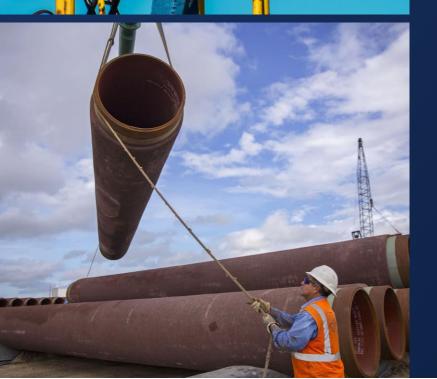
BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017



Brownsville Navigation District OF CAMERON COUNTY, TEXAS

Comprehensive Annual Financial Report

FOR THE YEAR ENDED DECEMBER 31, 2017

Prepared By: The Finance and Administration Department Brownsville Navigation District

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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July 20, 2018

Board of Navigation and Canal Commissioners Brownsville Navigation District of Cameron County, Texas 1000 Foust Road Brownsville, Texas

Dear Commissioners:

Presented herewith is the Comprehensive Annual Financial Report ("CAFR") of the Brownsville Navigation District of Cameron County, Texas ("District") for the year ended December 31, 2017. The responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the District. Management is responsible to ensure that the District has internal controls in place that provide a reasonable but not absolute assurance that assets are safeguarded, transactions are authorized and properly recorded and that material errors are either prevented or would be detected in a timely manner. The District is continually seeking to improve the effectiveness of its systems of internal financial controls. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

Certain demographic information and miscellaneous statistics included in the CAFR do not come from the accounting records of the District but are presented for the reader's information.

Introduction

The District was created in 1929 by a special act of the Texas Legislature for the purpose of dredging a channel from Brazos-Santiago Pass to a point five miles from the City of Brownsville, constructing a turning basin and developing and operating a port facility. As created in 1929, the District contains 368 square miles located entirely within and encompassing approximately 41.7% of Cameron County. The District includes the Cities of Brownsville and Los Fresnos and the Townships of Rancho Viejo and Indian Lake.

The District is a political subdivision of the State of Texas, and is an independent governmental entity. A Board of Navigation and Canal Commissioners, which establishes the policies, rules, rates and regulations of the Port of Brownsville and approves all contractual obligations, govern the activities of the District. The Board consists of five Commissioners elected at large by place

for four-year, staggered terms. The Board elects its own Chairman, Vice Chairman and Secretary. The District had 101 employees as of December 31, 2017.

Mission Statement

It is the mission of the Port of Brownsville (Brownsville Navigation District) to be a leader in business development by providing state of the art infrastructure expansion, developing economic opportunities, providing the best transportation facilities possible, and exhibiting high standards of public administration with the ultimate goal being to improve the quality of life and create employment opportunities, gain the public's trust and confidence in order to increase growth development and establish the Port of Brownsville as a world class port.

Location

The District governs the Port of Brownsville, which is located at the southernmost tip of Texas at the westernmost terminus of a seventeen-mile channel from the Gulf of Mexico at the Brazos Santiago Pass. The City of Brownsville is two miles to the southwest adjacent to the Rio Grande River, providing a convenient gateway to Mexico and beyond via four international bridges.

The Entrance Channel is protected by two rock jetties each over 5,000 feet in length and 1,200 feet apart and has no bridges or other obstructions for the entire length of the waterway. Currently, the Channel has a depth of 42 feet to within .85 miles of the Turning Basin, and a depth of 36 feet to and through the Turning Basin. The Channel has a controlling (or minimum) width of 250 feet with 1,200 feet at the Turning Basin. The District has completed the study phase and has received the U. S. Corps of Engineers' Chief's Report to deepen the Channel to 52 feet. The District's Deepening Project was included in the Water Resources Development Act of 2016 passed by the United States Senate. The District is continuing to seek funding, including public/private partnerships, to help defray the District's matching share of this \$200,000,000 plus project once the federal share is funded.

Business of the District

The District owns a diverse group of facilities designed for handling any type of cargo, including general cargo, containers, dry and liquid bulk, and project and heavy-lift cargo. In addition, the District leases land and easements to others, grants easements for pipeline crossings of its property and maintains areas for depositing dredged materials. The District purchases potable water from the Brownsville Public Utilities Board for its own use and for distribution to its lessees and operates three wastewater treatment plants. The District is also the grantee for Foreign Trade Zone No. 62 and has been authorized by the Texas Department of Transportation to issue overweight permits for transit over a road corridor from the Port of Brownsville to the international crossing into Mexico.

Vessel Services

The Main Harbor consists of the Turning Basin and Approach, containing over five miles of improved frontage. The Turning Basin is 3,500 feet long and 1,200 feet wide and contains ten General Cargo Docks aggregating 5,200 lineal feet. Four Oil Docks, a 400-foot Bulk Cargo Dock serving the Grain Elevator and Limestone Plant, a Liquid Cargo Dock, and two 600 by 280-foot deep-water General Cargo Docks are located in the Turning Basin which is 7,000 feet long with a 650 foot bank width and a 400 foot controlling bottom width. Additionally, 47 miles of railroad trackage and mechanical freight handling equipment augment the Port of Brownsville's ability to handle a wide variety of cargos.

Fishing Harbor

A complete Fishing Harbor, separate and apart from the main harbor, was completed and placed in service in mid-summer 1953. A second phase was finished in December, 1968. All docks were completely rebuilt in a project that was completed in 1993. Located four miles east of the main Turning Basin, with a protected entrance to the Ship Channel, this basin measures 2,100 by 1,600 feet overall with two 300 by 1,200 foot peninsulas in the center. The channel connecting with the Ship Channel is 200 feet wide and 600 feet long. Controlling depth in the Fishing Harbor is 14 feet. This basin provides 12,000 lineal feet of dock space for trawlers, tugs and other small craft. In addition, support industries for the Port of Brownsville's oil rig construction facility are located in the Fishing Harbor.

Terminal Operations

All waterfront facilities on the Brownsville Ship Channel, at the Main Harbor and the Fishing Harbor, are owned by the Brownsville Navigation District. Certain small craft facilities are leased to private operators, but all deep-water facilities at the Main Harbor are operated as public facilities. Vessels and agents are assigned berths at the discretion of the District. Vessel loading and discharge is performed by stevedoring contractors. Rail car and truck loading and unloading is customarily performed by stevedoring contractors.

Around-the-clock supervision of vessels and vehicle traffic at the Port of Brownsville is provided by the Navigation District. The Harbormaster's Office schedules vessel arrivals and departures, maintains radio contact with the pilot boat of the Brazos-Santiago Pilots' Association and provides up-to-the-minute information on schedules useful to agents, stevedores, tugboats, line-runners and the general public. Vessels can call on Channel 12 or 16 twenty-four hours a day.

All General Cargo Sheds have hose stations and fire extinguishers suitable for the type of cargo normally handled through the particular shed. Fire hydrants are located on wharf aprons and throughout the Port's storage facilities. Water supply is from a 16-inch main connecting with the City of Brownsville Public Utilities Board's distribution system. The District owns and operates one 500,000 gallon and one 1,000,000 gallon elevated water storage tanks. The District also provides wastewater services within the District's boundaries.

The Brownsville Navigation District's Administration Offices are located at the Port of Brownsville. These offices handle inquiries on trade and industrial development, environmental issues, accounting, purchasing, credit, traffic, personnel and engineering. While the District's permanent offices are being reconstructed and expanded, District administrative offices have been temporarily relocated to facilities at Keppel Amfels. The District expects the new offices to be completed in late July 2018 with an expected move-in date of August 3, 2018.

All docks at the Port of Brownsville are equipped with electricity and fresh water and most docks are also served by rail. Wastewater and ballast facilities are available. All of the facilities are operated for hire on a first-come, first-served basis.

The dry dock *Los Alamos* was signed over to the District by the U. S. Navy. It was re-christened the *Solomon P. Ortiz* and was originally leased to Keppel AMFELS for operation as a dry dock to repair drilling rigs. Keppel AMFELS subsequently exercised their option to purchase the *Solomon P. Ortiz*. The dry dock was placed into service by Keppel AMFELS in May of 1996.

The District owns and controls approximately 40,000 acres of land adjoining the Turning Basin and Ship Channel. Developed and undeveloped sites are available for lease for cargo facilities, industrial sites, expansion, relocation, manufacturing, greenfield projects, and more.

In recent years, the Port has seen substantial industrial development including tank farms, heavy and light manufacturing, and steel fabrication. Plant sites of virtually any size, with access to the deep-water harbor, rail connections, paved highways, and utilities may be rented on long-term leases at attractive prices from the District.

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.

Foreign Trade Zone

On October 20, 1980, Foreign Trade Zone Board created Foreign Trade Zone ("FTZ") Number 62 with the District as the Grantee and operator. There is a total of 2,300 acres available for FTZ status at the Port of Brownsville, the Brownsville/South Padre Island International Airport, the Harlingen Industrial Park, the Los Indios Industrial Park/FINSA Industrial Park and the NAFTA Industrial Park. The District receives fees from tenants utilizing the District's zone status. There are currently seven Foreign Trade Zone tenants operating within the FTZ at the Port with general purpose warehousing and liquid bulk storage available. Additional information regarding cargo traffic and vessel services revenues may be found in the Statistical Section – Tables 6 and 7.

| Calendar Year | Inbound Tonnage | Outbound Tonnage | Total Tonnage | Number of Vessets ⁽¹⁾ | Foreign Trade Zone Value(1,000's) ⁽²⁾ |
|------------------|--------------------|---------------------|------------------|-------------------------------------|---|
| 1995 | 1,088,436 | 1,090,575 | 2,179,011 | 3,140 | 1,900,000 |
| 1996 | 1,539,939 | 700,321 | 2,240,260 | 3,104 | 2,300,000 |
| 1997 | 1,958,241 | 509,831 | 2,468,072 | 1,325 | 2,300,000 |
| 1998 | 3,019,916 | 226,839 | 3,246,755 | 1,298 | 3,200,000 |
| 1999 | 2,615,330 | 283,592 | 2,898,922 | 1,592 | 2,300,000 |
| 2000 | 2,957,703 | 234,372 | 3,192,075 | 1,385 | 808,000 |
| 2001 | 3,588,261 | 367,565 | 3,955,826 | 1,542 | 387,000 |
| 2002 | 4,101,985 | 488,285 | 4,590,270 | 1,257 | 966,000 |
| 2003 | 2,999,209 | 633,568 | 3,632,777 | 1,265 | 243,562 |
| 2004 | 2,843,044 | 915,679 | 3,758,723 | 1,186 | 528,296 |
| 2005 | 3,587,753 | 902,622 | 4,490,375 | 1,104 | 1,777,317 |
| 2006 | 4,078,795 | 682,858 | 4,761,653 | 794 | 2,526,370 |
| 2007 | 3,274,110 | 1,045,754 | 4,319,864 | 1,059 | 801,257 |
| 2008 | 4,458,308 | 870,369 | 5,328,677 | 1,099 | 2,833,498 |
| 2009 | 3,098,930 | 663,079 | 3,762,009 | 651 | 1,181,260 |
| 2010 | 3,718,906 | 920,506 | 4,639,412 | 986 | 1,168,344 |
| 2011 | 4,178,817 | 1,221,890 | 5,400,707 | 1,237 | 3,154,609 |
| 2012 | 4,440,890 | 1,092,380 | 5,533,270 | 1,083 | 3,868,081 |
| 2013 | 3,868,117 | 1,462,747 | 5,330,864 | 1,059 | 3,221,802 |
| 2014 | 4,865,468 | 1,378,157 | 6,243,626 | 1,059 | 2,896,317 |
| 2015 | 5,616,936 | 1,458,518 | 7,075,454 | 1,140 | 3,219,785 |
| 2016 | 5,719,732 | 1,235,014 | 6,954,746 | 1,091 | 2,796,318 |
| 2017 | 6,194,867 | 1,137,640 | 7,332,507 | 1,317 | 3,693,770 |

Table 1 – Waterborne Cargo Tonnage for The Port of Brownsville

Source: Brownsville Navigation District Harbormaster and Foreign Trade Zone No. 62

⁽¹⁾ Includes domestic shrimp boat activity through 1996 only. Domestic shrimp boat activity is no longer recorded.

⁽²⁾ September Fiscal year ending

Brownsville & Rio Grande International Railway and Industrial Park Development OmniTRAX/BROE Group Franchise Agreement.

The Brownsville and Rio Grande International Railroad ("BRG") is a component unit of the District. On August 12, 2014 the District entered into a thirty-year agreement with Brownsville & Rio Grande International Railway, LLC ("BRGIR"), an affiliate of OmniTRAX, Inc., in which the District granted BRGIR a franchise to develop certain real estate assets within the Port of Brownsville and to operate the Brownsville and Rio Grande Railway. A major reason the District entered into this agreement with BRGIR and its parent company, The BROE Group, to develop an industrial park and to operate rail was based on the BROE Group's experience and success in developing and operating industrial parks, its rail operations and its knowledge of port operations based on its current management of a port. The District believes that with the BROE Group's expertise, resources and existing successful business relationships that the Franchise Agreement with BRGIR will result in significant economic development opportunities for the District. The agreement has performance requirements on both parties that, if not met, could result in the termination of the agreement.

Port of Brownsville Infrastructure

The District owns and operates the following General Cargo and Liquid Cargo docks:

| Dock Number | Type of Cargo/Storage | Vessels Accommodated | Location |
|--------------------|--------------------------------|----------------------|--------------------------|
| Dock No. 1 | General Cargo/Covered Storage | Light Draft Vessels | North Side-Turning Basin |
| Dock No. 2 | General Cargo/Covered Storage | Light Draft Vessels | North Side-Turning Basin |
| Dock No. 3 | General Cargo/Open Storage | Light Draft Vessels | West Side-Turning Basin |
| Dock No. 4 | General Cargo/Covered Storage | Light Draft Vessels | North Side-Turning Basin |
| Dock No. 7 | General Cargo/Covered Storage | Light Draft Vessels | North Side-Turning Basin |
| Dock No. 8 | General Cargo/Covered Storage | Light Draft Vessels | North Side-Turning Basin |
| Dock No. 10 | General Cargo/Open Storage | Light Draft Vessels | South Side-Turning Basin |
| Dock No. 11 | General Cargo/Open Storage | Light Draft Vessels | South Side-Turning Basin |
| Dock No. 12 | General Cargo/Covered Storage | Light Draft Vessels | South Side-Turning Basin |
| Dock No. 13 | General Cargo/Covered Storage | Light Draft Vessels | South Side-Turning Basin |
| Dock No. 15 | General Cargo/Covered Storage | Deep Draft Vessels | South Side-TB Approach |
| Dock No. 16 | General Cargo/Covered Storage | Deep Draft Vessels | South Side-TB Approach |
| Oil Docks 1,2&3 | Liquid Cargos | Mixed Draft Vessels | North Side-TB Approach |
| Oil Dock 5 | Liquid Cargos | Deep Draft Vessels | North Side-TB Approach |
| Bulk Cargo Dock | Elevated Cargos/Bulk Cargos | Mixed Draft Vessels | South Side-TB Approach |
| Liquid Cargo Dock | Liquid Cargos | Mixed Draft Vessels | South Side-TB Approach |
| Small Craft Pier | Not for Cargo | Small Crafts | West Side-Turning Basin |
| Small Craft Harbor | Fishing Harbor | Small Crafts | North Side-4 miles East |
| Open Storage Areas | General Cargo-Off-Dock Storage | | Various Locations |

Additional information regarding the facilities at the Port of Brownsville may be found in Table 17.

Industrial Development

The objective of the Industrial Development Department of the District is to use the District's available land in the best manner possible, to attract industries that create jobs for the area and tonnage for the Port, and to earn enough income to pay interest and principal on regular revenue bonds used to improve all Port facilities. To this end, the District currently has about 13,000 acres under lease or lease option which generated over \$8,275,833 in revenue for fiscal year 2017.

Over the last few years the District has become a major location for companies applying for U.S. Department of Energy Permits to construct Natural Gas Liquefaction Plants. The Port had land lease options with four companies for 2,264 acres resulting in total land lease option payments of \$1,382,431 for the year ended December 31, 2017.

District-owned land is valued for leasing purposes with the assistance of a Real Estate Advisory Committee. Changes in valuations are done on a port-wide basis and not on an individual lease basis. Lease rental rates for land are set at 10% of the valuation on an annual basis and for Districtowned buildings, the rental rates are set at 20% of the valuation on an annual basis for five years with title to the improvements transferred to the lessee after five years. The current table of land rental rates is as follows:

| Land Rental Rates | | | | | |
|----------------------------|--------------------------------|--|--|--|--|
| Lease Type | Current Rates | | | | |
| TURNING BASIN LEASES | | | | | |
| Waterfront Property | \$6,050 per acre/year | | | | |
| Highway Frontage | \$3,954 per acre/year | | | | |
| Port Entrance Sites | \$3,524 per acre/year | | | | |
| Inside Port/Off Waterfront | \$2,097 per acre/year | | | | |
| Remote Sites | Negotiated Rates | | | | |
| Grazing Leases | \$2.34/acre/year | | | | |
| Tower Sites | \$17,598/site/year | | | | |
| Sign Sites | \$104 - \$207/site/year | | | | |
| Fish Camps | \$518/camp/year | | | | |
| Billboards | Market Rate | | | | |
| FISHING HARBOR LEASES | | | | | |
| Water Front | \$4,653 per acre/year | | | | |
| Off-Water | \$4,302 per acre/year | | | | |
| Fishing Harbor Dock | \$1.30 per linear ft./month | | | | |
| Unimproved Bank Space | \$.78 per front ft. per month | | | | |

Additional information regarding operating leases may be found in Note 3. F, and information regarding lease rates and lease revenues may be found in the Statistical Section – Tables 8 and 9. Additional information regarding principal leasing customers can be found in the Statistical Section – Table 9.

