	68,569
(Increase) decrease in other assets	554,395	-	554,395
Increase (decrease) in accounts payable	(754,735)	13,144	(741,591)
Increase (decrease) in accrued liabilities	(39,445)	-	(39,445)
Increase (decrease) in deferred lease rentals and other credits	<u>(227,220)</u>	<u>-</u>	<u>(227,220)</u>
Net cash provided by operating activities	<u>\$ 2,347,333</u>	<u>\$ 1,164,515</u>	<u>\$ 3,511,849</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$ 1,480,094	\$ 96,716	\$ 1,576,810
Income taxes	-	-	-

The accompanying notes are an integral part of the Financial Statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Brownsville Navigation District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. *Operations of the District*

The Brownsville Navigation District of Cameron County, Texas (the "District") is an independent public body created under the statutes of the State of Texas for the purpose of developing and operating a deepwater seaport for the Brownsville, Texas area. A seventeen mile deepwater channel connects the port with the Gulf of Mexico. The channel and port facilities, comprised of approximately 50,000 acres of land, docks, warehouses, utility systems and cargo handling equipment, have been financed by contributions from the federal government, sales of general obligation bonds, sales of special revenue bonds collateralized by revenues derived from leasing the improvements and facilities constructed with the proceeds of the bonds, and unrestricted revenues in excess of operating expenses. (See Note J for operations of the Railroad).

The District derives its operating revenues from charges for lease rentals, wharfage, storage, vessel dockage, and the sale of various port services such as utilities and security.

2. *The Reporting Entity*

In evaluating how to define the District 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 accounting principles generally accepted in the United States of America. These principles require legally separate, tax-exempt organizations to be discretely presented as component units if all three of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents the "direct benefit" criterion.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization the "entitlement/ability to access" criterion.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government the "significance" criterion.

Based upon the application of these criteria, the following is a brief review of the potential component unit addressed in defining the District's reporting entity.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. The Reporting Entity - Continued

The following discretely presented component unit is reported in a separate column in the financial statements to emphasize it is legally separate from the District. The discretely presented component unit has a December 31 year end.

On June 1, 1983, the District issued Junior Lien Railroad Revenue Bonds which created the Brownsville and Rio Grande International Railroad ("Railroad"). The Railroad is operated and maintained as a separate and distinct entity from the District. The District must continue to pay the debt service of these Junior Lien Revenue Bonds regardless of whether the Railroad reimburses the District and must meet reasonable and necessary expenses of operating and maintaining the District and the system, including the Railroad. (See Note K). The locally-elected Board of Navigation and Canal Commissioners is exclusively responsible for all public decisions and accountable for the decisions it makes. The Board of Navigation and Canal Commissioners appoints the Director/General Manager of the District. The activities under the purview of the Director are within the scope of the reporting entity and the management is accountable to the Board of Navigation and Canal Commissioners for the activities being managed. The Board of Navigation and Canal Commissioners has the statutory authority to significantly influence operations. This authority includes but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, and signing contracts. The responsibility and accountability over all funds is vested to the Board of Navigation and Canal Commissioners.

3. Basis of Presentation - Fund Accounting

The District and the Railroad use the proprietary fund basis of presentation of its financial statements.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. The following is a description of the sole proprietary fund of the District and the Railroad.

- Enterprise Fund

The District and the Railroad operate to account for the construction, operation and maintenance of the District and the Railroad.

An enterprise fund provides services to the general public. This fund is used to account for the acquisition, operation and maintenance of governmental facilities. The operations of the District and the Railroad are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. *Basis of Accounting and Measurement Focus*

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the "timing" of the measurement made, regardless of the measurement focus applied.

The accounts of the District and the Railroad are maintained and the accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of the District and the Railroad are included in the statement of net assets.

The District and the Railroad define their operating revenues as income derived from charges to customers and others for services provided. Its 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.

5. *Budgetary Policy*

The District's budget is prepared on the accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

The Brownsville Navigation District adopts an annual operating and capital improvement budget prior to the beginning of each year.

Budget control is maintained at the departmental level. Actions, which change the annual budget, must be authorized by the Board of Navigation and Canal Commissioners.

6. *Assets, Liabilities and Net Assets*

a. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months or less of the date acquired by the District and the Railroad. For purposes of the statement of cash flows, the District and the Railroad consider all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. *Assets, Liabilities and Net Assets* – Continued

b. Investments

The District's investment policy authorizes the District to invest in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; and certificates of deposit issued by state and national banks domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor.

The District adopted the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools ("Statement"). Those provisions require that certain investments be reported at fair value, rather than at cost or amortized cost, and that the changes in the fair value of investments be recognized as investment revenue. The Statement further provides that the District has the option of continuing to report certain investments at cost or amortized cost but must disclose its policy in this regard.

In accordance with GASB Statement No. 31, the District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure unless the fair value of those contracts has been significantly impaired. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts. Fair value determinations of all securities are made on a monthly basis.

c. Inventories

Inventories of materials and supplies are stated at cost utilizing the FIFO (first-in, first-out) valuation costing method.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. *Assets, Liabilities and Net Assets - Continued*

d. Restricted Assets

Certain proceeds of revenue and general obligation bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet, since their use is limited by applicable bond covenants. Proceeds from the issuance of overweight permits are also classified as restricted assets on the balance sheet, since their use is limited by contract with the State of Texas.

e. Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost.

Depreciation of plant and facilities is computed using the straight-line method over the useful lives of the assets. Land, channel, turning basin, and jetties are not depreciated since they are considered to have an indefinite useful life. The following estimated useful lives are used for depreciation purposes:

<u>Classification</u>	<u>Range of Lives</u>
Buildings	20 - 40 years
Improvements Other Than Buildings	20 - 40 years
Furniture and Equipment	4 - 10 years

Expenses for maintenance and repairs are charged to operations as incurred. Expenses for replacement and betterments are capitalized. Costs of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts, and the resulting gains or losses on disposal of the assets are recognized in current operations.

The cost of buildings, machinery, and equipment of the Railroad are depreciated over the estimated useful lives of the related assets. The Railroad system and leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful lives of the assets.

<u>Class</u>	<u>Live</u>
Docks and appurtenances	40 years
Water and sewer systems	10 – 30 years
Railroads	40 years
Land improvements and roads	10 years
Administration building	40 years
Industrial equipment	5 – 10 years
Furniture and equipment	5 years

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. *Assets, Liabilities and Net Assets - Continued*

f. Deferred Debt Expense

The expenses related to approval and sale of the revenue bonds, series 1993, 1996, 2000 and 2002 and the general obligation bonds, series 1992, 1993, 1995, 1998, 2000, 2003, 2005, 2007, and 2008 are amortized on a straight-line basis over the period during which the bonds are outstanding.

The expenses related to approval and sale of the 2002 Junior Lien Railroad Revenue Bonds and the 2003 Junior Lien Railroad Revenue Bonds, certain organizational expenses and the cost of acquiring the railroad switching yard (west yard) are amortized by the Railroad on a straight-line basis over the period the bonds are outstanding.

g. Accrued Vacation

The District and the Railroad accrues vacation pay as earned for all District employees. Vacation pay may not be accumulated in excess of thirty days at December 31.

h. Net Assets

The difference between assets and liabilities is net assets. Net assets are subdivided into three categories: net assets invested in capital assets (net of related debt), restricted net assets, and unrestricted net assets. Each component of net assets is reported separately on the statement of net assets.

Net assets invested in capital assets, net of related debt is the balance of capital assets less accumulated depreciation, net of outstanding debt.

Restricted net assets are subject to constraints externally imposed. The District's restricted net assets are maintained for specific purposes and represent, in accordance with legal restrictions, amounts for payment of principal and interest of revenue and general obligation bonds.

The unrestricted component of net assets represents the portion remaining after the "invested in capital assets" and "restricted" amounts have been determined. The District's positive value of unrestricted net assets may, in addition to current year revenues, be used to meet ongoing obligations.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. *Assets, Liabilities and Net Assets - Continued*

i. Capitalized Interest

The District's policy is to capitalize interest costs related to construction projects in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 62. Interest expense and interest income generated from borrowings used for construction projects in progress are capitalized through the date the project is substantially complete and ready for its intended use.

j. Method of Financial Accounting and Reporting for Proprietary Funds

The District has elected to apply all applicable GASB pronouncements and all the FASB Accounting Standards Codification unless they conflict with or contradict GASB pronouncements for each proprietary fund activity.

k. Deferred Compensation Plans

The District offers a separate deferred compensation plan created in accordance with Internal Revenue Code Section 457(b). The plan, available to all District employees permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Amendments to the laws governing Section 457(b) deferred compensation plans substantially became effective January 1, 1997. The District approved plan amendments such that plan assets are held in trust, with Nationwide Services Corp. and Valic as trustees, for the exclusive benefit of the plan participants and their beneficiaries. The assets will not be diverted to any other purpose.

The District does not have legal access to the resources of the deferred compensation plan, as such, the plan is not reported in the District's financial statements.

l. Railroad Retirement System

The Brownsville and Rio Grande Railroad provides pension benefits of its full-time employees through the Railroad Retirement System. The Railroad Retirement System (RRS), unlike any other pension plan covering private-sector employees, has provisions set by federal statute and is administered by the U.S. government. Thus, changes in RRS benefits or finances affect the federal budget. The RRS, which currently provides mandatory pension coverage for employees of approximately 1,000 railroad companies, requires annual outlays of some \$20 billion. At present, about 234,000 railroad workers and their employers support nearly 760,000 beneficiaries, of whom something over half are spouses and survivors.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

l. Railroad Retirement System – Continued

Since the inception of the system in 1935 (that is, before the establishment of Social Security), the Congress has repeatedly revised RRS benefits and financial provisions. The most recent statutory amendments, enacted in the summer of 1981, raised the total RRS taxes that partially finance the system from about 19 percent to some 22 percent of total payroll; they also modified benefits and authorized the RRS to borrow from the general fund of the U.S. Treasury. Without the 1981 legislation, the RRS program would have become insolvent by 1985. But as amended, the system should maintain a positive financial condition through 1990 provided employment in the industry does not decline precipitously.

Today, RRS remains independent of the Social Security program, although the two systems now have many common features and do coordinate coverage. In 1975, the RRS was restructured to resemble the two-part retirement available to most private-sector employees: a Tier I component that not only substitutes for Social Security but also provides extra benefits; and a corporate-type component, Tier II, which in some instances may be augmented by a longevity supplement and a "windfall," or dual, payment earned by nonrailroad employment prior to 1975.

m. Use of Estimates

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

n. Subsequent Events

Subsequent events were evaluated through May 4, 2011, which is the date the financial statements were available to be issued. As of May 4, 2011, no subsequent events were present.

NOTE B - DEPOSITS AND INVESTMENTS

The following is a detail of unrestricted cash and cash equivalents as of December 31, 2010:

		<u>2010</u>
Cash on hand	\$	2,305
Deposits		18,506,854
Less restricted cash		(6,014,193)
Total Cash and cash equivalents	<u>\$</u>	<u>12,494,966</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE B - DEPOSITS AND INVESTMENTS – CONTINUED

Authorized deposits and investments of the District are governed by the Texas Government Code as well as policies set forth by the District's Board of Directors. Within the contents of these limitations, permissible instruments include obligations of the United States or agencies and instrumentalities; fully insured or collateralized certificates of deposit from a bank doing business in Texas; no-load, SEC-registered, money market funds; Texas local Government Investment Pools.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. All deposits are entirely insured or collateralized by a FHLB Letter of Credit. The collateralization level required is 102% of the amount of the principal and accrued interest.

NOTE C – RESTRICTED ASSETS

Bond Restrictions

The revenue bond and general obligation bond resolutions require that during the period in which the bonds are outstanding the District must create and maintain certain accounts or "funds" to receive the proceeds from the sale of the bonds and the net revenues, as defined, from the operations of the port. These assets can then be used for any legal purpose and also, in accordance with the terms of the bond resolutions, to pay the costs of enlarging, extending, or improving the District and to pay debt service costs of the related bonds. The pollution control and environmental improvement revenue bond resolutions require that during the period in which those bonds are outstanding the District must create and maintain certain accounts or "funds" to receive the proceeds from the sale of those bonds and the revenues from leasing or selling the improvements and facilities constructed with the proceeds of those bonds. These assets can then be used only in accordance with the terms of those bond resolutions to pay the costs of enlarging, extending, or improving those facilities and to pay debt service costs of those bonds.

Contract Restrictions

On February 25, 1998 the District entered into an agreement with the State of Texas for authority to issue permits for the movement of overweight or oversize vehicles on State Highway 48/State Highway 4 between the Gateway International Bridge and the entrance to the Port and on State Highway 48/State Highway 4 between the Veterans International Bridge at Los Tomates and the entrance to the Port of Brownsville. The agreement authorizes the District to collect a permit fee in an amount not to exceed \$80 for each permit issued and allows the District to retain a percentage of such permit fee for administrative costs and the balance shall be used to make payments to the State for expenses incurred to maintain and repair State Highway 48 and State Highway 4.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE C – RESTRICTED ASSETS – CONTINUED

At December 31, 2010, the following assets are restricted:

Revenue Bond Funds

Debt reserve fund

Cash \$ 1,594,295

Contingencies fund

Cash 283,704

Railroad bond fund

Cash 474,353

Bond proceeds receivable - net of allowance 2,071,667

Interest and redemption fund

Cash 1,265,836

Total Revenue Bond Fund Assets \$ 5,689,855

General Obligation Bond Fund

Debt service fund

Cash \$ 2,390,241

Taxes receivable, less estimated uncollectible taxes
of \$(57,759) 1,332,757

Total General Obligation Bond Fund Assets \$ 3,722,998

Overweight Permit Assets

Cash \$ 5,764

Total Restricted Assets - District Obligations \$ 9,418,617

Installment sale agreement receivable, pollution control
and environmental improvement revenue project \$ 4,600,000

Total Restricted Assets - Utilized By Others \$ 4,600,000

Total Restricted Assets \$14,018,617

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE D – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