Lease terms of up to 50 years are permitted for ground lease rentals under Texas law. Lease terms in excess of 50 years are available if advertised for competitive bidding. The District offers several advantages to industries interested in locating in the Brownsville area. Property taxes are charged against improvements on Port property and on the value of the leasehold to the tenant. There are no city property taxes assessed against improvements on District land. All modes of transportation are available to businesses that choose to locate at the Port: water transportation (both deep-sea and through the Intracoastal Waterway System), rail, truck, air and pipeline. Adding these inducements to those already inherent in the Brownsville area (a solid, available labor force, optimal climate, proximity to the Mexican labor force and markets, dependable utilities, and a progressive industrial development commitment by the area's local governments) makes promoting the Port of Brownsville to prospective tenants a successful endeavor.

Overweight Permit Program

The District has been granted authorization by the Texas Legislature, under the auspices of the Texas Department of Transportation, to operate an Overweight Permit program. This program has been in place since 1998, and provides the users of the Port of Brownsville with the ability to carry loads that, while they would comply with legal load limitations in Mexico, are in excess of legal

load limitations in Texas. The permit fee of \$30 allows the truck to be loaded to a total gross weight of approximately 119,000 pounds and to travel between the Port of Brownsville and the Mexican border crossing along a specified route, the "corridor". The proceeds of the sale of the permits are remitted to TxDOT and are dedicated to the maintenance of the corridor. Through the end of December 31, 2017, a total of 623,707 overweight permits have been sold, generating \$15,976,845 in funds for TxDOT. Of the \$30 permit fee, TxDOT receives 85% or \$25.50 with the Port retaining the other \$4.50 for administrative costs. This program is now being implemented in other locations in Texas.

Cameron County

Cameron County was created in 1848 and it is the southernmost county in Texas. According to the 2010 U. S. Census, the population of the County is 406,220, an increase of 56% over 1990, and an increase of 99% over 1980. The area of the County is approximately 906 square miles, comprising the Brownsville-Harlingen-San Benito Metropolitan Area. The largest city in the County is Brownsville, which serves as the county seat. The economy is based on agricultural production, fishing industries, industrial and manufacturing plants, tourism, health care and educational services. Major agricultural crops include oranges, grapefruit, cotton, grains and sugar cane. Principal manufacturing products include off-shore drilling platforms, fiberglass products and electrical equipment. Tourism attractions include South Padre Island, Laguna-Atascosa Wildlife Refuge, Sabal Palms Sanctuary and the Gladys Porter Zoo.

City of Brownsville, Texas

The City of Brownsville is the county seat of Cameron County. It is the southernmost city in Texas and the largest city in the lower Rio Grande Valley. The City is located about 25 miles inland from the Gulf of Mexico on the north bank of the Rio Grande River, directly across from Matamoros, Mexico. The City is joined by four international bridges and serves as a trade center for much of the lower Rio Grande Valley.

From 1980 to 2010, the City of Brownsville doubled in population, from a City of approximately 85,000 to a population of 175,023. The dynamics of this rapid growth has resulted in a very young population compared to the rest of the United States, with approximately one-third of Brownsville's population in the Kinder to 12th grade age group. Within the next 10 years, nearly 50,000 people will enter the local workforce from the City's educational system alone.

Matamoros, Mexico

Matamoros, Mexico, is located on the south bank of the Rio Grande River, directly across from Brownsville. The two cities are related historically, culturally and economically. Economic cooperation dates back to the American Civil War when the two cities served as an import area for vital Civil War supplies and an export area for the South's cotton. In 1970, the city had a population of 137,383. By 1990, the city's population was 303,392, and by 2010, the City's official population was 489,193. Matamoros has a "shadow" population not included in its census count that is estimated to increase the city's population to approximately 700,000.

The Mexican In-Bond Industrialization Program offers foreign manufacturers an opportunity to set up foreign-owned Mexican manufacturing companies in order to utilize their more competitive labor rates. The finished goods are required to be exported from Mexico. This, accordingly, has allowed U. S. manufacturers an opportunity to manufacture offshore, but adjacent to their major market of the U. S.

These new industries represent manufacturing of electronics/electrical products, automotive components, hydrochloric acid, apparel, oil field drill bits, construction and mining equipment, shrimp processing, industrial gloves, shopping bags, fiberglass products, automotive products, plastic injection molded products, appliances, rubber seals, tool and die, plastic covers, stuffed toys and fiberglass tape.

Surplus labor, climate, proximity to the United States and the Port of Brownsville have led to the rapid development of the area. A technological institute to train engineers, plus a medical school and vocational and technological schools in Matamoros, train the labor force for the varying skills required by the newly located companies.

Long Term Financial Planning

The following is a schedule of the District's five-year capital improvements project expenditures. These projects are expected to be funded by federal and state funding, private sector contributions, a \$28,000,000 District 2016 revenue bond, District capital funds and new District debt. For the \$210,000,000 channel deepening the District projects \$105,000,000 from the Corps of Engineers, with the remaining \$105,000,000 from the District and private sector partners. The District projects \$7,000,000 in private sector contributions for the West Plaines Dock and \$900,000 from Texas Department of Transportation for road improvements.

BROWNSVILLE NAVIGATION DISTRICT CAPITAL IMPROVEMENT PLAN

| Expenditure Description | | <u>FY 2018</u> | | <u>FY 2019</u> | | <u>FY 2020</u> | | <u>FY 2021</u> | | <u>FY 2022</u> | | <u>Total</u> |
|------------------------------------|---|----------------|----|----------------|---|----------------|---|----------------|---|----------------|----|--------------|
| Channel Deepening | s | 500,000 | \$ | 500,000 | s | 50,000,000 | s | 79,000,000 | s | 80,000,000 | s | 210,000,000 |
| Docks 3 & 6 Construction | | 11,000,000 | | 4,500,000 | | - | | - | | • | | 15,500,000 |
| Administrative Office Construction | | 2,500,000 | | - | | - | | - | | - | | 2,500,000 |
| Patio Expansion | | 1,200,000 | | 1,200,000 | | 1,200,000 | | 1,200,000 | | 1,200,000 | | 6,000,000 |
| Road Improvements | | 2,500,000 | | - | | - | | - | | - | | 2,500,000 |
| West Plains Dock | | 1,000,000 | | 4,000,000 | | 6,000,000 | | - | | - | | 11,000,000 |
| Sewer System Improvements | | 400,000 | | 600,000 | | 300,000 | | 300,000 | | 300,000 | | 1,900,000 |
| Water System Improvements | | 250,000 | | 250,000 | | 400,000 | | 400,000 | | 400,000 | | 1,700,000 |
| Levy/Dike Improvements | | - | | 2,500,000 | | 2,500,000 | | • | | • | | 5,000,000 |
| Shed Repairs/Replacements | | - | | 500,000 | | 500,000 | | 500,000 | _ | 71,900 | | 1,571,900 |
| Total | S | 19,350,000 | S | 14,050,000 | S | 60,900,000 | S | 81,400,000 | S | 81,971,900 | \$ | 257,671,900 |

Major Initiatives and Accomplishments

• 2016 Revenue Bond Sale / \$28,000,000 Deposited Into District Project Funds

On February 9, 2016 the District sold bonds with a par amount of \$27,580,000 with a net premium of \$1,901,070 with a net to project funds of \$28,000,000 after issuance costs, underwriters discount, insurance and required reserve funds. The bonds were issued to provide for acquiring, constructing, enlarging, extending, repairing, maintaining, operating or developing District Facilities. The bond proceeds should provide most of the funding necessary for the construction of a new liquid cargo dock #6, reconstruction of liquid cargo dock #3 and for the reconstruction and expansion of the District's Administrative Office Complex.

• New Administrative Office Complex

In early 2017 ZIWA Corporation began construction of two new buildings, the rehabilitation of two existing buildings and installation of parking, landscaping and other appurtenant features at an estimated cost of \$7,400,000. Upon completion in July of 2018, District office space will increase from about 14,570 square feet to about 27,290 square feet. District Administrative offices have temporarily been relocated since January of 2017 at the Keppel Amfels facility at the Port off State Highway 48.

• Liquid Cargo Dock 6 Construction, Liquid Cargo Dock 3 Fender System Replacement and Facility Enhancements and Maintenance Dredging

In early 2017, Triton Marine Construction Corp. began construction of new Liquid Cargo Dock 6, Liquid Cargo Dock 3 Fender Replacement System and other enhancements and maintenance dredging at a cost of \$27,000,000. The new dock and improvements to Liquid Cargo Dock 3 will allow the Port to handle larger ships and to be able to handle more ships which is critical as Port tenants are rapidly increasing their liquid cargo handling storage capacity and allows the Port to accommodate new or expanded liquid cargo terminal operations.

Cameron County Regional Mobility Authority Roads Projects

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 CCRMA and the District are 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 heavily trafficcongested areas. This project will improve the accessibility to the Port by its trucking industry and will provide seamless access for truck traffic from northern points, through the Port of Brownsville and on to the international bridge crossings into Mexico.

• Cargo Revenues

The District derives approximately 42.64% of its operating revenues from Vessel and Cargo Operations at the Port of Brownsville. For 2017 vessel and cargo revenue totaled to \$10,089,552 out of total District operating revenues of \$23,662,633. These revenues include charges for vessel fees, cargo wharfage and cargo storage. The District continues to investigate new opportunities to expand its mix of cargo, as well as working with its existing customers to

increase their usage of the Port, to increase its vessel and cargo-related revenues. Waterborne cargo totaled 7,332,507 metric tons for 2017 which surpassed 2015's record year of 7,075,454 metric tons.

• Homeland Security Enhancements

Homeland Security has placed a number of requirements for enhanced security in the Port of Brownsville in the past few years. The District has applied for eight annual grant awards over the last eight years and has been awarded seven grants totaling \$11,924,777 of federal funds with a District match of \$4,280,442 for a federal share and District share total of \$16,205,219. These projects included security lighting, security fencing, surveillance cameras and other security related purchases. As new grants are announced, the District will continue to apply to help fund needed security enhancements.

• New Cargo Storage Areas / Wind Energy Towers and Turbines

During the years 2014 through 2017, the District has been continuously clearing and stabilizing new cargo storage areas. The District has been able to put these new cargo storage areas to use to accommodate shipments of wind tower components and an increase in steel slab shipments. In 2017 the District received 124 complete wind energy towers and turbines.

• Port Grain Elevator

The Port Grain Elevator has had limited use for more than twenty years. In 2016 the BND Board unanimously approved a lease with West Plains LLC. for the modernization and reactivation of one of the Port's most iconic buildings. The 50-year-old grain elevator had handled millions of tons of grain passing through the Port and with its modernization it is equipped for high speed handling of grain through truck, rail and vessel loading and unloading and will provide storage for nearly 3,000,000 bushels of grain. In 2017, the facility received 2,052,791 bushels of grain.

Financial Information

The financial statements of the District are presented in conformity with generally accepted accounting principles (GAAP) applicable to local governmental units as prescribed by the Government Accounting Standards Board (GASB). A summary of significant accounting policies can be found in Note 1 to the financial statements.

The integrity and objectivity of data in these financial statements and supplemental schedules, including estimates and judgments to matters not concluded at year-end, are the responsibility of the District. We direct the reader's attention to the Management's Discussion and Analysis (MD&A) immediately following the Independent Auditors' Report which provides an analytical overview of the District's financial activities and serves as an introduction to the basic financial statements.

Investment Policy

It is the District's policy to administer investments in a manner which will provide the maximum security of principal invested through limitations and diversification. Investments are chosen with four primary objectives 1) security of principal, 2) liquidity, 3) diversification, 4) and yield.

In 2016 the District amended its Investment Policy to allow investment of its 2016 Revenue Bond issue and other available funds in non-constant dollar investment pools which is consistent with other local governments and as authorized by the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The District's investments with TexasTerm have generated over \$128,000 more than the invested funds would have generated with a collateralized repurchase agreement.

Independent Audit

The financial statements for the fiscal year ended December 31, 2017 listed in the foregoing Table of Contents were audited by independent auditors selected by the Board of Navigation and Canal Commissioners. The audit opinion, rendered by Carr, Riggs & Ingram LLP., is included in the financial section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded Certificate of Achievements for Excellence in Financial Reporting to the Brownsville Navigation District for its comprehensive annual financial report for the fiscal years ended December 31, 2011 December 31, 2012, December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2016. The December 31, 2011 award was the first time the District has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been accomplished without the dedicated services of the District's accounting staff. We express our appreciation to them, particularly to those who contributed directly to the preparation of this report.

In closing, we would like to thank the members of the Board of Navigation and Canal Commissioners and all the officials of the District for their support in the planning and conducting the financial affairs of the District in a responsible and progressive manner.

Sincerely,

Stephen B. Fitzgibbons Director of Finance

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Éduardo A. Campirano Port Director and CEO

Brownsville Navigation District of Cameron County, Texas

DIRECTORY OF OFFICIALS

NAVIGATION AND CANAL COMMISSIONERS

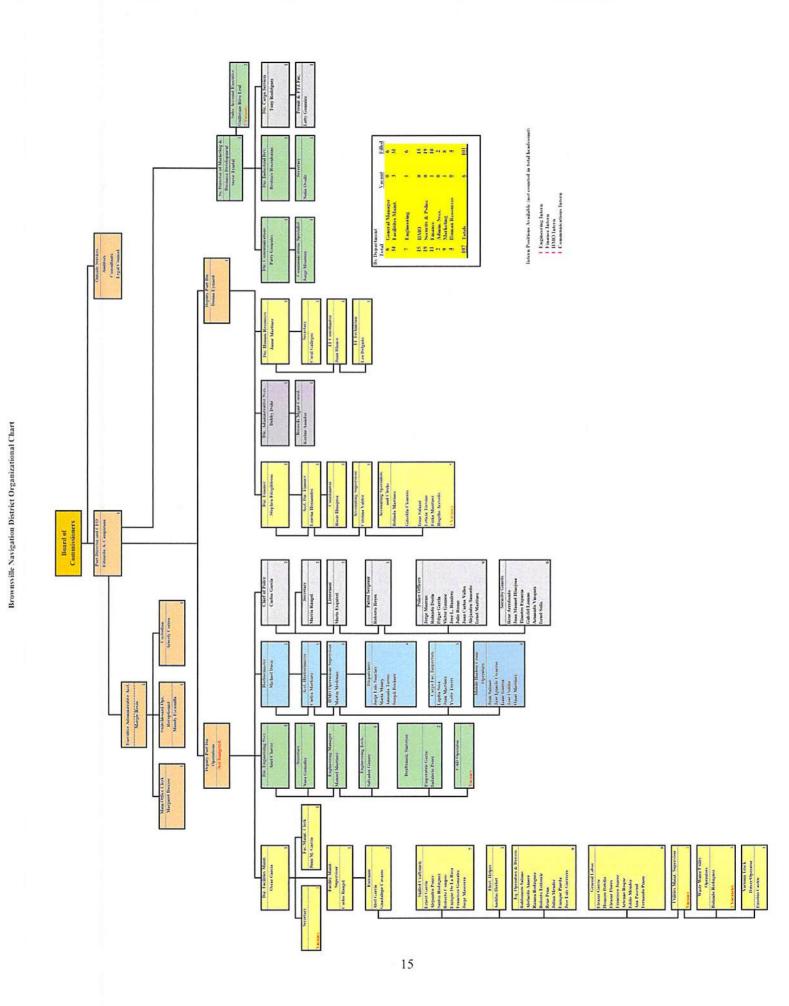
- John Wood John Reed Sergio T. Lopez Carlos R. Masso Ralph Cowen
- Chairman Vice Chairman Secretary Asst. Secretary Asst. Secretary

ADMINISTRATION

Port Director and CEO Eduardo A. Campirano **Donna Eymard Deputy Port Director** Steve Tyndal, PPM Sr. Director of Marketing & **Business Development** Stephen B. Fitzgibbons **Director of Finance Deborah** Lee Duke **Director of Administration** Ariel A. Chavez, P.E. **Director of Engineering Services Michael Davis** Harbormaster **Chief of Police Chief Carlos Garcia** Oscar Garcia, MM **Director of Facilities Maintenance Patricia Gonzales Director of Communications** Antonio Rodriguez **Director of Cargo Services Beatrice Rosenbaum Director of Industrial Development Director of Human Resources Jaime Martinez** Lorena Hernandez, CPA **Assistant Director of Finance Cristina Valdez** Accounting Supervisor Rosa Maria Hinojosa Accounts Receivable Coordinator

ADMINISTRATION

| Certified Public Accountants | Carr, Riggs & Ingram, LLC Brownsville, Texas |
|------------------------------|--|
| Legal Counsel | Rentfro, Irwin & Irwin, PLLC Brownsville, Texas |
| Financial Advisor | Estrada Hinojosa & Company Dallas, Texas |
| Bond Counsel | Winstead PC San Antonio, Texas |





Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Brownsville Navigation District of Cameron County, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

December 31, 2016

Christophen P. Morrill

Executive Director/CEO

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FINANCIAL SECTION

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Carr, Riggs & Ingram, LLC 3125 Central Boulevard Brownsville, Texas 78520

(956) 546-1655 (956) 546-0377 (fax) CRIcpa.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Brownsville Navigation District of Cameron County, Texas (the "District"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 of the District, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3(M) to the financial statements, the District reported prior period adjustments totaling \$475,356 to reflect corrections of errors in prior year financial statement amounts. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the employer's net pension liability and related ratios, and schedule of employer contributions on pages 20 through 25, 68, and 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, schedule of operating expenses, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Can, Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas July 20, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2017. The MD&A should be read in conjunction with the transmittal letter found in the introductory section of this report and the District's financial statements and related notes which follow this section.