Primary Government

	Balance December 31, 2009	Additions	Deletions	Reclas- sifications	Balance December 31, 2010
Capital assets, not being depreciated:					
Inland channel and turning basin	\$ 15,324,008	\$ -	\$ -	\$ -	\$ 15,324,008
Jetties and jetty channel	35,836,003	-	-	-	35,836,003
Land	9,935,027	-	-	-	9,935,027
Construction in progress	9,929,946	4,606,502	(61,222)	(2,789,576)	11,685,650
Easements	20,760	-	-	-	20,760
Total capital assets, not being depreciated	<u>71,045,744</u>	<u>4,606,502</u>	<u>(61,222)</u>	<u>(2,789,576)</u>	<u>72,801,448</u>
Capital assets, being depreciated:					
Docks and appurtenances	45,473,851	-	-	64,290	45,538,141
Water and sewer systems	8,036,203	-	-	190,620	8,226,823
Railroads	5,381,042	710,386	-	42,494	6,133,922
Land improvements and roads	11,628,956	-	-	2,480,488	14,109,444
Administration building	751,354	-	-	-	751,354
Industrial equipment	4,908,722	-	(232,723)	11,684	4,687,683
Furniture and equipment	507,038	-	-	-	507,038
Intangible assets	5,895,274	-	-	-	5,895,274
Total capital assets, being depreciated	<u>82,582,440</u>	<u>710,386</u>	<u>(232,723)</u>	<u>2,789,576</u>	<u>85,849,679</u>
Less accumulated depreciation for:					
Docks and appurtenances	(24,282,811)	(1,099,542)	-	-	(25,382,353)
Water and sewer systems	(6,367,222)	(209,706)	-	-	(6,576,928)
Railroads	(3,044,921)	(129,007)	-	-	(3,173,928)
Land improvements and roads	(8,775,849)	(324,648)	-	-	(9,100,497)
Administration building	(543,068)	(18,784)	-	-	(561,852)
Industrial equipment	(2,925,066)	(499,442)	232,723	-	(3,191,785)
Furniture and equipment	(506,632)	(370)	-	-	(507,002)
Intangibles assets	(1,110,000)	(1,110,000)	-	-	(2,220,000)
Total accumulated depreciation	<u>(47,555,569)</u>	<u>(3,391,499)</u>	<u>232,723</u>	<u>-</u>	<u>(50,714,345)</u>
Total capital assets, being depreciated, net	<u>35,026,871</u>	<u>(2,681,113)</u>	<u>-</u>	<u>2,789,576</u>	<u>35,135,334</u>
Total capital assets, net	<u>\$ 106,072,615</u>	<u>\$ 1,925,389</u>	<u>\$ (61,222)</u>	<u>\$ -</u>	<u>\$ 107,936,782</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE D – CAPITAL ASSETS – CONTINUED

Discretely Presented Component Unit

Capital asset activity for the Railroad for the year ended December 31, 2010 was as follows:

	Balance December 31, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Reclassi- fication	Balance December 31, <u>2010</u>
Capital assets, not being depreciated:					
Work in process	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, being depreciated:					
Buildings	877,940	4,710	-	-	882,650
Machinery and equipment	3,041,924	248,405	-	-	3,290,329
Railroad system and leasehold improvements	<u>5,732,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,732,065</u>
Total capital assets being depreciated	<u>9,651,929</u>	<u>253,115</u>	<u>-</u>	<u>-</u>	<u>9,905,044</u>
Less accumulated depreciation for:					
Buildings	(299,705)	(22,837)	-	-	(322,542)
Machinery and equipment	(2,035,173)	(228,447)	-	-	(2,263,620)
Railroad system and leasehold improvements	<u>(1,817,260)</u>	<u>(117,254)</u>	<u>-</u>	<u>-</u>	<u>(1,934,514)</u>
Total accumulated depreciation	<u>(4,152,138)</u>	<u>(368,538)</u>	<u>-</u>	<u>-</u>	<u>(4,520,676)</u>
Total capital assets, being depreciated, net	<u>5,499,791</u>	<u>(115,423)</u>	<u>-</u>	<u>-</u>	<u>5,384,368</u>
Capital assets, net	<u>\$ 5,499,791</u>	<u>\$ (115,423)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,384,368</u>

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS

Changes in long-term obligations for the year ended December 31, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
Revenue bonds	\$ 12,880,000	\$ -	\$ (1,170,000)	\$ 11,710,000	\$ 1,235,000
Unamortized discount	(29,572)	-	5,723	(23,849)	-
General obligation bonds	20,069,301	-	(1,512,473)	18,556,828	1,605,197
Plus premium on capital appreciation bonds	73,218	-	(30,314)	42,904	-
Plus accretion on capital appreciation bonds	632,891	-	(288,821)	344,070	-
Less unamortized discount	-	-	-	-	-
Less deferred amounts on refunding	(327,796)	-	80,841	(246,955)	-
Total bonds payable	33,298,042	-	(2,915,044)	30,382,998	2,840,197
Notes payable	-	-	-	-	-
Capital lease obligations	884,780	-	(308,958)	575,822	323,292
Total	\$ 34,182,822	\$ -	\$ (3,224,002)	\$ 30,958,820	\$ 3,163,489

Revenue Bonds

	Interest Rates	Issue Date	Issue Matures	Original Issue	Unpaid Principal
Series 2000	4.90-7.50	12-15-00	2021	\$ 4,040,000	\$ 2,780,000
Series 2002A	3.38-4.80	7-10-02	2022	1,790,000	1,295,000
Series 2002B	3.38-4.80	7-10-02	2022	1,900,000	1,370,000
Series 2003	2.50-4.50	3-11-03	2023	3,000,000	2,180,000
Series 2009	4.85	4-1-09	2015	4,095,000	4,085,000
				<u>\$14,825,000</u>	\$11,710,000
Less: Unamortized discount					(23,849)
					11,686,151
Less: Current maturities					(1,235,000)
					<u>\$10,451,151</u>

The series 1996, 2000, 2002A, 2002B and 2009 are parity issues of first lien revenue bonds. All of the net revenues of the District (defined as gross revenues from operations of the District facilities, excluding any rentals--except for ground rentals--from net rent leases which are pledged under other debt instruments, and funds derived from taxes levied to pay debt service on general obligation bonds of the District, less expenses incurred in the operation and maintenance of the port facilities) are pledged for the payment of the bond principal and interest of these revenue bonds.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

Revenue Bonds – Continued

During 2002 and 2003, the District issued Junior Lien Revenue Bonds. Such bonds are secured by a lien on net revenues (as defined above) junior to the lien securing the first lien revenue bonds and were issued for the purpose of acquiring and financing port-related railroad facilities.

If certain conditions are met, additional bonds may be issued. One of these conditions is that average annual net revenues for the preceding two fiscal years, or for the twenty-four month period ending not more than sixty days prior to the adopting of the resolution authorizing the issuance of the additional bonds, were at least one and one-half times the average annual principal and interest requirements of all revenue bonds then outstanding and of the bonds then proposed to be issued.

General Obligation Bonds – District Obligations

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Series 1998	3.70-4.80	8-01-98	2018	\$ 7,613,422	\$ 381,828
Series 2000	4.50-7.50	12-15-00	2012	4,000,000	2,975,000
Series 2003	2.50-4.50	3-11-03	2023	6,500,000	4,725,000
Series 2005	3.00-4.00	3-01-05	2017	5,060,000	3,120,000
Series 2007	3.91-4.32	9-04-07	2017	2,915,000	2,230,000
Series 2008	3.42	5-01-08	2018	<u>5,145,000</u>	<u>5,125,000</u>
				\$31,233,422	<u>\$18,556,828</u>
Less: Unamortized deferred amount on refunding					(246,955)
Plus: Premium on Capital Appreciation Bonds					42,904
Accretion to date on Capital Appreciation Bonds					<u>344,070</u>
					18,696,847
Less: Current maturities					<u>(1,605,197)</u>
					<u>\$17,091,650</u>

The District was authorized by its voters in an election held in October 1991 to issue general obligation bonds, in three or more series or issues, in the aggregate principal amount of \$43,000,000. The proceeds of the bonds are to be used as follows:

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

General Obligation Bonds – District Obligations – Continued

“... the issuance of \$21,000,000 for the construction of an international bridge, \$17,000,000 for the deepening of the ship channel, and \$5,000,000 for wharf and dock improvements.”

Authorized and unissued general obligation bonds at December 31, 2010 are as follows:

<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To-Date</u>	<u>Unissued</u>
Bridge construction	\$21,000,000	\$18,145,000	\$2,855,000

The bonds are to be collateralized by ad valorem taxes levied by the District, which are irrevocably pledged without limit as to rate or amount, and these taxes are to be used for no other purpose than to pay the principal and interest of the bonds as they mature. In addition, any net revenues which are actually deposited in the debt service fund become pledged for payment of bond principal and interest.

On March 11, 2003, the District issued \$6,500,000 Unlimited Tax Bonds, Series 2003 to reimburse the District for costs incurred in connection with the construction of an international bridge.

On March 2, 2005 the District issued \$5,244,914 Unlimited Tax Refunding Bonds, Series 2005. The Bonds were issued to refund \$4,435,000 of the Series 1993A Unlimited Tax General Obligation Channel Deepening Bonds and \$810,000 of the Series 1995 Unlimited Tax General Obligation Refunding Bonds of the District prior to their stated maturity to achieve a debt service savings and to pay costs related to the issuance of such Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$231,342. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$357,222 and resulted in an economic gain of \$346,621.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

General Obligation Bonds – District Obligations – Continued

On September 4, 2007 the District issued \$2,915,000 Unlimited Tax Refunding Bonds, Series 2007. The Bonds were issued to refund \$2,915,000 of the Series 1993B Unlimited Tax General Obligation of the District prior to their stated maturity to achieve a debt service savings and to pay costs related to the issuance of such Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$18,107. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$145,661 and resulted in an economic gain of \$120,965.

On May 8, 2008 the District issued \$5,145,000 Unlimited Tax Refunding Bonds Series 2008. The Bonds were issued to refund \$5,145,000 of the Unlimited Tax General Obligation Refunding and Bridge Construction Bonds Series 1998 of BND prior to their stated maturity to achieve a debt service savings and to pay costs related to the issuance of such Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$161,246. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding resulted in an economic gain of \$317,594.

On March 31, 2009 the District issued \$4,095,000 First Lien Revenue Refunding Bonds, Series 2009. The bonds were issued to refund \$4,095,000 of the Series 1996 First Lien Revenue Bonds of the District prior to maturity to achieve a debt service savings and to pay costs related to the issuance of such bonds. As a result the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the Statement of Net Assets. This advanced refunding resulted in an economic gain of \$165,333.

PRIOR-YEAR DEFEASANCE OF DEBT

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the District's financial statements. As of December 31, 2010, the amount of defeased debt outstanding but removed from the District's financial statements amounted to \$-0-.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

Capital Lease Obligations

On December 19, 2001 the District entered into a lease purchase agreement with Siemens Financial Services, Inc. for the lease of a Gottwald Mobile Harbor Crane HMK 300E in the amount of \$2,650,343 for a term of ten (10) years with the option to purchase the equipment for \$1 at the end of the lease term. Monthly payments in the amount of \$28,564.74, including interest at 4.97%, commenced on October 18, 2002. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments at date of inception. The present value of future minimum lease payments at December 31, 2010 amounted to \$575,822.

Future Maturities

Annual maturities of debt subsequent to December 31, 2010, are as follows:

Year Ending December 31,	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 1,235,000	\$ 520,520	\$ 1,605,197	\$ 1,086,908
2012	1,290,000	460,743	2,005,000	675,276
2013	1,360,000	397,771	2,080,000	599,471
2014	1,425,000	332,375	2,145,000	520,063
2015	1,495,000	263,419	2,220,000	437,776
2016-2020	3,425,000	839,468	7,185,000	1,037,849
2021-2024	1,480,000	108,225	1,320,000	119,970
Total	<u>\$ 11,710,000</u>	<u>\$ 2,922,521</u>	<u>\$ 18,560,197</u>	<u>\$ 4,477,313</u>

Year Ending December 31,	Capital Lease Obligations	
	Principal	Interest
2011	308,958	19,485
2012	266,864	4,552
Total	<u>\$ 575,822</u>	<u>\$ 24,037</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

Future Maturities - Continued

All bonds may be redeemed prior to their maturities in accordance with provisions of the various bond resolutions. The redemption prices for some of the bonds include premiums ranging downward from 4%.

Interest Expense

Port system interest expense is as follows:

	<u>December 31, 2010</u>
Revenue bonds	\$ 565,290
General obligation bonds	850,911
Other	<u>34,206</u>
	<u>\$ 1,450,407</u>

Component Unit

Long-term debt consists of the following at December 31, 2010:

	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>	<u>Due Within One Year</u>
Bonds payable	<u>\$ 2,310,000</u>	<u>\$ -</u>	<u>\$ 130,000</u>	<u>\$ 2,180,000</u>	<u>\$ 130,000</u>

Bonds payable to the District as of December 31, 2010, are as follows:

<u>Revenue Bonds</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Original Issue</u>	<u>Unpaid Principal 2010</u>
Series 2003	2.5% to 4.5%.	02-19-03	2023	\$3,000,000	\$ 2,180,000

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE E – DEBT – DISTRICT OBLIGATIONS – CONTINUED

The series 2003 bond resolution also confirms the previous creation of a Railroad Reserve Fund. Money deposited in the Railroad Redemption Fund, plus all interest earned thereon, will be used to pay the principal of and interest on the 2003 Bonds.

The bonds are secured by a lien on net revenues of the District (as defined in the bond resolution) junior to the lien securing the first lien revenue bonds of the District. Aggregate maturities of the bonds are as follows:

Schedule of Annual Debt Service Requirements

Junior Lien Railroad
Revenue Bonds Series 2003

Year Ended <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 130,000	\$ 90,760	\$ 220,760
2012	135,000	86,048	221,048
2013	140,000	81,120	221,120
2014	145,000	75,870	220,870
2015	155,000	70,360	225,360
2016	160,000	64,005	224,005
2017	165,000	57,445	222,445
2018	170,000	50,680	220,680
2019	180,000	43,370	223,370
2020	185,000	35,630	220,630
2021	195,000	27,675	222,675
2022	205,000	18,900	223,900
2023	<u>215,000</u>	<u>9,675</u>	<u>224,675</u>
Totals	<u>\$ 2,180,000</u>	<u>\$ 711,538</u>	<u>\$ 2,891,538</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE F – BONDS PAYABLE - OBLIGATIONS SERVICED BY OTHERS

Special obligation debt as of December 31, 2010, follows:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Pollution Control	5.100%	1-1-99	2012	<u>\$ 4,600,000</u>	<u>\$4,600,000</u>
				<u>\$ 4,600,000</u>	<u>\$4,600,000</u>

The pollution control and environmental improvement revenue bonds are collateralized solely by and payable from the receipts from the sale of the facilities constructed with the proceeds of the bonds. Such receipts are exclusive of any ground or land rentals and of funds derived from taxation, and are unconditionally required to be paid under a thirty year installment sale agreement with Union Carbide Corporation.