FINANCIAL HIGHLIGHTS

The total net position of the District at December 31, 2017 was \$169,384,764, increasing \$9,298,650 or 5.8% over the prior year. District net operating income for 2017 before depreciation was \$11,285,826 decreasing to \$5,811,818 after a depreciation charge of \$5,474,008. District 2017 operating revenues totaled \$23,662,633, an increase of \$4,067,119, or 20.8%, from the 2016 operating revenues of \$19,595,514. Operating expenses for 2017 of \$12,376,807, before depreciation, increased \$1,231,351 or 11.1% over 2016 operating expenses before depreciation of \$11,145,456.

District operating revenue is comprised of Vessel and Cargo Services, Lease Rentals at the Turning Basin and Fishing Harbor, Other Lease Rentals and Other Operating Revenues. Vessel and Cargo Services revenues of \$10,089,552 for 2017 increased \$1,600,086 from \$8,489,466 in 2016, an increase of 18.9%.

Lease rentals at the Turning Basin and Fishing Harbor totaled \$8,275,833, an increase of \$774,878 from the prior year amount of \$7,500,955. Other Lease Rentals totaled \$3,517,261, an increase of \$1,708,517 from the prior year amount of \$1,808,744, resulting in a 2017 total lease revenue of \$11,793,094, an increase of \$2,483,395 over 2016 total lease revenue of \$9,309,699.

Non-operating income for 2017 totaled \$3,107,791, an increase of \$365,264 from 2016 nonoperating income of \$2,742,527. This increase resulted from a decrease of Other Non-Operating Expense with the 2017 total of \$44,974 decreasing \$472,389 over the 2016 total of \$517,363 due to debt issuance costs incurred from the 2016 Revenue Bond issue. For 2017, the District received \$2,906,582 in property tax, net of tax collection expenses, of which \$2,389,634 was for general obligation bond debt and \$516,948 was for maintenance and operations. The District also received \$101,673 in penalties and interest for a combined 2017 tax, penalty and interest total of \$3,008,255 which is a reduction of \$134,069 from 2016 combined totals of \$3,142,324. 2017 is the twenty-fourth consecutive year the District has not raised its tax rate.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District reports its business-type activities in a single enterprise fund in which its operations and activities are reported similar to a private-sector business. The District's basic financial statements consist of the following: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the District on a full accrual, historical cost basis. The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position.

The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the business-type activities over the course of the fiscal year and information showing how the District's net position changed during the fiscal year. All changes in net position 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 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 period reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash and cash equivalent balances as of December 31, 2017. 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 provide required disclosures and other information that is essential to a full understanding of the data found in these financial statements, and should be read in conjunction with the MD&A and the basic financial statements. These notes can be found on pages 34-67.

FINANCIAL ANALYSIS

Summary of Net Position

The District's financial health is reflected in the current year financial statements. Over time, increases or decreases in net position may serve as useful indicators as to whether the District's financial health is improving or deteriorating.

The District's total assets plus deferred outflows of resources at the close of the 2017 fiscal year were \$230,990,587, an increase of \$9,720,311, or 4.4%, over the 2016 fiscal year total of \$221,270,276. At December 31, 2017, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$169,384,764. The District's total net position for the years ending December 31, 2017 and 2016 were \$169,384,764 and \$160,086,114, respectively. The largest component of the District's net position (79.2% and 80.9% for for fiscal year 2017 and 2016, respectively) reflects its net investment in capital assets. The District uses these capital assets to provide services to its customers and therefore are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position of \$7,588,733 and \$11,417,852 for fiscal years 2017 and 2016, respectively, is subject to external restrictions on how it may be used. The remaining balances of unrestricted net position totaling \$27,708,357 and

\$19,214,501 for fiscal years 2017 and 2016, respectively, may be used to meet the District's ongoing obligations to employees and creditors.

The following condensed Statement of Net Position provides an overview of the District's net position as of December 31, 2017 and 2016:

| | 2017 | 2016 | | | | | | |
|---|------------------------|-----------------------|--|--|--|--|--|--|
| Current assets | \$ 63,723,977 | \$ 67,464,944 | | | | | | |
| Capital assets, net | 164,470,908 | 150,441,198 | | | | | | |
| Other non-current assets | 1,828,725 | 2,253,776 | | | | | | |
| Total assets | 230,023,610 | 220,159,918 | | | | | | |
| Deferred outflows of resources | 966,977 | 1,110,358 | | | | | | |
| Total assets and deferred outflows of resources | 230,990,587 | 221,270,276 | | | | | | |
| Current liabilities | 12,403,83 9 | 9,604,306 | | | | | | |
| Non-current liabilities | 46,181,979 | 48,580,885 | | | | | | |
| Total liabilities | 58,585,818 | 58,185,191 | | | | | | |
| Deferred inflows of resources | 3,020,005 | 2,998,971 | | | | | | |
| Total liabilities and deferred inflows of resources | 61,605,823 | 61,184,162 | | | | | | |
| Net Position: | | | | | | | | |
| Net investment in capital assets | 134,087,674 | 129,453,761 | | | | | | |
| Restricted | 7,588,733 | 11,417,852 | | | | | | |
| Unrestricted | 27,708,357 | 19,214,501 | | | | | | |
| Total net position | \$ 169,384,764 | <u>\$ 160,086,114</u> | | | | | | |

Condensed Statements of Net Position December 31, 2017 and 2016

Changes in Net Position

The Statement of Revenues, Expenses, and Change in Net Position serve as a measure to determine how successful the District was in recovering its costs through its user fees and other charges, as well as its profitability. The District's net position as of December 31, 2017 increased by \$9,298,650 or 5.8% compared to the previous fiscal year.

The \$4,067,119 increase in Operating revenues from \$19,595,514 in 2016 to the \$23,662,633 in 2017 was primarily due to a 21% increase in Vessel Calls at the District from 1,091 vessels in 2016 to 1,317 vessels in 2017. The District also implemented a three year plan to increase its Dockage rates and liquid cargo Wharfage rates for the fiscal years 2016 through 2018. Another factor for the 2017 increase in Operating revenues was due to the \$2,483,395 increase in Lease rentals from \$9,309,699 in 2016 to \$11,793,094 in 2017 that was partly generated from three new easement options the District granted for constructing, maintaining, and operating underground pipelines. In 2017, the Port also had a \$493,800 increase in Storage Agreement revenues from \$307,000 in 2016 to \$800,800 in 2017 for placement and storage of windmill components and steel pipes at the District's pyramid yard and patios.

The \$1,512,331 increase in total Operating expenses from the \$16,338,484 in 2016 to the \$17,850,815 in 2017, was primarily due to a one time payment of \$872,307 in lessee refunds and credits on past dockage charges and for consideration of dredging and other improvements made to leased property. Other non-operating expense also decrease by \$472,389 due to debt issuance costs incurred from the 2016 Revenue Bond issue. No bonds were issued in 2017. The December 31, 2017 net position also reflects a \$475,356 prior period adjustment, see Note 3. M. on page 67 for additional information.

The following table summarizes the changes in net position of the District for the fiscal years ended December 31, 2017 and 2016:

| | 2017 | | 2016 | | Variance | |
|--|------|-------------|------|-------------|----------|------------------------|
| Revenues | | | | | | |
| Operating revenues: | | | | | | |
| Vessel services | \$ | 10,089,552 | \$ | 8,489,466 | \$ | 1,600,086 |
| Lease rentals | | 11,793,094 | | 9,309,699 | | 2,483,395 |
| Other operating revenue | | 1,779,987 | | 1,796,349 | | (16,362) |
| Total operating revenues | | 23,662,633 | | 19,595,514 | | 4,067,119 |
| Interest income | | 605,841 | | 328,151 | | 277,690 |
| Grant revenue | | 148,302 | | 374,201 | | (225,8 9 9) |
| Property taxes, net | | 3,008,255 | | 3,142,324 | | (134,069) |
| Total Revenues | _ | 27,425,031 | | 23,440,190 | | 3,984,841 |
| Expenses Operating expenses: | | | | | | |
| Wages and employee expenses | | 5,593,043 | | 5,174,401 | | 418,642 |
| Maintenance and operation of facilities | | 2,093,449 | | 1,965,162 | | 128,287 |
| General and administrative expenses | | 4,690,315 | | 4,005,893 | | 684,422 |
| Depreciation | | 5,474,008 | | 5,193,028 | | 280,980 |
| Total operating expenses | | 17,850,815 | | 16,338,484 | | 1,512,331 |
| Interest expense | | 604,983 | | 580,386 | | 24,597 |
| Bond service fees | | 4,650 | | 4,400 | | 250 |
| Other non-operating expense | | 44,974 | | 517,363 | | (472,389) |
| Total Expenses | | 18,505,422 | | 17,440,633 | | 1,064,789 |
| Income before capital contributions | | 8,919,609 | | 5,999,557 | | 2,920,052 |
| Capital contributions | | 379,041 | | • | | 379,041 |
| Change in net position | | 9,298,650 | | 5,999,557 | | 3,299,093 |
| Net position - beginning of year | | 160,086,114 | | 153,611,201 | | 6,474,913 |
| Prior period adjustment | | - | | 475,356 | | (475,356) |
| Net position - beginning of year as restated | | 160,086,114 | | 154,086,557 | | 5,999,557 |
| Net position - end of year | \$ | 169,384,764 | \$ | 160,086,114 | \$ | 9,298,650 |

Changes in Net Position For Fiscal Years Ended December 31, 2017 and 2016

CAPITAL ASSETS

At the end of fiscal year 2017 and 2016, the District's total net capital assets reflected an increase of \$14,029,710 or 9.3% over the prior year. The following table summarizes the District's capital assets as of December 31, 2017 and 2016:

Capital Assets December 31, 2017 and 2016

| | 2017 | 2016 |
|--|----------------|----------------|
| Inland channel, turning basin, & jetties | \$ 55,360,414 | \$ 55,360,414 |
| Land | 9,936,584 | 9,934,753 |
| Easements | 20,760 | 20,760 |
| Docks and appurtenances | 72,603,221 | 72,603,221 |
| Water and sewer systems | 11,483,805 | 11,166,578 |
| Railroads | 11,273,943 | 11,273,945 |
| Land improvements and roads | 39,527,791 | 37,951,014 |
| Administration building | 751,354 | 751,354 |
| Industrial equipment | 10,679,556 | 9,944,147 |
| Furniture and equipment | 1,367,437 | 1,237,676 |
| Intangible Assets | 5,895,274 | 5,895,274 |
| Construction in progress | 23,597,751 | 6,884,561 |
| Total capital assets | \$ 242,497,891 | \$ 223,023,698 |
| Less: Accumulated depreciation | (78,026,983) | (72,582,500) |
| Net capital assets | \$ 164,470,908 | \$ 150,441,198 |

At December 31, 2017, the District had contractual obligations totaling approximately \$18,420,484 for expansion of the port, waterways, and facilities. Funding of these amounts will come from available revenues of the District and restricted funds.

Additional information on the District's Capital Assets can be found in Note 3. D. – Capital Assets on page 48.

DEBT ADMINISTRATION

The District has issued revenue and general obligation bonds for the purposes of acquiring land and acquiring, purchasing, constructing, enlarging, extending, repairing or developing the District's facilities including the ports and waterways. The bonds are secured by the pledged revenues from the operation of port facilities after the deduction of maintenance and operating expenses other than those related to depreciation or the interest expense on bonds. As of December 31, 2017, the District had long-term debt outstanding of \$42,320,000.

The following table summarizes the District's long-term debt outstanding as of December 31, 2017 and 2016:

| | 2 | 2017 | 2016 | | |
|--------------------------|-------|-----------|------|------------|--|
| Revenue bonds | \$ 38 | 3,580,000 | \$ | 40,045,000 | |
| General obligation bonds | 3 | 3,740,000 | | 5,920,000 | |
| Total long-term debt | \$ 42 | 2,320,000 | \$ | 45,965,000 | |

The District maintains an A+ and A rating from Standard and Poor's Corporation with a positive outlook and Aa3 and A2 ratings from Moody's Investor Service for its General Obligation and Revenue bonds, respectively. The District considers its credit rating strong and will enhance it with insurance when it's in its best interest. In 2016, the District purchased insurance to enhance its 2016 Revenue bond issuance rating for Standard and Poor's Coorporating to AA and Moody's Investor Service rating to A2.

Additional information on the District's long-term debt can be found in Note 3. E. – Long-term Debt on pages 49-51 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, 1000 Foust Road, Brownsville, Texas 78521.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

December 31, 2017

| ASSETS | | |
|--|----|--------------|
| Current Assets - Unrestricted: | | |
| Cash and cash equivalents | \$ | 38,409,960 |
| Accounts receivable, net of allowance for uncollectible accounts | | 2,479,100 |
| Note and capital lease receivable, current | | 465,632 |
| Taxes receivable - M. O., net of estimated uncollectible taxes | | 620,984 |
| Other receivables and accrued interest | | 297,915 |
| Inventories | | 3,207 |
| Prepaids | | 681,860 |
| Total Current Assets - Unrestricted | | 42,958,658 |
| Current Assets - Restricted: | | |
| Cash - revenue bond fund | | 5,482,713 |
| Cash - general obligation bond fund | | 1,485,210 |
| Cash - overweight permits | | 9,040 |
| Investments | | 13,167,546 |
| Taxes Receivable - G.O., net of estimated uncollectible taxes | | 620,810 |
| Total Currrent Assets - Restricted | | 20,765,319 |
| | | |
| Total Current Assets | | 63,723,977 |
| Non-current Assets | | |
| Capital Assets: | | |
| Property, plant, and equipment | | 242,497,891 |
| Less: accumulated depreciation and amortization | | (78,026,983) |
| Capital Assets total | | 164,470,908 |
| Other Noncurrent Assets: | | |
| Note receivable, non-current | | 1,126,549 |
| Capital lease receivable, non-current | | 315,285 |
| Other assets | | 386,891 |
| Total Other Noncurrent Assets | | 1,828,725 |
| Total Noncurrent Assets | | 166,299,633 |
| Total Assets | | 230,023,610 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions | | 951,927 |
| Deferred charges on bond refunding | | 15,050 |
| Total Deferred Outflows of Resources | | 966,977 |
| Total Assets and Deferred Outflows of Resources | ć | 220 000 507 |
| | \$ | 230,990,587 |
| See accompanying notes to financial statements. | | (continued) |

STATEMENT OF NET POSITION - CONTINUED December 31, 2017

| LIABILITIES | |
|---|----------------|
| Current Liabilities - Unrestricted: | |
| Accounts payable | \$ 5,135,416 |
| Accrued liabilities | 1,508,989 |
| Unearned lease rentals | 3,449,434 |
| Total Current Liabilities - Unrestricted | 10,093,839 |
| Current Liabilities - Restricted: | |
| Current maturities of long-term debt - bonds | 2,310,000 |
| Total Current Liabilities | 12,403,839 |
| Noncurrent Liabilities: | |
| Revenue bonds | 38,811,660 |
| General obligation bonds | 2,960,000 |
| Net pension liability | 4,410,319 |
| Total Noncurrent Liabilities | 46,181,979 |
| Total Liabilities | 58,585,818 |
| | |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows related to pensions | 61,238 |
| Unavailable property tax revenue | 2,958,767 |
| Total Deferred Inflows of Resources | 3,020,005 |
| Total Liabilities and Deferred Inflows of Resources | 61,605,823 |
| NET POSITION | |
| Net investment in capital assets | 134,087,674 |
| Restricted for: | |
| Revenue bond debt retirement and contingency | 5,482,713 |
| General obligation bond debt service | 2,106,020 |
| Unrestricted | 27,708,357 |
| Total Net Position | 169,384,764 |
| Total Liabilities, Deferred Inflows of Resources, | |
| and Net Position | \$ 230,990,587 |

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

| OPERATING REVENUES | |
|---|------------------|
| Vessel and cargo services | \$ 10,089,552 |
| Lease rentals | |
| Port system | 8,275,833 |
| Other lease rentals | 3,517,261 |
| Other operating revenue | 1,779,987 |
| Total Operating Revenues | 23,662,633 |
| OPERATING EXPENSES, OTHER THAN | |
| DEPRECIATION | |
| Wages and employee expenses | 5,593,043 |
| Maintanence and operation of facilities | 2,093,449 |
| General and administrative expenses | 4,690,315 |
| Total Operating Expenses | 12,376,807 |
| Income from operations before depreciation | 11,285,826 |
| Depreciation | 5,474,008 |
| OPERATING INCOME | 5,811,818 |
| NON-OPERATING INCOME (EXPENSE) | |
| Interest income on investments and direct | |
| financing leases - port system | 603,589 |
| Interest income - other | 2,252 |
| Grant revenue | 148,302 |
| Taxes - net of bad debt and collection expenses | |
| Penalties and interest | 101,673 |
| Maintenance and operations | 516,948 |
| General obligation bond debt service | 2,389,634 |
| Interest expense | (604,983) |
| Bond service fees | (4,650) |
| Other non-operating expense | (44,974) |
| Total Non-Operating Income (Expense) | 3,107,791 |

See accompanying notes to financial statements.