All bonds may be redeemed prior to their maturities in accordance with provisions of the various bond resolutions. The redemption prices for some of the bonds include premiums ranging downward from 4%.

NOTE G – PENSION PLAN

Plan Description

Brownsville Navigation District (the "District") sponsors a single-employer defined benefit pension plan for all eligible employees. The plan provides retirement, withdrawal, disability and certain death benefits. Amendments to the plan are made only with the authority of the District. The plan does not issue a stand-alone financial report. However, an annual actuarial valuation report is available from Brownsville Navigation District and may be obtained by writing Brownsville Navigation District, 1000 Foust Road, Brownsville, Texas 78521.

Funding Policy

Brownsville Navigation District has sole authority to establish or amend the obligations to contribute to the plan by participants or the employer. The employer is not subject to any explicit legal or contractual contribution rate.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

Funding Policy

Employees are required to contribute 4% of gross compensation to the Plan effective January 1st, 2010. The District makes contributions based upon a recommended contribution rate as a percentage of total estimated District payroll for each plan year (ending December 31). The recommended contribution rate is actuarially determined to pay the plan's normal cost (determined as a level percentage of total participant compensation) using the frozen initial liability actuarial cost method plus an amount that will amortize the unfunded actuarial liability over a period between 10 and 25 years. The recommended contribution rate times the total estimated District payroll for a given plan year is the recommended contribution amount and the GASB Statement No. 27 compliant amount. The District may contribute a percentage of actual total District payroll each plan year that is expected to be equal to the recommended contribution amount.

Annual Pension Cost

For the fiscal year commencing January 1, 2010 and ending December 31, 2010, the District's Annual Required Contribution is \$343,490 which was the recommended contribution determined in the January 1, 2010 actuarial valuation.

The District's employer contributions deposited during the 12-month period ending on December 31, 2010 were \$345,795. The net pension asset (or negative NPO) is increased by \$10,304 for interest on the prior year's NPO and then reduced by \$8,362 for an amortized recognition of the prior year's NPO. In combination, the net pension asset (or negative NPO) will increase by \$1,982 (\$10,344 - \$8,362). Changes in NPO affect the current year Annual Pension Cost as shown in the required NPO disclosure below. The Annual Pension Cost for the 12-month fiscal year ending December 31, 2010 is \$343,813.

<u>Net Pension Obligation (NPO)</u>		
1	Annual Required Contribution (ARC)	\$ 343,490
2	Interest on Prior End of Year NPO	(8,039)
3	Adjustment to ARC	8,362
4	Annual Pension Cost (APC)	\$ 343,813
5	Actual Contribution Made	(345,795)
6	Shortfall due to short-term timing differences	-
7	Change in NPO	\$ (1,982)
8	NPO Beginning of Year	(105,356)
9	NPO End of Year	\$ (107,338)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

Annual Pension Cost - Continued

The required contribution for the 2010 plan year was based on the results of the actuarial valuation as of January 1, 2010, using the frozen initial liability actuarial cost method and was in compliance with the GASB Statement No. 27 parameters. The actuarial assumptions for this valuation included (a) an 8.0% gross investment rate of return for the Cash Balance Investment Subaccount of the trust and 7.0% gross investment return for the Annuity Financing Investment Subaccount of the trust and (b) projected salary increases of 5.25% per year on average. Both (a) and (b) included an inflation component of 3.5%. The plan does not provide for any postretirement benefit increases. The actuarial value of plan assets equals market value less deferred net asset gains plus deferred net asset losses. Assets gains and losses are recognized over a 5-year period in 20% increments. The actuarial value of assets is adjusted as to not be in excess of 130% of market value nor to be less than 70% of market value. The interest on prior end of year NPO was determined using the equivalent single investment return rate assumption (7.63%) that would result in approximately the same actuarial accrued liability used in determining the ARC, reflecting the assumed forms of payment and the 8.0% and 7.0% assumptions for separate trust investment subaccounts. The amortization of the unfunded actuarial liability on a level percentage of payroll basis was rest to a 15-year period for the January 1, 2010 actuarial valuation under the plan's funding policy.

**THE RETIREMENT PLAN FOR EMPLOYEES OF
BROWNSVILLE NAVIGATION DISTRICT**

Analysis of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
							Unfunded
Actuarial	Actuarial	Unfunded	Actuarial	Funded	Present Value	Annual	Actuarial Liability
Valuation	Value of	Actuarial	Liability ¹	Ratio	of Future	Covered	as a Percentage of
Date	Assets	Liability ¹	[(1)+(2)]	[(1)/(3)]	Normal Costs ¹	Payroll ²	Covered Payroll
							[(2)/(6)]
Jan. 1, 2001	\$ 1,926,858	\$ 468,955	\$ 2,395,813	80.4%	\$ 399,804	\$ 1,692,737	27.7%
Jan. 1, 2002	1,397,008	458,675	1,855,683	75.3%	899,083	1,697,100	27.0%
Jan. 1, 2003 ³	1,245,026	1,417,598	2,662,624	46.8%	392,662	1,896,270	74.8%
Jan. 1, 2004	1,706,332	1,332,074	3,038,406	56.2%	257,349	2,035,409	65.4%
Jan. 1, 2005	1,648,812	1,273,994	2,922,806	56.4%	380,927	2,126,130	59.9%
Jan. 1, 2006	1,647,634	1,287,247	2,934,881	56.1%	643,419	2,287,387	56.3%
Jan. 1, 2007	1,793,079	1,253,801	3,046,880	58.8%	781,654	2,304,396	54.4%
Jan. 1, 2008	1,980,444	1,232,781	3,213,225	61.6%	728,977	2,373,987	51.9%
Jan. 1, 2009	1,782,364	1,205,153	2,987,517	59.7%	1,523,654	2,680,091	45.0%
Jan. 1, 2010 ⁴	2,161,639	2,698,269	4,859,908	44.5%	881,599	3,225,493	83.7%

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

Annual Pension Cost – Continued

- ¹ Based on Frozen Initial Liability Funding Method. Initial liability was established under the Individual Entry Age Normal cost method prior to 2010 and under the Unit Credit cost method after 2009.
- ² Projected for the plan year following the valuation date based on payroll data collected as of the preceding calendar year.
- ³ Effective January 1, 2003, the actuarial methodology for determining the actuarial value of assets was changed. Under the Funding Method this requires a redetermination of the UAL (established using the Individual Entry Age Normal actuarial cost method), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.
- ⁴ Effective January 1, 2010, the plan was converted to a cash balance plan design. Under the Funding Method this requires a redetermination of the UAL (established using the Unit Credit actuarial cost method effective January 1, 2010 due to the new plan design which reflects benefits based on career pay instead of final pay), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

**THE RETIREMENT PLAN FOR EMPLOYEES OF
BROWNSVILLE NAVIGATION DISTRICT**

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2008	181,194	119%	(103,113)
12/31/2009	262,880	101% ¹	(105,356)
12/31/2010	343,813	101% ²	(107,338)

¹ Actual contributions for the period ending December 31, 2009 are presented in Exhibit VI-A.

² Actual contributions for the period ending December 31, 2010 are presented in Exhibit VI-B.