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(continued)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - CONTINUED For the Year Ended December 31, 2017

| Income Before Contributions and Special Items | 8,919,609 |
|---|----------------|
| Capital contributions | 379,041 |
| Increase in net position | 9,298,650 |
| Net position at beginning of year | 159,610,758 |
| Prior period adjustments | 475,356 |
| Net position at beginning of year - as restated | 160,086,114 |
| Net position at end of year | \$ 169,384,764 |

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

| CASH FLOWS FROM OPERATING ACTIVITIES: | |
|--|------------------|
| Receipts from customers | \$ 22,182,521 |
| Payment to suppliers | (3,064,619 |
| Payment to employees | (5,302,248 |
| Net cash provided by operating activities | 13,815,654 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Collections of M&O taxes and interest, net of discounts and collection expense | 115,441 |
| Net cash provided by noncapital financing activities | 115,441 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Collections of G.O. taxes and interest, net of discounts and collection expenses | 2,919,724 |
| Contributions received from federal agencies | 148,302 |
| Capital contributions | 379,041 |
| Acquisition and construction of capital assets | (18,179,913 |
| Principal paid on capital debt | (3,645,000 |
| Interest paid on capital debt | (1,654,417 |
| Net cash provided by capital and related financing activities | (20,032,263 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest received | 359,147 |
| Principal received on notes and capital leases receivable | 431,651 |
| Proceeds from maturities of investments | 10,000,000 |
| Net cash used in investing activities | 10,790,798 |
| Net increase in cash and cash equivalents | 4,689,630 |
| Cash and cash equivalents at beginning of year | 40,697,293 |
| Cash and cash equivalents at end of year | \$ 45,386,923 |
| Cash and cash equivalents - unrestricted | \$ 38,409,960 |
| Cash - revenue bond fund - restricted | 5,482,713 |
| Cash - general obligation bond fund - restricted | 1,485,210 |
| Cash - overweight permits - restricted | 9,040 |
| Total cash and cash equivalents - restricted and unrestricted | \$ 45,386,923 |
| See accompanying notes to financial statements | (Continued |

See accompanying notes to financial statements.

(Continued)

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2017

| Reconciliation of operating income to net cash provided by operating activities: | _ | |
|---|----|-------------|
| Operating income | \$ | 5,811,818 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | | 5,474,008 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | | (1,434,561) |
| (Increase) decrease in taxes receivable | | 92,212 |
| (Increase) decrease in inventories | | 933 |
| (Increase) decrease in prepaid expenses | | (406,934) |
| (Increase) decrease in other assets | | (20,770) |
| Increase (decrease) in accounts payable | | 3,561,557 |
| Increase (decrease) in accrued liabilities | | 584,292 |
| Increase (decrease) in deferred lease rentals and other credits | | (11,316) |
| Decrease (increase) in deferred outflows related to pensions | | 125,119 |
| Decrease (increase) in deferred outflows related to refunding | | 18,262 |
| Increase (decrease) in deferred inflows related to pensions | | 26,673 |
| Increase (decrease) in deferred inflows related to tax revenues | | (5,639) |
| Net cash provided by operating activities | \$ | 13,815,654 |

See accompanying notes to financial statements.

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December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Brownsville Naviagation District of Cameron County, Texas (District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units in conjunction with the "Water District's Financial Management Guide" published by the Texas Commission on Environmental Quality. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

A. THE REPORTING ENTITY

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 40,000 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. 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.

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 Port Director and CEO 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.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Section 2100 of the <u>GASB Codification of Governmental Accounting and Financial Reporting Standards</u>. GASB defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Since the District does not exercise financial accountability over other entities, it has no component units.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The District's operations are accounted for within a single propietary (enterprise) fund. Proprietary funds are used to account for operations that are finance and operated in a manner similar to private business enterprises where the intent is to recover the cost of operations through user charges. A proprietary fund is accounted for on the "economic resources" measurement focus using the accrual basis of accounitng, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measureable. All assets and liabilities are inlcuded on the statement of net position. Proprietary fund equity is classified as net position. Net position is segragated into amounts of net investment in capital assets, amounts restricted for capital activity, debt service pursuant to bond indentures, and other contractual restrictions, and amounts which are unrestricted.

C. BUDGETARY INFORMATION

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. An annual operating and capital improvement budget are adopted 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.

D. ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalants are considered to be cash on hand, cash held on deposit in with financial institutions in demand deposit accounts, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

In accordance with its Investment Policy and the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code (PFIA), the District may invest in obligations of the United States or its agencies and instrumentalities (not to exceed two years to stated maturity), no-load, SEC-registered money market mutual funds (each approved specifically before use by the District's Board of Commissioners), fully insured or collateralized certificates of deposit from a bank doing business in the State of Texas, local government investment pools as defined by the PFIA having a rating not less than AAA or AAA-m, and A1 or P1 rated commercial paper (stated maturity date of 270 days or fewer from the date of its issuance). The District's investments are accounted for in accordance with Section I50 of the <u>GASB Codification of Governmental Accounting and Financial Reporting Standards</u>.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES, AND NET POSITION- CONTINUED

3. Allowance for Uncollectible Accounts

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 \$146,741 as of December 31, 2017. The balance in the reserve for lease rentals is \$ 0 as of December 31, 2017.

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, 2017, is \$49,267 and \$27,971 for maintenance and operations and debt service respectively, for a total of \$77,238.

4. Inventories and Prepaid Items

Inventories of materials and supplies are stated at cost utilizing the FIFO (first-in, first-out) valuation costing method. The cost of such inventories is reocrded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed ratehr than when purchased.

5. <u>Restricted Assets</u>

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 statement of net position, since their use is limited by applicable bond covenants. Proceeds from the issuance of overweight permits are also classified as restricted assets on the statement of net position, since their use is limited by contract with the State of Texas.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES, AND NET POSITION- CONTINUED

6. Capital Assets

The District's policy defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. Property, plant, and equipment constructed or acquired by purchase is stated at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement are state at acquisition value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life 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.

Depreciation of plant and facilities is computed using the straight-line method. 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> | Life |
|-----------------------------|---------------|
| 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 |

Interest is capitalized on assets acquired with bond proceeds. The amount of interest capitalized is determined by offsetting interest expense incurred from the date of the borrowing until the complication of the project with interest earned on invested proceeds over the same period.

7. Compensated Absences

Compensated absences, which include unpaid accrued vacation and sick leave, are accumulated during employment and are accrued when incurred. Employees can earn vacation at rates of 12 to 18 days per year depending on the length of employment, and may accumulate no more than 30 days at year end. Upon termination or retirement, employees are paid for any unused accumulated vacation days at their current rate of pay up to the 30 day maximum. Unused sick leave at termination or retirement is not paid to the employee.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES, AND NET POSITION- CONTINUED

8. Deferred Compensation Plan

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.

9. Net Position Flow Assumption

Net position represents the residual interest in the District's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of net position that is subject to a legally enforceable restriction on their use. The remaining net position that does not meet the definition of "net invesment in capital assets" or "restricted" are classified as unrestricted.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources, as they are needed.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Retirmenet Plan for Employees of Brownsville Navigation District and additions to/deductions from the Retirement Plan for Employees of Brownsville Navigation District's fiduciary net position have been determined on the same basis as they are reported by the Retirement Plan for Employees of Brownsville Navigation District. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. ASSETS AND DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES, AND NET POSITION- CONTINUED

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pensions consist of the following items:

- Pension contributions after the measurement date These contributions are deferred and recognized the following fiscal year.
- Difference in projected and actual earnings on pension assets This difference is deferred and amortized over a period of five years.
- Difference in expected and actual pension experience This difference is deferred and recognized over the average remaining service life for all active, inactive, and retired members.
- Changes in actuarial assumptions used to determine pension liability This difference is deferred and recognized over the average remaining service life for all active, inactive, and retired members.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows of resources related to pensions that consists of the difference in expected and actual experience. This amount is deferred and recognized over the average remaining service life for all active, inactive and retired members. The District also reports unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

12. 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 certain reported amounts and disclosures. Accordingly, actual results could differ.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. REVENUES AND EXPENSES

1. **Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the entity's ongoing operations. The District's operating revenues for vessel and cargo services are collected from charges assesed pursuant to its tarriffs. These revenues are recognized and accrued during the period earned. Revenues from rental of equipment and facilities are derived from leases of land, a use agreement with respect to railroad rights-of-way, and pipeline licenses. These revenues are recognized during the period earned by accrual or prepayment amortization, as appropriate pursuant to lease agreement terms. Operating expenses include the cost of services, administative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

2. Property Taxes

Property taxes are levied on October 1 in conformity with Subtitle E, Texas Property Tax Code. Property is appraised, and a lien on such property becomes enforceable, as of January 1 of the following year, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Property taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. Cameron County bills and collects property taxes of the District for a fee and remits collections to the District.

Property tax revenues are considered available when they become due or past due and receivable within the current period. Unavailable property tax revenue reported in the deferred inflows section of the statement of net postion represents the property taxes levied on October 1, 2017 for the 2017-2018 fiscal year. The amount will be recognized as revenue on January 1, 2018 when such property taxes are due and attach as an enforcable lien on the property.

3. Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense at December 31, 2017 was \$109,356.

December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. CURRENT YEAR GASB STATEMENT IMPLEMENTATION

For fiscal year 2016-17, the District has adopted and implemented the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 77, Tax Abatement Disclosures – This statement applies to financial reports of all state and local governmental entities and addresses the reduction of tax revenues resulting from an agreement between a government and an individual in which the government forgoes tax revenues and the individual promises to take specific action as a result of the agreement that contributes to the economic development to benefit the government or citizens of the government, and relates to agreements entered into by the reporting government or agreements entered into by other governments that reduce the reporting government's tax revenues. The implementation of this statement requires additional footnote disclosures only. In fiscal year 2017, the District did not have tax abatement agreements that require disclosures in the financial statements.

GASB Statement No. 80, Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14 – The requirements of this statement enhances the comparability of the financial statements among governments. In fiscal year 2017, the District did not have any blended component units under the scope of this Statement.

GASB Statement No. 82, Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73 – This statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements. This statement did not have a significant impact on financial reporting.

G. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As of December 31, 2017, the GASB had issued statements not yet implemented by the District. The statements being evaluated for financial statement impact are as follows:

In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. Management is evaluating the effects that the full implementation of GASB Statement No. 75 will have on its financial statements for the year ended December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - CONTINUED

In January 2017, the GASB issued GASB Statement No. 84, Fiduciary Activities, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. Management is evaluating the effects that the full implementation of GASB Statement No. 84 will have on its financial statements for the year ended December 31, 2019.

In March 2017, the GASB issued GASB Statement No. 85, Omnibus 2017, effective for fiscal years beginning after June 15, 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits OPEB). Management is evaluating the effects that the full implementation of GASB Statement No. 85 will have on its financial statements for the year ended December 31, 2018.

In May 2017, the GASB issued GASB Statement No. 86, Certain Debt Extinguishment Issues, effective for fiscal years beginning after June 15, 2017. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt, improves accounting and financial report for prepaid insurance on debt that is extinguished and improves notes to financial statements for all debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in-substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt was acquired. Management is evaluating the effects that the full implementation of GASB Statement No. 86 will have on its financial statements for the year ended December 31, 2018.

In June 2017, the GASB issued GASB Statement No. 87, Leases, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended December 31, 2020.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - CONTINUED

In April 2018, the GASB issued GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements effective for fiscal years beginning after June 15, 2018. This Statement will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Management is evaluating the effects that the full implementation of GASB Statement No. 88 will have on its financial statements for the year ended December 31, 2019.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District is not legally required to adopt a budget; therefore, comparative statements of budgeted to actual expenses are not included within the financial statements.

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES

A. DEPOSITS AND INVESTMENTS

It is the District's policy for deposits plus accrued interest theron to be 102% secured by collateral valued at fair value, less the amount of the Federal Deposit Insurance Corporation insurance. At December 30, 2017 the District's deposits were entirely covered by federal deposit insurance or were secured by collateral held by the District's agent pursuant to the District's investment policy and its depository agreement.

On August 16, 2017, the District's Commissioners approved a revised Policy and Investment Strategies statement. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the District and conforming to all applicable statutes, bond ordinance requirments, GASB standards, and state statutes. The primary objectives of the District's investment policy are the security of principal, liquidity, diversification and yield. 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.

Unrestricted cash and cash equivalents are composed of the following at December 31, 2017:

| Cash on hand | \$ | 2,600 |
|--|-----------|-------------------|
| Demand deposits | | 16,054,887 |
| Certificates of deposit | _ | <u>22,352,473</u> |
| Total Unrestricted Cash and Cash Equivalents | <u>\$</u> | <u>38,409,960</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

A. DEPOSITS AND INVESTMENTS - CONTINUED

| Restricted cash and cash equivalents are composed of the following at Decemb | er 31, 2017: |
|--|------------------------|
| Demand deposits – Revenue bond funds | \$ 5,482,713 |
| Deman deposits – G.O. bond funds | 1,485,210 |
| Demand deposits – Overweight permits | 9,040 |
| Total Restricted Cash | <u>\$ 6,976,963</u> |
| Restricted investments are composed of the following at December 31, 2017: | |
| Local Government Investment Pool (TexasTERM/TexasDaily) | <u>\$_13,167,546</u> |

In accorance with Section I50 of the <u>GASB Codification of the Governmental Accounting and Financial</u> <u>Reporting Standards</u>, the District measures certificates of deposit at cost.

<u>TexasTERM/TexasDaily</u> – TexasTERM/TexasDaily is local government investment pool. Administrative and investment services to the pool are provided by PFM Asset Management LLC, under an agreement with the TexasTERM Advisory Board and act on behalf of the pool participants. At December 31, 2017, TexasTERM/TexasDaily was rated AAAm by Standard & Poor's. The pool's investments had a weighted average maturity of 36 days.

TexasTERM/TexasDaily meets the criteria of a "qualifying external investment pool" as set forth in Section In5 of the <u>GASB Codification of the Governmental Accounting and Financial Reporting Standards</u> and measures all of their investments at amortized cost; therefore, for financial reporting purposes, the District has measured their investment in this external investment pool at the net asset value (NAV) per share provided by the pool in accordance with Section I50 of the <u>GASB Codification of the Governmental Accounting and Financial Reporting Standards</u>. In addition, the pool does not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pool does not impose any liquidity or redemption gates.

Interest Rate Risk - In accordance with the District's Investment Policy the weighted average to maturity limits the maximum allowable maturity to two years by not exceeding the anticipated cash flow requirements.

Custodial Credit Risk – Deposits – In accordance with the District's Investment Policy, the financial institution must collateralize all funds with a minimum of 102% of the market value of the principal portion. The District seeks to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Investment Policy.

The District signed an agreement with its financial institution pledging funds to 102% minimum of the market value of the principal and accrued interest. At December 31, 2017, all deposits are entirely insured or collateralized by a FHLB Letter of Credit.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

B. RECEIVABLES

Trade and Utility Receivables

Receivables of the District as of December 31, 2017 including the applicable allowances for uncollectible accounts are as follows:

| Accounts receivable – trade | \$ | 2,377,166 |
|--|-----------|----------------|
| Less: allowance for uncollectible accounts | | (146,741) |
| Accounts receivable – utility | _ | <u>248,675</u> |
| | <u>\$</u> | 2,479,100 |
| Accounts receivable – other | <u>\$</u> | 297,915 |

Taxes Receivable

The determination of the balance in the reserve for 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. Taxes receivable, net of estimated uncollectible taxes as of December 31, 2017 consist of the following:

| | Maintenance 8 | ۶. | Debt |
|---------------------------------|-------------------|-------------|----------|
| | Operation (M&C | <u>0)</u> | Service |
| Taxes receivable, gross | \$ 670,251 | . \$ | 648,781 |
| Reserve for uncollectible taxes | (49,267 | <u> </u> | (27,971) |
| Taxes receivable, net | <u>\$ 620,984</u> | <u>1 \$</u> | 620,810 |

Notes Receivable

Notes receivable as of December 31, 2017 consist of the following:

| | Interest <u>Rates</u> | _lssue Date | Issue Matures | Original Issue | Unpaid Principal |
|--|--------------------------|-------------|------------------|-------------------|---------------------|
| 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 | \$ 1,463,610 |
| Less: Current Maturities | | | | | (337,061) |
| Long-term Notes Receivable | | | | | <u>\$ 1,126,549</u> |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

B. RECEIVABLES – CONTINUED

Approximate maturities of notes receivable subsequent to December 31, 2017 are as follows:

| Year | <u>City of Brownsville</u> |
|------|----------------------------|
| 2018 | 337,061 |
| 2019 | 355,600 |
| 2020 | 375,158 |
| 2021 | <u> </u> |
| | \$ 1.463.610 |

C. RESTRICTED ASSETS

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. At December 31, 2017 restricted overweight permit assets are \$9,040.

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.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

C. RESTRICTED ASSETS - CONTINUED

At December 31, 2017, the following assets are restricted assets:

| <u>Revenue Bond Funds (all cash accounts)</u> | |
|--|----------------------|
| Debt reserve fund | \$ 2,487,245 |
| Contingencies fund | 293,267 |
| Construction fund | 394,711 |
| Bond project fund | 242,496 |
| Interest and redemption fund | 2,064,994 |
| Total Revenue Bond Fund Assets | 5,482,713 |
| General Obligation Bond Fund | |
| Cash | 1,485,210 |
| Taxes receivable, net of estimated uncollectible | |
| taxes | <u> </u> |
| Total General Obligation Bond Fund Assets | 2,106,020 |
| Overweight Permit Assets | |
| Cash | 9,040 |
| Capital Projects Fund | |
| Investments | 13,167,546 |
| Total Restricted Assets – District Obligations | <u>\$_20,765,319</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

D. CAPITAL ASSETS

Capital asset activity for the District for the year ended December 31, 2017 was as follows:

| | Balance January 1, 2017 | Additions | Deletions | Reclas- sifications | Balance December 31, 2017 |
|--|-------------------------------|---------------|-------------|------------------------|---------------------------------|
| Capital assets, not being depreciated: | A | • | | | |
| Inland channel and turning basin | \$ 15,324,008 | \$- | \$- | \$ - | \$ 15,324,008 |
| Jetties and jetty canal | 40,036,406 | - | - | • | 40,036,406 |
| Land | 9,934,753 | 1,831 | - | • | 9,936,584 |
| Easements | 20,760 | - | - | - | 20,760 |
| Construction in progress | 6,700,000 | 18,794,464 | (2,012) | (1,894,702) | 23,597,750 |
| Total capital assets, not being depreciated | 72,015,927 | 18,796,295 | (2,012) | (1,894,702) | 88,915,508 |
| Capital assets, being depreciated: | | | | | |
| Docks and appurtenances | 72,603,221 | - | - | - | 72,603,221 |
| Water and sewer systems | 11,166,578 | - | - | 317,227 | 11,483,805 |
| Railroads | 7,542,279 | - | - | - | 7,542,279 |
| Railway from component unit | 3,731,666 | - | - | - | 3,731,666 |
| Land improvements and roads | 37,951,014 | 83,023 | (31,250) | 1,525,004 | 39,527,791 |
| Administration building | 751,354 | - | - | - | 751,354 |
| Industrial equipment | 9,944,147 | 764,936 | (29,527) | - | 10,679,556 |
| Furniture and equipment | 1,237,676 | 77,290 | • | 52,471 | 1,367,437 |
| Intangible assets | 5,895,274 | - | - | - | 5,895,274 |
| Total capital assets, being depreciated | 150,823,209 | 925,249 | (60,777) | 1,894,702 | 153,582,383 |
| Less accumulated depreciation for: | | | | | |
| Docks and appurtenances | (31,584,597) | (1,409,719) | - | - | (32,994,316) |
| Water and sewer systems | (7,925,736) | (284,669) | - | - | (8,210,405) |
| Railroads | (4,194,097) | (103,310) | - | - | (4,297,407) |
| Railway from component unit | (264,557) | (95,161) | - | - | (359,718) |
| Land improvements and roads | (17,277,875) | (2,501,455) | - | - | (19,779,330) |
| Administration building | (674,555) | (18,783) | - | - | (693,338) |
| Industrial equipment | (5,328,325) | (850,715) | 29,527 | - | (6,149,513) |
| Furniture and equipment | (892,758) | (210,198) | - | • | (1,102,956) |
| Intangible assets | (4,440,000) | - | - | - | (4,440,000) |
| Total accumulated depreciation | (72,582,500) | (5,474,010) | 29,527 | • | (78,026,983) |
| Total capital assets, being depreciated, net | 78,240,709 | (4,548,761) | (31,250) | 1,894,702 | 75,555,400 |
| Total capital assets, net | \$ 150,256,636 | \$ 14,247,534 | \$ (33,262) | <u>\$.</u> | \$ 164,470,908 |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

E. LONG-TERM DEBT

Changes in long-term obligations for the year ended December 31, 2017 are as follows:

| | Balance Outstanding January 1, 2017 | Additions | Deletions | Balance Outstanding December 31, 2017 | Due Within One Year |
|-----------------------------------|---|---------------------------------------|----------------|---|------------------------|
| Bonds Payable: | | · · · · · · · · · · · · · · · · · · · | | | |
| Revenue Bonds - First Lien | \$ 40,045,000 | \$- | \$ (1,465,000) | \$ 38,580,000 | \$ 1,530,000 |
| Plus: Premium on Series 2016 | 1,835,062 | | (73,404) | 1,761,658 | - |
| Less: Unamoritzed discounts | (167,228) | | 167,228 | - | - |
| General Obligation Bonds | 5,920,000 | - | (2,180,000) | 3,740,000 | 780,000 |
| Plus: Premium on capital | | | • • | | |
| appreciation bonds | 1,069 | - | (1,069) | - | - |
| Total bonds payable | 47,633,903 | - | (3,552,245) | 44,081,658 | 2,310,000 |
| Accrued Compensated Absences | 239,539 | 7,193 | - | 246,732 | 246,732 (1) |
| Total long-term debt | \$ 47,873,442 | \$ 7,193 | \$ (3,552,245) | \$ 44,328,390 | \$ 2,556,732 |

⁽¹⁾ included in accrued liabilities of \$1,508,989

Revenue Bonds

| | Interest | Issue | Issue | Original | Unpaid |
|------------------------------|---------------|-------------|----------------|--------------|---------------------|
| | <u>Rates</u> | <u>Date</u> | <u>Matures</u> | Issue | <u>Principal</u> |
| Series 2002A | 3.38% - 4.80% | 07-10-02 | 2022 | \$ 1,790,000 | \$ 625,000 |
| Series 2002B | 3.38% - 4.80% | 07-10-02 | 2022 | 1,900,000 | 650,000 |
| Series 2011 | 3.01% | 10-24-11 | 2021 | 2,390,000 | 1,140,000 |
| Series 2012 | 3.19% | 12-27-12 | 2038 | 10,000,000 | 9,220,000 |
| Series 2016 | 5.00% | 02-09-16 | 2040 | 27,580,000 | 26,945,000 |
| | | | | | \$38,580,000 |
| Plus: Premium on Series 2016 | | | | | 1,761,658 |
| Less: Current maturities | | | | | (1,530,000) |
| | | | | | <u>\$38,811,660</u> |

The series 2002A, 2002B, 2011, and 2012 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

E. LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

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.

On February 9, 2016, the District issued \$27,580,000 in Senior Lien Revenue Bonds, Series 2016. Proceeds from the sale of the bonds will be used to (i) provide funds for acquiring constructing, enlarging, extending, repairing, maintaining, operating, or developing District facilities, (ii) make a deposit to a bond reserve fund, and (iii) pay costs related to other issuance of the Bonds.

General Obligation Bonds

| | Interest Rates | lssue Date | Issue <u>Matures</u> | Original Issue | Unpaid <u>Principal</u> |
|--------------------------|-------------------|---------------|-------------------------|-------------------|----------------------------|
| Series 2008A | 3.42% | 05-01-08 | 2018 | 5,145,000 | \$ 105,000 |
| Series 2011 | 3.40% | 12-02-11 | 2020 | 4,805,000 | 1,255,000 |
| Series 2013 | 1.89% | 03-11-13 | 2023 | 3,830,000 | 2,380,000 |
| | | | | | \$ 3,740,000 |
| Less: Current maturities | | | | | (780,000) |
| | | | | | <u>\$ 2,960,000</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:

"... 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, 2017 are as follows:

| Purpose | Amount Authorized | lssued <u>To-Date</u> | <u>Unissued</u> |
|---------------------|----------------------|--------------------------|-----------------|
| Bridge construction | \$21,000,000 | \$13,000,000 | \$8,000,000 |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

E. LONG-TERM DEBT - CONTINUED

General Obligation Bonds – Continued

The bonds are 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.

Annual maturities of debt subsequent to December 31, 2017, are as follows:

| Year Ending | Revenue Bonds | | General Oblig | | gation Bonds | | | |
|--------------|---------------|------------|---------------|------------|--------------|-----------|----|----------|
| December 31, | | Principal | | Interest | | Principal | _ | Interest |
| 2018 | \$ | 1,530,000 | \$ | 1,456,771 | \$ | 780,000 | \$ | 80,804 |
| 2019 | Ŧ | 1,605,000 | • | 1,398,830 | Ŧ | 855,000 | Ŧ | 58,736 |
| 2020 | | 1,665,000 | | 1,338,312 | | 880,000 | | 35,130 |
| 2021 | | 1,730,000 | | 1,275,238 | | 1,225,000 | | 35,012 |
| 2022-2026 | | 6,965,000 | | 5,479,410 | | - | | - |
| 2027-2031 | | 7,785,000 | | 3,858,751 | | - | | • |
| 2032-2036 | | 9,495,000 | | 2,273,629 | | - | | - |
| 2037-2041 | | 7,805,000 | | 494,672 | | - | | - |
| Total | \$ | 38,580,000 | \$ | 17,575,613 | \$ | 3,740,000 | \$ | 209,682 |

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:

| Revenue bonds | \$ 483,595 | |
|--------------------------|-------------------|--|
| General obligation bonds | <u> </u> | |
| | <u>\$ 604,983</u> | |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

F. OPERATING LEASES

The District leases its property, buildings, and rail spurs to various tenants under operating lease agreements. As of December 31, 2017, future minimum rentals anticipated to be received by the District under the operating leases with initial or remaining non-cancellable lease terms in excess of one year are as follows:

| Year Ending | are Minimum ase Rentals |
|-------------|----------------------------|
| 2018 | \$ 8,280,709 |
| 2019 | \$ 6,988,684 |
| 2020 | \$ 7,093,514 |
| 2021 | \$ 7,199,917 |
| 2022 | \$ 7,307,916 |

The District's Leasing Policies provide for annual increases in lease rental rates that correspond to the annual Consumer Price Index (CPI).

G. PENSION PLAN

Plan Description

Brownsville Navigation District sponsors a public single employer defined benefit pension plan for eligible employees. Brownsville Navigation District serves as plan administrator. The plan's assets are invested in a trust fund overseen by named individual co-trustees with Morgan Stanley serving as trust custodian and investment advisor. Amendments to the plan are made only with the authority of the Board of Commissioners. The plan does not issue a stand-alone financial report. However, an annual actuarial valuation report is available from Brownsville Navigation District. That report may be obtained by writing Brownsville Navigation District at 1000 Faust Road, Brownsville, Texas 78521.

The Board of Commissioners of Brownsville Navigation District has sole authority to establish or amend the obligations to contribute to the plan by participants or the employer.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

Benefits Provided

The Retirement Plan for Employees of Brownsville Navigation District provides retirement, disability, and death benefits. Amended pre-2010 retirement benefit provisions for grandfathered employees provide retirement benefits which are calculated as 1.05% of the employee's 5-year average compensation as of December 31, 2009 times the employee's years of service as of December 31, 2009. Post-2009 cash balance plan provisions for non-grandfathered participants provide retirement benefits which are calculated as the sum of the employee's Beginning Balance Subaccount, Employee Contribution Subaccount, Employer Matching Subaccount, and Cash Balance Conversion Retirement Supplement Account. Grandfathered employees are those who were not an employee after 2009. Participants with 10 years of service are eligible to retire at age 55. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. Death benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. An employee who leaves the employer's service may withdraw his or her contributions, plus an accumulated interest.

Employees Covered by Benefit Terms

As of January 1, 2017, the following numbers of employees were covered by the benefit terms:

| Inactive employees or beneficiaries currently receiving benefits | 33 |
|--|------------------|
| Inactive employees entitled to but not yet receiving benefits | 47 |
| Active employees | <u>98</u> 178 |

Contributions

The Board of Commissioners has the sole authority to establish and amend the contribution requirements of the active employees. The required employer contributions are based on an actuarially-determined rate recommended by an indepenent actuary. The actuarially-determined employer contribution rate is the established amount necessary to finance the costs of employer provided benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the actuarially-determined employer contribution rate apart from the contribution rate of employees. For the employer fiscal year ended December 31, 2016, the average active employee contribution rate (for the period between the two most recent measurement dates) was 4.00% of annual pay, and the employer's actuarially-determined contribution rate was 10.25% of annual payroll.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

<u>Contributions</u> – Continued

The employer contribution is presently 10.25% of annual participant payroll and will remain at that level as long as the amount is sufficient to pay the Employer Normal Cost and amortize the Unfunded Actuarial Liability (Net Pension Liability) over a period of not more than 25 years. The contribution policy for the plan is as follows:

The plan will experience economic and demographic gains and losses over time that may affect the employer contribution rate. In addition, the employer contribution rate may be affected by material changes made to plan provisions or valuation assumptions from time to time. To help mitigate the frequency at which a change in the employer contribution rate would be required due to gains and losses or changes in valuation assumptions, based on the methodology first adopted by the District beginning with the 2003 plan year for determining recommended plan funding requirements, the plan's actuary will not recommend that the District change the scheduled employer contribution rate for the plan until: (i) there is a change in the actuarial liability cost method, (ii) the plan's trust does not have sufficient assets to pay the plan's normal cost plus expected benefit payments for the year, (iii) the plan is amended, or (iv) the scheduled employer contribution rate is no longer sufficient to both fund the plan's normal cost and amortize the plan's unfunded actuarial liability over a period between 10 years and 25 years. If one of these events occur, the adopted methodology would require the employer contribution rate to be "reset" so that the unfunded actuarial liability is amoritized over a period of 15 years beginning in that valuation year. The prevailing employer contribution rate is applied to Total District Payroll for the year (as estimated by the District) to determine the total employer contribution for the year.

Pension Plan Investments

Investment policy decisions are established and maintained by Brownsville Navigation District in consultation with the plan's investment advisors.

The annual money weighted rate of return on pension plan investments, net of expenses, which expresses net invesment performance adjusted for changing amounts actually invested each month was (0.5)% for the 12 months ended December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES – CONTINUED

G. PENSION PLAN - CONTINUED

Pension Plan Investments - Continued

The returns, computed as above, for the preceeding 10 years*, is shown in the table below:

| 12 Months Ended | Annual Money Weighted <u>Net Rate of Return</u> |
|-----------------|---|
| 12/31/2016 | 3.90% |
| 12/31/2015 | (0.5)% |
| 12/31/2014 | 2.8% |
| 12/31/2013 | 17.1% |
| 12/31/2012 | 9.9% |
| | |

* This table is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Net Pension Liability

The Employer's net pension liability reported for the fiscal year ending December 31, 2017 was measured as of January 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that same date.

1. Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| Inflation | 3.0% |
|---------------------------|---|
| Salary increases | 4.5%, including inflation |
| Investment rate of return | Net of pension plan investment expenses, including inflation - Pre-decrement 6.75% - Post-decrement 6.00% |

Mortality rates were based on the Society of Actuaries RP-2014 Blue Collar Mortality Tables (adjusted from the 2006 base year) and projected using Scale MP-2016 mortality improvement rates.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

1. Actuarial Assumptions - Continued

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period 2006-2014.

There have been no changes made to the actuarial assumtpions since the prior valuation.

The Statement of Investment Policy for the pension plan trust creates two subaccounts in the Cash Balance Investments Subaccount and the Annuity Financing Investment Subaccount. Each subaccount has its own goals, investment guidelines and asset allocation guidelines.

For each investment subaccount, the long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by additing expected inflation (3.00%). In addition, the final assumption reflects a reduction of 1.00% for investment expenses. For each investment subaccount, the target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following tables:

| Cash Balance Investment Subaccount | | | | |
|------------------------------------|------------|----------------|--|--|
| | | Long-Term | | |
| | Target | Expected Real | | |
| Asset Class | Allocation | Rate of Return | | |
| Equity | 70% | 5.57% | | |
| Fixed income | 20% | 4.15% | | |
| Cash | 10% | 1.25% | | |
| Total Weighted Average | 100% | 4.83% | | |

| Annuity Finan | icing Investment Subac | count |
|------------------------|------------------------|----------------|
| | | Long-Term |
| | Target | Expected Real |
| Asset Class | Allocation | Rate of Return |
| Equity | 0% | 5.57% |
| Fixed income | 95% | 4.15% |
| Cash | 5% | 1.00% |
| Total Weighted Average | 100% | 3.99% |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

2. Discount Rate

The discount rate used to measure the total pension liability was 6.75% pre-decrement and 6.00% postdecrement, resulting in an effective discount rate of 6.19% based on the January 1, 2017 plan census and actuarial assumptions. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the longterm expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

| | Increase (Decrease) | | | | |
|--|---------------------|---------------------------------|----|------------------------------------|---------------------------------------|
| | То | tal Pension Liability (a) | | an Fiduciary et Position (b) | Net Pension Liability (a) - (b) |
| Balance at January 1, 2016 ¹ | \$ | 8,442,870 | \$ | 4,020,756 | \$4,422,114 |
| Changes for the year: | | | | | |
| Service cost | | 323,872 | | | 323,872 |
| Interest | | 527,951 | | | 527,951 |
| Differences between expected and actual experience | | (57,185) | | | (57,185) |
| Contributions - employer | | | | 471,622 | (471,622) |
| Contributions - employee | | | | 174,251 | (174,251) |
| Net investment income ² | | | | 160,560 | (160,560) |
| Benefit payments, including refunds of employee | | | | | |
| contributions | | (482,541) | | (482,541) | - |
| Administrative expenses | | - | | - | - |
| Assumption changes | | - | | | - |
| Net changes | | 312,097 | | 323,892 | (11,795) |
| Balances at January 1, 2017 ³ | \$ | 8,754,967 | \$ | 4,344,648 | \$4,410,319 |

Changes in the Net Pension Liability

¹ Information for the fiscal year ended December 31, 2016 was taken as of the measurement date of January 1, 2016 as permitted by GASB Cod. Sec. 1500.