Actuarial Funding Method and Assumptions

1. Actuarial Funding Method

The Frozen Initial Liability actuarial funding method is used in developing the contribution requirements for the plan. The actuarial funding method is the procedure by which the actuary annually identifies a series of annual contributions which, along with current assets and future investment earnings, will fund the expected plan benefits. The Frozen Initial Liability funding method compares the excess of the present value of expected future plan benefits over the current value of plan assets. This difference represents the expected present value of current and future contributions that will be paid into the plan. The contributions are divided into two components: an annual normal cost (or current cost) and an annual amortization charge for the unfunded frozen initial liability.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

1. Actuarial Funding Method – Continued

The unfunded frozen initial liability is determined at the time that the plan is established and is redetermined whenever changes in plan benefits, actuarial assumptions, or actuarial methods are made or when a positive unfunded liability reemerges after the plan has completely amortized a prior unfunded frozen initial liability. When the unfunded frozen initial liability is determined or redetermined, it is set equal to the excess of the plan's accrued liability over the value of current plan assets, if any. This accrued liability is determined under the Individual Entry Age Normal actuarial funding method and is the excess of the plan's present value of future benefits over the current and future normal cost contributions. On an individual basis, these contributions are the amounts which, if contributed throughout a participant's employment, would fund each active participant's expected benefits. In years when the accrued liability is not redetermined, the unfunded frozen initial liability is based on an expected (projected) unfunded accrued liability.

The plan's normal cost is the current contribution in a series of annual amounts which represent the excess of the present value of future projected benefits over the sum of the current actuarial value of assets and the unfunded frozen initial liability. If the unfunded frozen initial liability has been completely amortized, the present value of future normal costs will be the excess of the present value of expected future projected benefits over the current actuarial value of assets. The normal cost has been calculated to be a level percent per year of active participant compensation, and is determined on an aggregate (average) basis for all active participants. Experience gains and losses do not affect the unfunded frozen initial liability, rather they are included in the present value of future normal costs.

2. Actuarial Value of Assets

Market Value of Assets as of the valuation date equals Fair Value plus any receivable contributions made or to be made for a prior plan year. Actuarial Value of Assets equals Market Value less deferred net asset gains plus deferred net asset losses. Market Value gains or losses are recognized over a 5-year period at a rate of 20% per year. Actuarial Value of Assets shall be adjusted as to not be in excess of 130% of Market Value nor to be less than 70% of Market Value.

3. Actuarial Assumptions

- a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:
 - i. Pre-retirement Mortality: UP 1994 Mortality Table projected to 2002 (Sex distinct)
 - ii. Post-retirement Mortality: UP 1994 Mortality Table projected to 2002 (Sex distinct)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

3. Actuarial Assumptions – Continued

- b. Withdrawal: The active participants are assumed to terminate their employment for causes other than death, disability, or retirement in accordance with annual rates as illustrated below:

<u>Attained Age</u>	<u>Terminations per 1,000 Participants</u>
25	172
30	158
35	137
40	112
45	84
50	51

- c. Investment Return: Current and future plan assets are assumed to reflect an annual gross investment return as follows:

- i. Cash Balance Investment Subaccount 8.0%.
- ii. Annually Financing Investment Subaccount 7.0%.

d. Annual Cash Balance Interest Crediting Rates

Annual gross return of the Trust’s Cash Balance Investment Subaccount less 1% for plan-related expenses in the Trust’s Investment Subaccounts.

- e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur at an annual rate of .5%.

- f. Retirement Age: A participant is assumed to retire at the attainment of his normal retirement age. Any participant who has attained his expected retirement age and is still working is assumed to retire immediately.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE G – PENSION PLAN – CONTINUED

3. Actuarial Assumptions – Continued

- g. Disability: Active participants are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below:

<u>Attained Age</u>	<u>Disabilities per 1,000 Participants</u>
20	1.3
25	1.6
30	2.2
40	4.3
50	11.8
60	26.0

- h. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid from plan assets and are offset against expected investment returns in establishing the net investment return rate.
- i. Recognition of IRC Section 415 Limitations: The limitations under IRC Section 401 (a)(17) and 415(b) have been reflected in the determination of plan costs.
- j. Assumed Form of Payment:

Decrement	Cash Balance Subaccount			
	Beginning Balance	Employee Contribution	Employer Match	Retirement Supplement
Retirement	70% Immediate Annuity/30% Lump Sum	Lump Sum	Immediate Annuity	
Diability	Lump Sum			
Preretirement Death	Lump Sum			
Vested Termination	15% Deferred Annuity/85% Lump Sum	Lump Sum	Deferred Annuity	N/A
Non-Vested Termination	N/A	Lump Sum	N/A	

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE H – PROPERTY TAXES

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

NOTE I – ALLOWANCE FOR DOUBTFUL ACCOUNTS AND TAXES RECEIVABLE

The determination of the balance in the allowance for doubtful accounts consists of the combination of (a) an amount which in management's judgment, is adequate to provide for potential losses from the trade accounts receivable, and (b) an amount recorded as reserve for lease rental receivables which, in management's judgment, represents the total amount of charges which are doubtful of collection. The amount of the reserve for lease rentals represents lease charges which are not recognized as revenue until collected from the lessee. The balance in the allowance for doubtful accounts is \$309,698 as of December 31, 2010.

The determination of the balance in the estimated uncollectible taxes receivable is based on an analysis of the taxes receivable and reflects an amount which, in management's judgment, represents those taxes doubtful of collection. The allowance for doubtful taxes receivable balance as of December 31, 2010, is \$12,456 and \$55,531 for maintenance and operations and general obligation bonds respectively, for a total of \$67,987.

NOTE J – BROWNSVILLE AND RIO GRANDE INTERNATIONAL RAILROAD

On June 1, 1983, the District issued Junior Lien Railroad Revenue Bonds which created the Brownsville and Rio Grande International Railroad ("Railroad"). Subsequently, on January 1, 1994, the District issued the Junior Lien Railroad Revenue Refunding Bonds Series 1994 for the purpose of refunding the Series 1983 Junior Lien Railroad Revenue Bonds (See Note E). As of March 1, 2005 the Series 1994 bonds have been paid off. On December 19, 2001, the District issued the Junior Lien Railroad Revenue Bonds, Series 2002 to construct and improve railroad tracks; to purchase a building, a locomotive, and equipment; and to finance other extensions and improvements to the system. Additionally, on March 11, 2003, the District issued the Junior Lien Railroad Revenue Bonds, Series 2003 to construct and improve railroad tracks and to finance other extensions and improvements to the system. The Railroad is operated and maintained as a separate and distinct entity. The District transferred the proceeds, less the reserve funds required by the Bond Indenture (See Note C) and amounts representing the cost of assets acquired for the benefit of the Railroad, to the Railroad for use as operating funds and to acquire and finance port-related railroad facilities. Therefore, according to provisions of the Bond Indenture, the Railroad is liable to the District for reimbursement of the total bond debt service of these Junior Lien Revenue Bonds.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE J – BROWNSVILLE AND RIO GRANDE INTERNATIONAL RAILROAD – CONTINUED

The District must continue to pay the debt service of these Junior Lien Revenue Bonds regardless of whether the Railroad reimburses the District and must meet reasonable and necessary expenses of operating and maintaining the District and the System, including the Railroad. The District expenses debt service costs and costs of operations and maintenance of the rail system as incurred. Reimbursements by the Railroad for costs of operations and maintenance are credited to those costs while reimbursement of the debt service costs are recognized as interest income by the District and a reduction of bond proceeds receivable. For the year ended December 31, 2010, the Railroad reimbursed the District debt service costs of \$56,580.