² Net of investment expense but not administrative expense per GASB Cod. Sec. 1500. Guide to Implementation.

³ Information for the fiscal year ended December 31, 2017 was taken as of the measurement date of January 1, 2017 as permitted by GASB Cod. Sec. 1500.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

Changes in the Net Pension Liability - Continued

1. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Employer, calculated using an effective discount rate of 6.17% (based on pre-decrement and post-decrement assumptions of 6.75%/6.00% and the January 1, 2017 plan census and actuarial assumptions), as well as what the Employer's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.17%) or 1-percentage-point higher (7.17%) than the current rate:

| Employer's Net Pension Liability | \$ | 5,434,198 | \$ | 4,410,319 | \$ | 3,571,091 |
|----------------------------------|----|--|----|-----------|----|-----------|
| | 19 | L% Decrease Discount Increase (5.17%) Rate (6.17%) (7.17%) | | | | |
| | | | | Effective | | 1% |
| | | | | Current | | |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2017, the Employer recognized pension expense of \$595,763.

1. Components of Pension Expense for the Fiscal Year Ended December 31, 2017

| Service cost | \$ 323,872 |
|--|---------------|
| Interest on the total pension liability | 527,951 |
| Amortization of differences between expected and actual experience | 8,189 |
| Amortization of changes of assumptions ¹ | 74,501 |
| Employee contributions | (174,251) |
| Projected earnings on pension plan investments | (277,570) |
| Amortization of differences between projected and actual earnings on plan investments ² | 113,071 |
| Total pension expense | \$ 595,763 |

At December 31, 2017³, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources listed on the next page.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

1. Components of Pension Expense for the Fiscal Year Ended December 31, 2017 - Continued

- ¹ GASB Cod. Sec. 1500. amortized over a straight-line closed period equal to the average remaining service period for all employees (active and inactive) who are provided with benefits through the pension plan. (4.07 years as of January 1, 2016 and 4.14 years as of January 1, 2017.)
- ² GASB Cod. Sec. 1500. amortized over a straight-line closed 5-year period.
- ³ Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

2. <u>Balances as Deferred Outflows of Resources and Deferred Inflows of Resources as of</u> <u>December 31, 2017</u>

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | | |
|---|--------------------------------------|---------|-------------------------------------|--------|--|
| Differences between expected and actual experience | \$ | 80,113 | \$ | 61,238 | |
| Changes of assumptions | | 82,225 | | - | |
| Net difference between projected and acutal earnings on | | | | | |
| pension plan investments | | 333,823 | | - | |
| Total excluding post-measurement date contributions | \$ | 496,161 | \$ | 61,238 | |
| Contributions made between measurement date and end of | | | | | |
| reporting period | | 455,766 | | - | |
| Total including post-measurement date contributions | \$ | 951,927 | \$ | 61,238 | |
| | - | | | | |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

3. <u>Changes in Deferred Outflows of Resources and Deferred Inflows of Resources</u>

| | Change in Deferred Outflows of Resources | | | Change in Deferred Inflows of Resources | | |
|---|---|----------------|-------|--|-------------|--|
| Differences between expected and actual experience Changes of assumptions Net difference between projected and acutal earnings on | \$ | (38,3 (74,9 | • | \$ | 26,673 - | |
| pension plan investments | | 3,9 | 939 | | • | |
| Total | \$ | (109,2 | 263) | \$ | 26,673 | |
| 4. Change in Balance Sheet Items | | | | | | |
| Change in Net Pension Liability | | \$ | (11,7 | 95) | | |
| Change in deferred outflows | | | 109,2 | 63 | | |
| Change in deferred inflows | | | 26,6 | 73 | | |
| Employer contributions | | | 471,6 | 22 | | |
| Total pension expense | | \$ | 595,7 | 63 | | |

Contributions made after the measurement date of January 1, 2017 and before the Fiscal Year End of December 31, 2017 totaled \$455,766 and are illustrated on table 2. Those amounts are to be recognized as deferred outflows. Those amounts are not reflected in table 3 & 4 above, as these tables illustrate changes between the two measurements dates, than contributions made subsequent to the measurement date.

Amounts reported as Deferred Outflows/(Inflows) of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | | Amount |
|---------------------------|----|---------|
| 2018 | \$ | 195,761 |
| 2019 | · | 144,340 |
| 2020 | | 73,353 |
| 2021 | | 21,469 |
| 2022 | | 0 |
| Thereafter | | 0 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

Payable to the Pension Plan

At December 31, 2017, the Employer does not have any required contributions payable to the pension plan for the 2017 plan year.

Actuarial Methods

1. Actuarial Funding Method

The entry Age Normal actuarial funding method is used in determining the Total Pension Liability for the plan. This is a cost method under which the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to to a valuation year is called the ServiceCost (or Normal Cost). The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the total Pension Liability.

2. Market Value of Assets (Plan Fiduciary Net Position)

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 Assumptions

1. <u>Mortality</u>: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

| а. | Pre-retirement Mortality: | RP-2014 Blue Collar Table projected to 2006 and projected using the Scale MP-2016 mortality improvement rates |
|----|----------------------------|---|
| b. | Post-retirement Mortality: | RP-2014 Blue Collar Table projected to 2006 and projected using the Scale MP-2016 mortality improvement rates |
| c. | Post-disability Mortality: | RP-2014 Disabled Retiree Table adjusted to 2006 and projected using Scale MP-2016 mortality improvement rates |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued

2. <u>Withdrawal</u>: 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.

| Attained Age | Terminations per 1,000 Participants |
|--------------|--|
| 25 | 172 |
| 30 | 158 |
| 35 | 137 |
| 40 | 113 |
| 45 | 84 |
| 50 | 51 |

3. <u>Investment Return</u>: Current and future plan assets in the Trust's Investment Subaccounts are assumed to reflect an investment return net of expenses as follows:

| а. | Cash Balance Investment Subaccount: | 6.75% |
|----|--|-------|
| b. | Annuity Financing Investment Subaccount: | 6.00% |

- 4. <u>Expected Plan-Related Expenses</u>: Plan-related expenses, which are accounted for by a reduction in the Cash Balance Interest Crediting Rate, are expected to be equal to an amount that represents a 100-basis point reduction in the gross investment return for the Cash Balance Investment Subaccount.
- 5. <u>Assumed Cash Balance Interest Crediting Rate</u>: The annual rate of gross investment return for the Trust's Cash Balance Investment Subaccount reduced for expected plan-related expenses.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

G. PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued

6. <u>Earnings Progression</u>: The increase in the levels of participant compensation is assumed to occur in accordance with normal rates as illustrated below:

| Attained Age | Rate of Increase |
|--------------|------------------|
| | |
| 20 | 6.00% |
| 25 | 6.00% |
| 30 | 5.50% |
| 35 | 5.00% |
| 40 | 4.50% |
| 45 | 4.00% |
| 50 | 3.50% |
| 55 | 3.25% |
| 60+ | 3.00% |
| | |

- 7. <u>Retirement Age</u>: 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.
- 8. <u>Disability</u>: Active participants are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below:

| | Disabilities per |
|--------------|--------------------|
| Attained Age | 1,000 Participants |
| | |
| 20 | 1.3 |
| 25 | 1.6 |
| 30 | 2.2 |
| 40 | 4.3 |
| 50 | 11.8 |
| 60 | 26.0 |

9. <u>Recognition of IRC Section 415 Limitations</u>: The limitations under IRC Section 401(a)(17) and 415(b) have been reflected in the determination of plan costs.

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES – CONTINUED

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

G. PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued

10. Growth in Aggregate Participant Payroll: 4.50% per year.

11. Assumed Form of Payment:

| | | Cash Balance Subaccount | | | | | | | | |
|---------------------|--|-------------------------|-----------|------------|--|--|--|--|--|--|
| | Beginning Employee | | Employer | Retirement | | | | | | |
| Decrement | Balance | Contribution | Match | Supplement | | | | | | |
| | 50% Immediate | 50% Immediate | Immediate | | | | | | | |
| Retirement | Annuity/50% Lump Sum Annuity/50% Lump Sum Annu | | | | | | | | | |
| Disability | Lui | | | | | | | | | |
| Preretirement Death | Lui | mp Sum | | | | | | | | |
| Vested | 40% Deferred | 40% Deferred | Deferred | | | | | | | |
| Termination | Annuity/60% Lump Sum | Annuity/60% Lump Sum | Annuity | N/A | | | | | | |
| Non-Vested | | | | | | | | | | |
| Termination | N/A | Lump Sum | N/A | | | | | | | |

H. CAPITAL LEASES

The District entered into a capital lease agreement in 2014 as lessor for financing certain real estate assets previously owned by their disolved component unit (BRG) that was sold to a privately owned company. The lease agreement qualified as a capital lease for accounting purposes and, therefore, had been recorded at the net present value of future minimum lease payments receivable at the inception of the lease.

The net present value of these minimum lease payments as of December 31, 2017, are as follows:

| Year | |
|--|-------------------|
| 2018 | 128,571 |
| 2019 | 128,571 |
| 2020 | 128,571 |
| 2021 | 85,714 |
| Total minimum lease payments receivable | |
| | 471,427 |
| Less: interest amount | (27,571) |
| Present value of lease payments receivable | |
| | <u>\$ 443,856</u> |

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES – CONTINUED

I. 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 2.1% 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 2.1%. Billings from the Authority in the amounts of \$142,412 for expenses for fiscal year ended September 20, 2017 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, 2017, were \$28,455,000.

J. RISK MANAGEMENT

The District is exposed to risk of financial loss from fire, windstorm, explosion and other perils that could damage or destroy assets and properties and cause loss of income should assets and properties be shut down for an extended period of time. The District is also exposed to third-party bodily injury and property damage claims arising from the operation and ownership of its properties. The District is a member of the Texas Municipal League Risk Pool to protect itself from these types of losses and carries windstorm coverage through the Texas windstorm Insurance Association of the State of Texas. Exposure risks also include risk of losses resulting from on-the-job injuries sustained by employees; the District carries coverage for these losses through the Texas Municipal League Risk Pool.

1. Workers' Compensation Program

The District has a workers' compensation plan through its participation in the Texas Municipal League Risk Pool. This plan provides medical and indemnity payments as required by law for on-the-job injuries. The District pays an annual premium which is based on estimated payrolls and is subject to an audit and adjustment at the end of each year. There is no liability for workers' compensation claims outside of the payment of the premium for the coverage.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

J. RISK MANAGEMENT - CONTINUED

2. Health Insurance Program

The District provides a group health insurance plan through a commercial insurance company for all it's fulltime employees. Coverage under the plan for employees' dependents is available, but is not provided by the District. There is no liability for health claims outside of the payment of the premium for coverage. Amounts of settlements did not exceed insurance coverage in each of the past three years.

K. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction Commitments

The District has active construction projects and commitments as of December 31, 2017. These projects commitments include the following:

| Projects | Spent to Date | | Commitment Remaining | | |
|-----------------------------------|---------------|------------|-------------------------|------------|--|
| New Liquid Cargo Dock #6 | \$ | 9,177,789 | \$ | 11,916,033 | |
| Liquid Cargo Dock #3 Enhancements | | 511,095 | | 1,755,861 | |
| Maintenance Dredging | | 1,278 | | 1,034,151 | |
| Administrative Building Rehab. | | 3,940,550 | | 3,292,512 | |
| Waterline Relocation | | 24,782 | | 421,927 | |
| Total | \$ | 13,655,494 | \$ | 18,420,484 | |

L. CONTINGENCIES

The District participates in various federal grant programs which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the District's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agency cannot be determined at this time, although the District anticipates such amounts, if any will be immaterial.

The District is currently involved in various claims and litigation. It is the opinion of management and counsel that potential claims against the District not covered by insurance resulting from litigation would not materially affect the financial position or operations of the District.

NOTES TO THE FINANCIAL STATEMENTS December 31, 2017

NOTE 3. DETAILED NOTES ON ALL ACTIVITIES - CONTINUED

M. PRIOR PERIOD ADJUSTMENT

During the current fiscal year the District corrected a prior year overstatement of the lease rental reserve. The prior period adjustment resulted in an increase of \$227,359 to the beginning net position balance.

The District also corrected a prior year understatement of capital contributions related to the channel deepening project. The prior period adjustment resulted in an increase of \$225,004 to the beginning net position.

The beginning net position reflects a net increase of \$22,993 to correct prior year understatements of bond issuance costs and prepaid bond insurance amounts associated with prior year bond issuance.

N. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, Brownsville Navigation has evaluated the transactions for potential recognition through July 20, 2018, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS^{1,2} (Dollar amounts in thousands)

| | 2017 | | 2016 | | 2015 |
|--|-------------|----|---------|----|---------|
| 1 Total Pension Liability ³ | | | | | |
| a. Service cost | \$ 324 | \$ | 243 | \$ | 205 |
| b. Interest | 528 | | 517 | | 496 |
| c. Changes in benefit terms | - | | - | | - |
| d. Differences between expected and actual experience | (57) | | 158 | | (68) |
| e. Changes of assumptions | - | | 10 | | 293 |
| f. Benefit payments, including refunds of employee contributions | (483) | | (330) | | (375) |
| g. Net Change in total Pension Liability | 312 | | 598 | | 551 |
| h. Total Pension Liability - Beginning | 8,443 | | 7,845 | | 7,294 |
| i. Total Pension Liability - Ending | 8,755 | _ | 8,443 | _ | 7,845 |
| | | | | | |
| 2 Plan Fiduciary Net Position | | | | | |
| a. Contributions - employer | 472 | | 443 | | 408 |
| b. Contributions - employee | 174 | | 161 | | 148 |
| c. Net investment income | 161 | | (18) | | 102 |
| d. Benefit payments, including refunds of employee contributions | (483) | | (330) | | (375) |
| g. Net Change in Plan Fiduciary Net Position | 324 | | 256 | | 283 |
| h. Plan Fiduciary Net Position - Beginning | 4,021 | | 3,765 | | 3,482 |
| i. Plan Fiduciary Net Position - Ending | 4,345 | | 4,021 | | 3,765 |
| 3 Employer's Net Pension Liability - Ending [Item 1(i) - 2(i)] | \$ 4,410 | \$ | 4,422 | \$ | 4,080 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension 4 Liability | 49.63% | | 47.63% | | 47.99% |
| 5 Covered-Employee Payroll ⁴ | \$ 4,018 | \$ | 4,289 | \$ | 3,789 |
| Employer's Net Pension Liability as a Percentage of Covered- 6 Employee Payroll | 109.76% | | 103.10% | | 107.68% |

Notes to Schedule:

¹ This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

² Information is presented using a January 1, 2017 measurement date as permitted under GASB Cod. Sec. 1500.

³ No change in actuarial assumption.

⁴ Total compensation (not just pensionable compensation, if different) based on census used in the valuation.

SCHEDULE OF EMPLOYER CONTRIBUTIONS Last 10 Fiscal Years¹ (Dollar amounts in thousands)

| | | FYE 2017 | FYE 2016 | | FYE 2015 | | FYE 2014 |
|---|---|-------------|-------------|--------------|-------------|----------|-------------|
| 1 | Actuarially determined contribution | \$ 455 | \$ 468 | \$ | 440 | \$ | 400 |
| 2 | Contributions in Relation to the Actuarially Contribution | 456 | 472 | , | 443 | <u> </u> | 408 |
| 3 | Contribution Deficiency/(Excess) | (1) | (4) | | (3) | | (8) |
| 4 | Covered-Employee ² | \$ 4,438 | \$ 4,569 | \$ | 4,297 | \$ | 3,898 |
| 5 | Contributions as a Percentage of Covered-Employee Payroll | 10.27% | 10.33% | | 10.31% | | 10.47% |

Notes to Schedule for current fiscal year: Valuation Date: January 1, 2017

Actuarially determined contributions rates are calculated as of January 1, 2017, which is the most recent valuation date prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| Actuarial cost method Amortization method | Entry age Level percentage of payroll, open | | | | |
|--|---|--|--|--|--|
| Remaining amortization peirod | 15 years | | | | |
| Asset valuation method | 5-year smoothed market | | | | |
| Inflation | 3.0% | | | | |
| Salary increases | 4.5%, average, including inflation | | | | |
| Investment rate of return | Net of pension plan investment expenses, including inflation - pre-decrement 6.75% - post-decrement 6.00% | | | | |
| Retirement age | 65 | | | | |
| Mortality | RP-2014 Blue Collar Total Employee Mortality Table (adjusted from the 2006 base year) and projected using Scale MP-2016 mortality Improvement rates | | | | |

¹ This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

² Estimated payroll provided by Brownsville Navigation District as of the beginning of the fiscal year.

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OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING EXPENSES (Depreciation expense omitted) For the Year Ended December 31, 2017

| Wages | \$ | 4,536,140 |
|-----------------------------|----|------------|
| Payroll taxes | • | 342,292 |
| Net pension expense | | 595,763 |
| Services | | 347,596 |
| Materials | | 829,442 |
| Utility | | 916,411 |
| Insurance | | 1,370,712 |
| Dues | | 65,108 |
| Legal and auditing | | 508,004 |
| Consulting fees | | 690,283 |
| Supplies | | 75,099 |
| Computer expense | | 494,385 |
| Employee expense | | 118,848 |
| Other expense | | 70,936 |
| Contract rental and repairs | | 17,605 |
| Travel | | 191,537 |
| Advertising | | 109,356 |
| Safety | | 13,910 |
| Shop cost of sales | | 42,729 |
| Land lease | | 936,226 |
| Promotional expenses | | 104,425 |
| Total Operating Expenses | \$ | 12,376,807 |

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STATISTICAL SECTION (Unaudited)

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Statistical Section

This part of the Brownsville Navigation District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosure, and required supplementary information says about the District's overall financial health.

| CONTENTS | PAGE |
|---|---------|
| Financial Trends These schedules contain trend information to help the reader understand how the District's financial performance and well being has changed over a period of time. | 72 – 73 |
| Revenue Capacity These schedules contain information to help the reader assess the District's local revenue source. | 74 – 81 |
| Debt Capacity These schedules present information to help the reader assess the District's debt burden and its ability to issue additional debt in the future. | 82 – 85 |
| Demographic and Economic Information This schedule offers demographic and economic indicators to help the reader understand the environment in which the District's financial activities take place. | 86 - 88 |
| Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs. | 89 – 93 |

Source: Unless otherwise noted, the information in these schedules was obtained from the basic financial statements for the relevant years.

This is the seventh year the Brownsville Navigation District prepared a Comprehensive Annual Financial Report that includes statistical information. The District has reported ten years of information whenever the data was readily available.

Financial Trends

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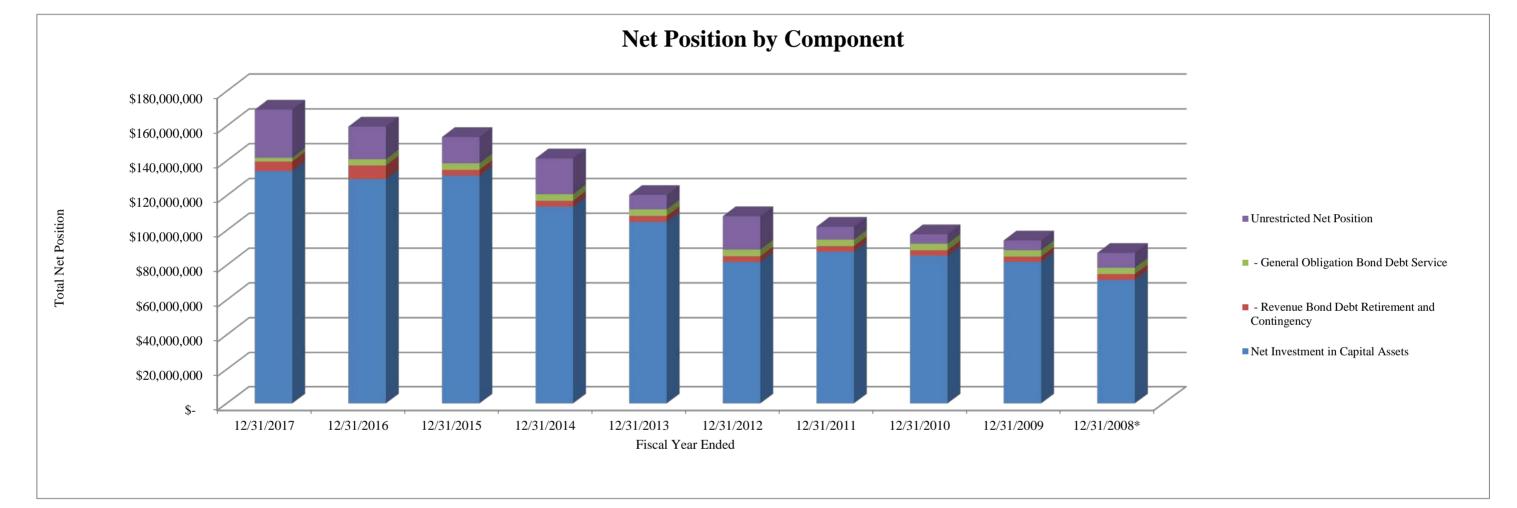
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Brownsville Navigation District of Cameron County, Texas

Net Position by Component

Last Ten Fiscal Years (Accrual Basis of Accounting) (Unaudited)

| | | | | | F | Fiscal Year Ended | | | | | | | | |
|--|-------------------|----------------------|---------|-----------|----------------------|-------------------|----------------------|--------|---------|----|---------------|-------------------|----------------------|-------------|
| | 12/31/2017 | 12/31/2016 | 12/31/2 | 015 | 12/31/2014 | 12/31/2013 | 12/31/2012 | 12/31/ | 2011 | 1 | 2/31/2010 | <u>12/31/2009</u> |) | 12/31/2008* |
| Enterprise Fund | | | | | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 134,087,674 | \$ 129,439,065 \$ | 13 | 1,432,039 | \$ 113,617,071 \$ | 104,822,625 | \$ 81,820,846 \$ | 87, | 750,239 | \$ | 85,432,090 \$ | 81,853,9 | 912 \$ | 71,486,406 |
| Restricted Net Position for: | | | | | | | | | | | | | | |
| - Revenue Bond Debt Retirement and Contingency | 5,482,713 | 7,852,103 | | 3,333,159 | 3,362,698 | 3,477,755 | 3,295,001 | 3, | 187,128 | | 3,143,836 | 3,071,7 | 700 | 3,391,345 |
| - General Obligation Bond Debt Service | 2,106,020 | 3,565,749 | | 3,777,243 | 3,750,580 | 3,755,986 | 3,818,754 | 3, | 700,291 | | 3,722,999 | 3,665,6 | 527 | 3,612,104 |
| Unrestricted Net Position | 27,708,357 | 18,753,841 | 1 | 5,068,760 | 20,614,818 | 8,260,167 | 19,177,471 | 7, | 394,664 | | 5,406,303 | 5,583,2 | 275 | 8,524,353 |
| Total Enterprise Fund Net Position | \$ 169,384,764 | \$ 159,610,758 \$ | 15 | 3,611,201 | \$ 141,345,167 \$ | 120,316,533 | \$ 108,112,072 \$ | 102, | 032,322 | \$ | 97,705,228 \$ | 94,174, | <u>514</u> <u>\$</u> | 87,014,208 |



*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.



Brownsville Navigation District of Cameron County, Texas

Changes in Net Position

Last Ten Fiscal Years (Accrual Basis of Accounting)

(Unoudited)

| (Unaudited) |
|-------------|
|-------------|

| | | | | | Fiscal Year | Ended | | | | |
|---|-----------------------|-----------------------|---|-------------|----------------|-------------------------|---|----------------------|----------------|----------------------------------|
| - | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008* |
| Operating Revenues | | | | | | | | | | |
| Vessel services | \$ 10,089,552 \$ | \$ 8,489,466 | \$ 9,234,414 \$ | 7,018,584 | \$ 6,082,195 | \$ 7,400,081 | \$ 6,071,290 | \$ 4,598,057 5 | \$ 5,510,892 | \$ 5,600,029 |
| Lease rentals | | | | | | | | | | |
| Port system | 8,275,833 | 7,500,955 | 7,536,336 | 5,701,527 | 5,412,480 | 4,836,398 | 4,213,406 | 4,103,159 | 3,766,022 | 3,331,357 |
| Other lease rentals | 3,517,261 | 1,808,744 | 1,425,598 | 2,405,471 | 1,029,854 | 1,352,983 | 939,247 | 907,461 | 883,031 | 980,953 |
| Other operating revenue | 1,779,987 | 1,796,349 | 1,522,914 | 1,410,718 | 1,429,862 | 1,664,116 | 1,747,094 | 1,422,137 | 1,619,902 | 1,153,747 |
| Total Operating Revenues | 23,662,633 | 19,595,514 | 19,719,262 | 16,536,299 | 13,954,391 | 15,253,578 | 12,971,037 | 11,030,814 | 11,779,847 | 11,066,086 |
| Operating Expenses, Other Than Depreciation | 12,376,807 | 11,145,456 | 9,969,657 | 9,533,067 | 8,462,386 | 8,634,582 | 8,435,659 | 8,455,421 | 8,030,279 | 7,206,580 |
| & Amortization | | | | | | | | | | |
| Income from Operations Before Depreciation & Amortization | 11,285,826 | 8,450,058 | 9,749,605 | 7,003,232 | 5,492,005 | 6,618,996 | 4,535,378 | 2,575,393 | 3,749,568 | 3,859,506 |
| Amortization | - | - | - | - | - | 1,110,000 | 1,110,000 | 1,110,000 | 1,110,000 | |
| Depreciation | 5,474,008 | 5,193,028 | 3,982,459 | 3,604,738 | 2,650,096 | 2,390,320 | 2,483,457 | 2,281,499 | 2,135,614 | 1,761,528 |
| Operating Income (Loss) | 5,811,818 | 3,257,030 | 5,767,146 | 3,398,494 | 2,841,909 | 3,118,676 | 941,921 | (816,106) | 503,954 | 2,097,978 |
| Non-Operating Income (Expense) | | | | | | | | | | |
| Interest income on investments and direct financing | 600 F00 | 007 105 | 005.065 | 0.00.005 | 000.051 | 2 <1.0< 5 | 051 111 | 411 470 | 577 005 | 5 05 2 44 |
| leases - port system | 603,589 | 327,437 | 285,865 | 260,285 | 282,271 | 261,865 | 351,411 | 411,473 | 577,825 | 705,344 |
| Interest income - other | 2,252 | 714 | 251 | 43,916 | 76,745 | 81,941 | 86,833 | 91,518 | 98,341 | 94,581 |
| Grant revenue | 148,302 | 374,201 | 7,120,668 | 4,905,649 | 7,157,780 | 417,180 | 102,465 | 1,834,512 | 2,623,213 | 360,394 |
| Tax income - net of bad debt and collection expenses | | | | | | | | | | |
| Penalties and Interest | 101,673 | 107,227 | 127,430 | 138,101 | 129,320 | 132,695 | 125,130 | 129,549 | 130,902 | 113,986 |
| Maintenance and Operations | 516,948 | 465,849 | 583,784 | 581,854 | 562,939 | 559,115 | 571,669 | 612,400 | 602,150 | 436,847 |
| General Obligation Debt Service | 2,389,634 | 2,569,248 | 2,521,259 | 2,503,579 | 2,582,176 | 2,561,060 | 2,597,205 | 2,543,903 | 2,555,778 | 2,276,470 |
| Interest expense and bond cost | (604,983) | (580,386) | (684,604) | (873,275) | (1,081,611) | (932,669) | (1,248,819) | (1,450,407) | (1,602,304) | (1,452,131) |
| Bond issuance costs | - | - | - | - | (137,136) | (58,946) | (69,752) | (69,752) | (66,264) | (57,682) |
| Bond service fees | (4,650) | (4,400) | (5,150) | (4,150) | (5,900) | (5,000) | (7,300) | (7,000) | (6,500) | (5,265) |
| Impairment loss on Bridge Project | - | - | - | - | - | - | - | - | - | - |
| Other non-operating income (expense) | (44,974) | (517,363) | (41,064) | (29,104) | (35,724) | (31,264) | (76,710) | 250,624 | 78,203 | (37,795) |
| Total Other Income (Expense) | 3,107,791 | 2,742,527 | 9,908,439 | 7,526,854 | 9,530,860 | 2,985,978 | 2,432,132 | 4,346,820 | 4,991,344 | 2,434,749 |
| Income (Loss) Before Contributions and Extraordinary Items | 8,919,609 | 5,999,557 | 15,675,585 | 10,925,348 | 12,372,769 | 6,104,654 | 3,374,053 | 3,530,714 | 5,495,298 | 4,532,727 |
| Capital contributions | 379,041 | - | - | - | - | - | - | - | - | - |
| Special Item - contribution of net assets | - | - | - | 9,787,478 | | | | | | |
| Special Item - franchise revenue | - | - | 9,342 | 425,431 | | | | | | |
| Extraordinary items | <u> </u> | <u> </u> | | <u> </u> | | | | <u> </u> | | |
| | | | | | | | | | | |
| Increase (decrease) in net position | 9,298,650 | 5,999,557 | 15,684,927 | 21,138,257 | 12,372,769 | 6,104,654 | 3,374,053 | 3,530,714 | 5,495,298 | 4,532,727 |
| Net position at beginning of year | 159,610,758 | 153,611,201 | 141,345,167 | 120,316,533 | 108,112,072 | 102,032,322 | 97,705,228 | 94,174,514 | 87,014,208 | 84,950,918 |
| Prior period adjustments | 475,356 | | (3,418,893) | (69,678) | (168,308) | (118,210) | 953,041 | | 1,665,008 | (2,469,436) |
| Net position at beginning of year - as restated | 160,086,114 | 153,611,201 | 137,926,274 | 120,246,855 | 107,943,764 | 101,914,112 | 935,041 | 94,174,514 | 88,679,216 | <u>(2,409,430)</u> 82,481,482 |
| ······································ | ,, | ,, | , ////////////////////////////////// | | , | | ,~~~,~~~,~~~,~~~,~~~,~~~,~~~,~~~,~~,~~, | | ,-,0 | ,, |
| Net position at end of year | <u>\$ 169,384,764</u> | <u>\$ 159,610,758</u> | \$ 153,611,201 \$ | 141,385,112 | \$ 120,316,533 | \$ 108,018,766 | \$ 102,032,322 | <u>\$ 97,705,228</u> | \$ 94,174,514 | \$ 87,014,209 |
| | | | | | | | | | | |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Table 2

Revenue Capacity

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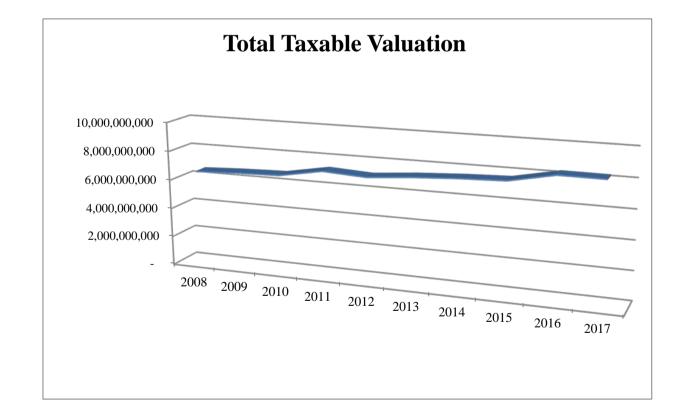
Brownsville Navigation District of Cameron County, Texas Ad Valorem Property Taxes

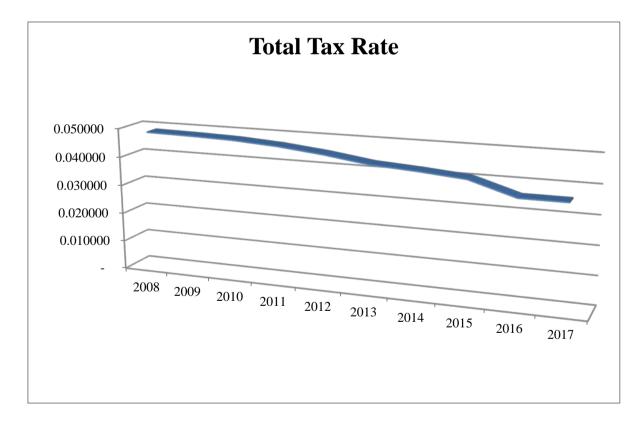
Last Ten Tax Years

(Accrual Basis of Accounting)