As indicated in Note C, the District has recorded bond proceeds receivable from the Railroad for \$2,071,667 which represents the net principal amount due the District from the Railroad on the 2003 Revenue Bonds. No reserve for possible loss on this receivable is recorded for the year ended December 31, 2010, because the Railroad's approximate realizable value of tangible net assets is greater than the bond proceeds receivable of \$2,071,667. The bond resolution requires, among other things, that a reserve fund be equal to the average principal and interest requirements on all Junior Lien Bonds. In accordance with the bond resolution, the Railroad is transferring funds into the reserve fund in approximately equal monthly installments to fully fund the reserve fund. Accordingly, \$353,392 of the proceeds from the issuance of the 2003 Bonds together with installments made are held by the Railroad and have been classified in the accompanying statement of net assets as prepaid bond principal. Such amounts are to be used to retire the last of the bonds outstanding.

The District leases to the Railroad its railroad track system, some administrative office space, and a yard office building. The District recognizes as revenue only amounts collected from the Railroad for lease rentals.

On May 12, 1993, the Board of Trustees of the Brownsville and Rio Grande International Railroad authorized negotiations to draw up an agreement to start paying prior and future lease rental debt to the Brownsville Navigation District.

The financial data of the Brownsville and Rio Grande International Railroad is discretely presented as a separate column in the financial statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE J – BROWNSVILLE AND RIO GRANDE INTERNATIONAL RAILROAD – CONTINUED

The District's assets (with the corresponding liability) held at December 31, 2010, for the benefit of the Brownsville and Rio Grande International Railroad, are as follows:

Railroad operating fund	\$ 50,729
Railroad bond fund cash	423,624
Bond proceeds receivable	<u>2,071,667</u>
Total Assets	<u>\$ 2,546,020</u>
Junior Lien Railroad Revenue Bonds, Series 2003	2, 180,000
Due to BRG International Railroad	<u>366,020</u>
Total Liabilities	<u>\$ 2,546,020</u>

NOTE K – OPERATING EXPENSES

The District operating expenses for the year ending December 31, 2010 are:

	<u>Primary Government</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
Wages	\$ 3,300,810	\$ 1,043,549	\$ 4,344,359
Payroll taxes	250,004	232,300	482,304
Services	250,076	-	250,076
Materials	666,179	-	666,179
Utility	675,562	115,645	791,207
Insurance	1,108,981	152,852	1,261,833
Dues	87,663	12,815	100,478
Legal and auditing	149,751	26,234	175,985
Consulting fees	564,257	28,437	592,694
Supplies	63,848	53,187	117,035
Computer expense	88,588	138,602	227,190
Employee expense	57,902	403,720	461,622
Other expense	190,041	201,510	391,551

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE K – OPERATING EXPENSES - CONTINUED

	<u>Primary Government</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
Contract rental and repairs	13,063	294,891	307,954
Travel	149,128	22,366	171,494
Advertising	34,158	8,082	42,240
Safety	9,796	33,485	43,281
Doubtful accounts	208,794	78,816	287,610
Shop cost of sales	8,898	22,622	31,520
Land lease and rental rebate	137,347	-	137,347
Retirement	402,550	-	402,550
Railway operating	-	3,944,334	3,944,334
Roadway operating	-	331,608	331,608
Promotional expenses	<u>46,105</u>	<u>-</u>	<u>46,105</u>
	<u>\$ 8,463,501</u>	<u>\$ 7,145,055</u>	<u>\$15,608,556</u>

NOTE L – NOTES RECEIVABLE

Notes receivable as of December 31, 2010 consist of the following:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Note receivable, City of Brownsville, collateralized by Deed of Trust on 279.84 acre tract of land	5.50%	10/10/2001	2021	4,990,000	<u>\$ 3,379,118</u>
					\$ 3,379,118
Less Current Maturities					<u>(231,708)</u>
Long-term Notes Receivable					<u>\$ 3,147,410</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE L – NOTES RECEIVABLE – CONTINUED

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Approximate maturities of notes receivable subsequent to December 31, 2010 are as follows:					
2011					\$ 231,708
2012					244,452
2013					257,897
2014					272,082
2015					287,046
2016-2020					1,690,142
2021					<u>164,083</u>
					<u>\$ 3,147,410</u>

NOTE M – RELATED PARTY TRANSACTIONS

The District is a member of the Southmost Regional Water Authority (“Authority”). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196.

The Authority was established to investigate the feasibility of developing a source of water from brackish groundwater. The District is under contractual obligation with the Authority to receive 2.51% of the monthly treated potable water production. On October 15, 2003, the District’s Board approved a Memorandum of Understanding with the Authority whereas the District’s percentage participation was set at 2.51%. Billings from the Authority in the amounts of \$108,745 for expenses for fiscal year ending September 20, 2010 were paid by the District. These amounts were used by the Authority to cover its debt service and maintenance and operating expenses and as such were expensed by the District in the current year.

Operations and maintenance costs of the Authority are funded through guaranteed water supply contracts with the participating entities. The Authority’s acquisition and construction of capital assets was funded through the sale of bonds with the entities guaranteeing the debt service payments, notes, and obligations issued under indenture. The Authority’s debt obligations outstanding for the fiscal year ended September 30, 2010, were \$27,675,000.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

NOTE N – OTHER CURRENT LIABILITIES

The Brownsville Navigation District was the local sponsor for a Federal Transportation Demonstration Project, the Brownsville Railroad Relocation Project. This project, which was one of 12 transportation projects designed by the federal government in the “Federal-Aid Highway Act of 1973” to prove the viability of federal, state and local partnerships on such projects, was one of the only demonstration projects to actually be funded and completed.

The project was designed to remove at-grade rail crossings in the City of Brownsville and to relocate switching operations out of the City. The project eventually eliminated 79 of 87 at-grade crossings, constructed four grade separations with the capacity for handling double-stacked rail cars, and constructed two switching yards outside of the City of Brownsville.

The funding for this project was allocated in Intermodal Surface Transportation Efficiency Act (ISTEA) bills, and was channeled to the District through TxDOT. Federal funding began in 1984 at 95% and dropped in 1991 to 80%, although some portions were paid at 100% Federal share and some at 100% Local share. Local match began at 5%, which was paid by Southern Pacific and Missouri Pacific under a Memorandum of Understanding. This match was taken on by Union Pacific when the railroads merged. In 1991, the local match went to 20%. Union Pacific continued to pay the same 5% share, leaving a gap of 15% of the project costs at that point. Union Pacific agreed to make a one-time contribution to the project of \$1.7 million, and Cameron County, the City of Brownsville and the Brownsville Navigation District each agreed to a contribution of \$350,000. This agreement was documented in a Memorandum of Understanding dated January 26, 1984.

To complement the financial package, there were a number of in-kind contributions of land and rail materials as well as Brownsville Navigation District administrative expenses.

This project was split into three segments, each of which was a usable project independent of the other segments. The construction on all three segments is complete, and the relocated rail is in use. The District is in the process of completing the transfer of the property and rail yards that comprise the project to Union Pacific, and Union Pacific is in the process of transferring some property to the District, which has yet to be surveyed.

As of December 31, 2010, the total project costs show a net payable of \$550,000. This account is still pending the final resolution of the project with Union Pacific, at which time, the District will make final adjustments to this balance. TxDOT has completed an audit of their portion of this project and has determined that the District does not have any funding due to or due from TxDOT.

REQUIRED SUPPLEMENTARY INFORMATION

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

**THE RETIREMENT PLAN FOR EMPLOYEES OF
BROWNSVILLE NAVIGATION DISTRICT**

Analysis of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Liability ¹	Actuarial Liability ¹ [(1)+(2)]	Funded Ratio [(1)/(3)]	Present Value of Future Normal Costs ¹	Annual Covered Payroll ²	Unfunded Actuarial Liability as a Percentage of Covered Payroll [(2)/(6)]
Jan. 1, 2001	\$ 1,926,858	\$ 468,955	\$ 2,395,813	80.4%	\$ 399,804	\$ 1,692,737	27.7%
Jan. 1, 2002	1,397,008	458,675	1,855,683	75.3%	899,083	1,697,100	27.0%
Jan. 1, 2003 ³	1,245,026	1,417,598	2,662,624	46.8%	392,662	1,896,270	74.8%
Jan. 1, 2004	1,706,332	1,332,074	3,038,406	56.2%	257,349	2,035,409	65.4%
Jan. 1, 2005	1,648,812	1,273,994	2,922,806	56.4%	380,927	2,126,130	59.9%
Jan. 1, 2006	1,647,634	1,287,247	2,934,881	56.1%	643,419	2,287,387	56.3%
Jan. 1, 2007	1,793,079	1,253,801	3,046,880	58.8%	781,654	2,304,396	54.4%
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Jan. 1, 2009	1,782,364	1,205,153	2,987,517	59.7%	1,523,654	2,680,091	45.0%
Jan. 1, 2010 ⁴	2,161,639	2,698,269	4,859,908	44.5%	881,599	3,225,493	83.7%

¹ Based on Frozen Initial Liability Funding Method. Initial liability was established under the Individual Entry Age Normal cost method prior to 2010 and under the Unit Credit cost method after 2009.

² Projected for the plan year following the valuation date based on payroll data collected as of the preceding calendar year.

⁵ Effective January 1, 2003, the actuarial methodology for determining the actuarial value of assets was changed. Under the Funding Method this requires a redetermination of the UAL (established using the Individual Entry Age Normal actuarial cost method), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

⁶ Effective January 1, 2010, the plan was converted to a cash balance plan design. Under the Funding Method this requires a redetermination of the UAL (established using the Unit Credit actuarial cost method effective January 1, 2010 due to the new plan design which reflects benefits based on career pay instead of final pay), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

SUPPLEMENTARY INFORMATION

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BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

TAXES RECEIVABLE

December 31, 2010

	Maintenance and Operations (M & O) <u>Expenses</u>	General Obligation Bond Debt <u>Service</u>
Taxes receivable - beginning of year	\$ 314,493	\$ 1,342,906
Tax Levy:		
Rate of \$.047828 per \$100 valuation in 2010	<u>622,473</u>	<u>2,645,695</u>
	936,966	3,988,601
Collections and adjustments during the year	<u>(625,569)</u>	<u>(2,600,313)</u>
Taxes receivable - end of year	311,397	1,388,288
Estimated uncollectible taxes	<u>(12,456)</u>	<u>(55,531)</u>
Estimated net taxes receivable - end of year	<u>\$ 298,941</u>	<u>\$ 1,332,757</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

TAXES RECEIVABLE

December 31, 2010

TAX COLLECTION PERCENTAGE

Tax collections as a percentage of the tax levied for both the current year and total for the last five completed collection years are as follows:

<u>Year Ended</u>	<u>Current Collections</u>	<u>Total Collections</u>
March 1, 2005	24.71%	98.57%
March 1, 2006	34.08%	98.06%
March 1, 2007	46.73%	97.06%
March 1, 2008	84.16%	94.75%
December 31, 2009	67.91%	67.91%
December 31, 2010	52.51%	52.51%

NOTE: The Cameron County tax collector collects all taxes levied by the District. Tax suits filed by the County for collection of delinquent taxes include those for the District. The tax statements are prepared and mailed by the County to the taxpayers, normally on September 30th of each year.

The assessed valuation of taxable property within the District at January 1, 2010, was \$6,767,985,441 at 100% of market value.

SINGLE AUDIT SECTION

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Navigation and Canal Commissioners
Brownsville Navigation District
Brownsville, Texas 78521

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the Brownsville Navigation District (District) of Cameron County, Texas, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 4, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Brownsville Navigation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the Brownsville Navigation District in a separate letter dated May 4, 2011

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
May 4, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Brownsville Navigation District
Brownsville, Texas

Compliance

We have audited the compliance of the Brownsville Navigation District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2010. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties



LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
May 4, 2011

Brownsville Navigation District

Schedule of Expenditures of Federal Awards

December 31, 2010

<u>Source and Title of Grant</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
Department of Homeland Security			
Federal Emergency Management Agency			
2007 Port Security Grant Program	97.056	2007GBT70045	898,768.00
2008 Port Security Grant Program	97.056	2008GBT80112	153,297.00
2009 Port Security Grant Program	97.056	2009PUT90124	<u>9,520.00</u>
		Total Federal Awards	1,061,585.00

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2010

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Brownsville Navigation District as the primary government, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” Therefore, some amounts presented in this schedule may differ from amounts presented in, or used, in preparation of, the general purpose financial statements.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS
 Year Ended December 31, 2010

I. SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant Deficiency(s) identified that are not considered to be material weaknesses? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditors’ report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
97.56	2007 Port Security Grant Program 2008 Port Security Grant Program

Dollar threshold used to distinguish between Type A Type A \$300,000

- Auditee qualified as low-risk auditee? Yes No

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
FEDERAL AWARDS – CONTINUED**
Year Ended December 31, 2010

II. FINANCIAL STATEMENT FINDINGS

No findings to report.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings to report.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended December 31, 2010

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Compliance-2009-1 – 2007 Port Security Grant

Condition and Criteria – Internal controls are not in place with regards to the reporting process. An independent contractor manages the grants for Brownsville Navigation District. Copies of the quarterly and biannual reports are not kept in the District's office. Some reports appear not to have been submitted timely.

Affect – Future awards and fund draw downs can be withheld if these reports are delinquent.

Recommendation – Management should develop procedures that insure reporting requirements are met accurately and timely.

Corrective action taken or planned – Management will implement a tickler system to track due dates for reports. A copy of the submitted report will be printed off and retained in the District's grant files, as will a copy of the email acknowledging the filing of the report.

Management does dispute the assertion that the reports have not been submitted on time. To management's knowledge, only one report was not submitted on time, and that was due to a programming change on the filing system that caused the submission of the report to fail. Management does acknowledge that the dates on the submitted reports that have been printed for the file do reflect filing dates that are after the filing deadlines. This can possibly be attributed to the way that dates are assigned by the system; the filing date updates when the report is accessed by FEMA and when supplemental information is supplied. This will not be an issue when the report is printed for the file when it is first submitted.

Management would state that it has not been notified of any late reports.

Status of Prior Year Finding

No issues were noted in the current year.

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