(Unaudited)

| Tax <u>Year</u> | <u>Assessed V</u> Assessed Value | Valuation Taxable Value | <u>Ad</u> M&O Rate | lopted Tax Ra <u>G.O. Rate</u> | <u>tes</u> Total Rate | M&O Levy | <u>Assessed Levy</u> G.O, Levy | Total Levy | | <u>vy</u> Percentage of | Collections in Subsequent | Total Collection | Percentage of |
|--------------------|-------------------------------------|----------------------------|-----------------------|-----------------------------------|--------------------------|-----------|-----------------------------------|------------|---------------|----------------------------|------------------------------|------------------|---------------|
| | | | | | | | | | <u>Amount</u> | Levy | Years | <u>Amount</u> | Levy |
| 2017 | 9,273,577,046 | 8,237,094,816 | 0.024885 | 0.011035 | 0.035920 | 2,049,834 | 908,933 | 2,958,767 | 2,112,865 | 71.41% | - | 2,112,865 | 71.41% |
| 2016 | 9,313,207,153 | 8,252,793,196 | 0.006524 | 0.029396 | 0.035920 | 538,336 | 2,426,070 | 2,964,406 | 2,080,573 | 70.19% | 786,214 | 2,866,786 | 96.71% |
| 2015 | 8,642,364,710 | 7,644,482,406 | 0.006256 | 0.034411 | 0.040667 | 478,239 | 2,630,542 | 3,108,781 | 2,254,659 | 72.53% | 798,113 | 3,052,772 | 98.20% |
| 2014 | 8,533,232,826 | 7,539,555,606 | 0.007900 | 0.034100 | 0.042000 | 595,625 | 2,570,990 | 3,166,615 | 2,293,099 | 72.41% | 838,750 | 3,131,849 | 98.90% |
| 2013 | 8,314,802,420 | 7,368,557,604 | 0.008100 | 0.034900 | 0.043000 | 576,855 | 2,571,636 | 3,148,492 | 2,251,662 | 71.52% | 866,849 | 3,118,511 | 99.05% |
| 2012 | 8,020,807,724 | 7,119,854,819 | 0.008100 | 0.037100 | 0.045200 | 576,697 | 2,641,479 | 3,218,177 | 2,299,853 | 71.46% | 891,262 | 3,191,115 | 99.16% |
| 2011 | 7,819,215,942 | 7,283,310,136 | 0.008430 | 0.038400 | 0.046830 | 580,593 | 2,644,694 | 3,225,287 | 3,035,813 | 94.13% | 166,938 | 3,202,751 | 99.30% |
| 2010 | 7,645,015,630 | 6,755,307,381 | 0.008628 | 0.039200 | 0.047828 | 583,941 | 2,653,047 | 3,236,988 | 3,030,740 | 93.63% | 184,527 | 3,215,267 | 99.33% |
| 2009 | 7,632,032,815 | 6,676,131,020 | 0.009353 | 0.038900 | 0.048253 | 628,527 | 2,614,109 | 3,242,636 | 3,034,357 | 93.58% | 187,849 | 3,222,206 | 99.37% |
| 2008 | 7,546,736,522 | 6,543,368,909 | 0.009353 | 0.039144 | 0.048497 | 622,869 | 2,606,820 | 3,229,689 | 3,027,704 | 93.75% | 183,545 | 3,211,249 | 99.43% |





Brownsville Navigation District of Cameron County, Texas Ten Principal Taxpayers in Cameron County

Current Year and Nine Years Ago

(Unaudited)

| | | | Fiscal Year | Percentage | Fiscal Year | Percentage |
|------------|----------------------------------|-------------------------------|----------------|-------------|----------------|-------------|
| | | | 2017 Assessed | of Assessed | 2008 Assessed | of Assessed |
| <u>No.</u> | <u>Taxpayer</u> | Type of Activity | Value | Valuation | Value | Valuation |
| 1 | AEP Texas Central Co. | Electrical Utility | \$ 193,917,667 | 24.32% | \$ 95,834,490 | 56.92% |
| 2 | San Roman Wind I LLC | Wind Farm | 132,332,360 | 16.60% | - | 0.00% |
| 3 | Panasonic Automotive Electronics | Manufacturing | 81,717,175 | 10.25% | - | 0.00% |
| 4 | VHS Harlingen Hospital Company | Healthcare | 73,339,564 | 9.20% | - | 0.00% |
| 5 | GLH LP C/O Marshall Hosel | Propane Service | 72,291,496 | 9.07% | - | 0.00% |
| 6 | Sharyland Utilities LP | Electric Transmission Utility | 57,940,290 | 7.27% | - | 0.00% |
| 7 | Union Pacific RR | Rail Road | 55,149,044 | 6.92% | - | 0.00% |
| 8 | Los Vientos Windpower LLC | Electrical Utility | 45,812,410 | 5.75% | - | 0.00% |
| 9 | CBL SM Brownsville LLC | Retail Mall | 42,715,523 | 5.36% | 38,922,610 | 23.12% |
| 10 | TRICO Products Corp | Manufacturing | 42,090,479 | 5.28% | 33,603,335 | 19.96% |
| | Total Assessed Valuation | | \$ 797,306,008 | 100.00% | \$ 168,360,435 | 100.00% |

*Due to mergers, closing of plants and diversification of companies, the current top ten taxpayers were not always listed in the top ten and therefore the data was not available in prior years.

Source - Cameron County, Texas CAFR

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Brownsville Navigation District of Cameron County, Texas Operating Revenue and Expenses by Type

Last Ten Fiscal Years (Accrual Basis of Accounting) (Unaudited)

| | | | | | Fiscal Year End | led | | | | |
|--|------------------|---------------|---|---------------|-----------------|--------------|--------------|--------------|--------------|-------------------|
| - | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008* |
| Operating Revenues | | | | | | | | | | |
| | \$ 10,089,552 \$ | 8,489,466 \$ | 9,234,414 \$ | 7,018,584 \$ | 6,082,195 | \$ 7,400,081 | \$ 6,071,290 | \$ 4,598,057 | \$ 5,510,892 | \$ 5,600,029 |
| Lease Rentals - Port System | 8,275,833 | 7,500,955 | 7,536,336 | 5,701,527 | 5,412,480 | 4,836,398 | 4,213,406 | 4,103,159 | 3,766,022 | 3,331,357 |
| Other Lease Rentals | 3,517,261 | 1,808,744 | 1,425,598 | 2,405,471 | 1,029,854 | 1,352,983 | 939,247 | 907,461 | 883,031 | 980,953 |
| Other Operating Revenue | 1,779,987 | 1,796,349 | 1,522,914 | 1,410,718 | 1,429,862 | 1,664,116 | 1,747,094 | 1,422,137 | 1,619,902 | 1,153,747 |
| Total Operating Revenue | 23,662,633 | 19,595,514 | 19,719,262 | 16,536,299 | 13,954,391 | 15,253,578 | 12,971,037 | 11,030,814 | 11,779,847 | 11,066,085 |
| | | | | | | | | | | |
| Operating Expenses | 4 526 140 | 4 219 915 | 2 070 070 | 2 (52 (77 | 2 282 000 | 2 414 (77 | 2 4 (2 9 (1 | 2 200 810 | 2 215 201 | 2 522 10 |
| Wages | 4,536,140 | 4,218,815 | 3,970,272 | 3,653,667 | 3,383,096 | 3,414,677 | 3,462,861 | 3,300,810 | 3,315,291 | 2,523,19 |
| Payroll Taxes | 342,292 | 341,754 | 299,604 | 294,504 | 260,275 | 281,092 | 276,655 | 250,004 | 228,782 | 179,876 |
| Net Pension Expense | 595,763 | 498,714 | 391,411 | - | - | - | - | - | - | - |
| Services | 347,596 | 356,976 | 443,671 | 301,181 | 340,792 | 293,763 | 322,115 | 250,076 | 263,071 | 218,880 |
| Materials | 829,442 | 813,761 | 892,166 | 678,128 | 689,755 | 820,675 | 581,740 | 666,179 | 596,943 | 539,95 |
| Utilities | 916,411 | 794,425 | 770,396 | 845,664 | 813,577 | 750,961 | 751,295 | 675,562 | 647,933 | 601,574 |
| Insurance | 1,370,712 | 1,268,947 | 1,243,392 | 1,132,852 | 995,831 | 1,062,878 | 1,092,838 | 1,108,981 | 1,068,276 | 905,680 |
| Dues | 65,108 | 67,152 | 62,863 | 106,926 | 119,047 | 83,525 | 88,278 | 87,663 | 78,281 | 30,010 |
| Legal & Auditing | 508,004 | 288,459 | 311,246 | 307,378 | 212,009 | 145,854 | 205,955 | 149,751 | 165,656 | 160,159 |
| Consultant Fees | 690,283 | 605,990 | 678,711 | 762,120 | 646,883 | 553,655 | 530,469 | 564,257 | 856,225 | 600,20 |
| Supplies | 75,099 | 73,734 | 102,299 | 71,486 | 85,482 | 70,462 | 69,946 | 63,848 | 85,719 | 73,759 |
| Computer Expense | 494,385 | 375,280 | 206,827 | 174,345 | 99,618 | 129,528 | 105,473 | 88,588 | 55,548 | 40,634 |
| Employee Expenses | 118,848 | 115,118 | 87,863 | 62,416 | 63,235 | 74,202 | 66,660 | 57,902 | 82,436 | 53,869 |
| Other Expense | 70,936 | 262,696 | 99,275 | 197,773 | 86,455 | 109,161 | 97,345 | 181,960 | 40,809 | 148,107 |
| Contracts Rental & Repairs | 17,605 | 40,320 | 21,660 | 6,394 | 27,289 | 36,996 | 23,742 | 21,961 | 29,690 | 19,390 |
| Travel | 191,537 | 170,115 | 158,886 | 148,543 | 146,002 | 128,731 | 145,674 | 149,128 | 119,789 | 124,533 |
| Advertising | 109,356 | 140,000 | 55,673 | 24,764 | 28,851 | 39,073 | 44,009 | 34,159 | 67,363 | 145,180 |
| Safety | 13,910 | 25,383 | 20,992 | 9,198 | 15,602 | 12,512 | 10,455 | 9,796 | 7,623 | 2,643 |
| | 15,910 | 311,113 | | | - | | | | | |
| Doubtful Accounts | - | | - | 171,417 | | - | - | 208,794 | (153,429) | 114,165 |
| Shop cost of sales | 42,729 | 214,913 | 60,028 | 61,940 | - | - | - | - | - | - |
| Land Lease and Rental Rebate | 936,226 | 18,225 | 17,820 | 17,415 | 17,010 | 163,348 | 42,963 | 137,347 | 159,513 | 466,953 |
| Retirement | - | 29,757 | - | 445,506 | 351,109 | 380,174 | 383,919 | 402,551 | 273,856 | 175,000 |
| Promotional | 104,425 | 113,809 | 74,602 | 59,447 | 80,468 | 83,314 | 133,267 | 46,105 | 40,906 | 82,808 |
| Total Operating Expenses | 12,376,807 | 11,145,456 | 9,969,657 | 9,533,067 | 8,462,386 | 8,634,582 | 8,435,659 | 8,455,421 | 8,030,280 | 7,206,579 |
| Net Operating Income before Depreciation and | 11,285,826 | 8,450,058 | 9,749,605 | 7,003,232 | 5,492,005 | 6,618,996 | 4,535,378 | 2,575,393 | 3,749,568 | 3,859,500 |
| Amortization | 11,205,020 | 0,450,050 | ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,, | 7,003,232 | 5,472,005 | 0,010,770 | 4,000,070 | 2,373,373 | 5,749,500 | 5,057,500 |
| Non-Operating Income (Expense) | | | | | | | | | | |
| Interest Inc. on investments and direct leases | 603,589 | 327,437 | 285,865 | 260,285 | 282,271 | 343,807 | 438,244 | 502,991 | 676,166 | 705,344 |
| Interest Income other | 2,252 | 714 | 251 | 43,916 | 76,745 | - | - | - | - | - |
| Grant Revenue | 148,302 | 374,201 | 7,120,668 | 4,905,648 | 7,157,780 | 417,180 | 102,465 | 1,061,585 | 1,869,900 | - |
| Tax income - net of bad debt and collection exp. | | | | | | | | | | |
| Penalty and interest | 101,673 | 107,227 | 127,430 | 138,101 | 129,320 | 132,695 | 125,130 | 129,549 | 130,902 | 113,980 |
| Maintenance and operations | 516,948 | 465,849 | 583,784 | 581,854 | 562,939 | 559,115 | 571,669 | 612,400 | 602,150 | 436,847 |
| General Obligation Bond Debt Service | 2,389,634 | 2,569,248 | 2,521,259 | 2,503,579 | 2,582,176 | 2,561,060 | 2,597,205 | 2,543,903 | 2,555,778 | 2,276,470 |
| Interest Expense and Bond Costs | (604,983) | (580,386) | (684,604) | (873,275) | (1,224,647) | (996,615) | (1,325,871) | (1,527,159) | (1,675,068) | (1,515,078 |
| 1 | | (580,580) | (004,004) | | (1,224,047) | (990,013) | (1,525,671) | (1,527,159) | (1,075,008) | (1,515,076 |
| Capital contributions | 379,041 | - | - | - | - | - | - | - | - | - |
| Special Item - contribution on net assets | - | - | - | 9,787,478 | - | - | - | - | - | - |
| Special Item - franchise revenue | - | - | 9,342 | 425,431 | - | - | - | - | - | - |
| Impairment Loss on Bridge Project | - | - | - | - | - | - | - | - | - | - |
| Bond service fees | (4,650) | (4,400) | (5,150) | (4,150) | - | - | - | - | - | - |
| Other Non-Operating Income (Expense) | (44,974) | (517,363) | (41,064) | (29,104) | (35,724) | (31,264) | (76,710) | 250,624 | 78,203 | 56,780 |
| Net Non-Operating Income (Expense) | 3,486,832 | 2,742,527 | 9,917,782 | 17,739,763 | 9,530,860 | 2,985,978 | 2,432,132 | 3,573,893 | 4,238,031 | 2,074,355 |
| Net Income before Depreciation and Amortization | \$ 14,772,658 \$ | 11,192,585 \$ | 19,667,386 \$ | 24,742,996 \$ | 15,022,866 | \$ 9,604,974 | \$ 6,967,510 | \$ 6,149,286 | \$ 7,987,599 | 5,933,86 1 |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Brownsville Navigation District of Cameron County, Texas Vessel Services Revenues at the Port of Brownsville

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

Summary information on vessel and cargo traffic is presented in these tables, complete information on vessel and cargo traffic may be found in the Cargo Statistics that are published by the Port of Brownsville.

| | | | | | Fiscal Year | Ended | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> | <u>12/31/2014</u> | <u>12/31/2013</u> | <u>12/31/2012</u> | <u>12/31/2011</u> | <u>12/31/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> |
| Port Calls by Vessel Type | | | | | | | | | | |
| Deep Sea Vessels | 576 | 566 | 508 | 426 | 431 | 376 | 379 | 329 | 277 | 348 |
| River Barges | 741 | 525 | 632 | 633 | 628 | 707 | 859 | 657 | 506 | 733 |
| Mexican Fishing Vessels | | | | | | | | | | 18 |
| | 1,317 | 1,091 | 1,140 | 1,059 | 1,059 | 1,083 | 1,238 | 986 | 783 | 1,099 |
| Waterborne Cargo Traffic (metric tons) | | | | | | | | | | |
| Petroleum and Coal Products | 4,336,415 | 3,969,746 | 3,847,525 | 3,250,587 | 3,165,361 | 2,870,526 | 2,863,803 | 2,732,112 | 2,455,046 | 2,204,631 |
| Primary Metal Products | 2,180,770 | 2,243,315 | 2,277,559 | 2,400,368 | 1,631,151 | 2,053,063 | 1,636,080 | 1,354,076 | 1,212,640 | 2,036,858 |
| Non-Metallic Minerals | 534,921 | 653,142 | 933,470 | 457,538 | 332,346 | 364,257 | 493,777 | 267,319 | 552,215 | 822,158 |
| Waste and Scrap Materials | 71,316 | 35,962 | 48,221 | 115,192 | 188,633 | 229,612 | 274,774 | 131,334 | 115,707 | 120,676 |
| Other Cargos | 214,888 | 58,622 | 47,350 | 24,204 | 17,376 | 19,232 | 103,217 | 125,259 | 71,149 | 121,988 |
| Total Cargo Traffic | 7,338,310 | 6,960,787 | 7,154,125 | 6,247,890 | 5,334,868 | 5,536,689 | 5,371,651 | 4,610,100 | 4,406,757 | 5,306,311 |

Charges for vessel services are specified in the current edition of the Tariff: Rates, Rules and Regulations Governing the Brownsville Ship Channel and the Public Wharves, Piers, Docks and Equipment. Selected information regarding rates for vessel services are presented here, complete information is contained in the Tariff, which is published by the Port of Brownsville.

| Harbor Fees (per Port Call) | | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----|
| Deep Sea Vessels | \$ 150.00 | \$ |
| Deep Sea Vessels at the Bulk Cargo Dock | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | |
| River Barges | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | |
| Mexican Fishing Vessels | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | 65.00 | |
| Dockage (rate for Gross Registered Ton/day) | | | | | | | | | |
| Dockage - General Cargo Docks | 0.17 | 0.16 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | |
| Dockage - Bulk Cargo Dock | 0.25 | 0.25 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | |
| Dockage - Oil Docks/Liquid Cargo Docks/Express Dock | 0.17 | 0.16 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | |
| Dockage - Fitting for grain | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | |
| Dockage - Layberth | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | |
| Dockage - Scrap vessels and Drilling Rigs | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | 0.09 | |
| Dockage - River Barges (per day) | 85.00 | 80.00 | 75.00 | 75.00 | 75.00 | 75.00 | 75.00 | 75.00 | |
| Wharfage - Major Commodities | | | | | | | | | |
| Petroleum and Coal Products (per barrel) | 0.080 | 0.065 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | |
| Primary Metal Products (per metric ton) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | |
| Primary Metal Products - Volume Incentive (per metric ton) | 0.46 | 0.46 | 0.46 | 0.46 | 0.46 | 0.46 | 0.46 | 0.46 | |
| Non-Metallic Minerals - Aggregates (per metric ton) | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | |
| Non-Metallic Minerals - Covered Storage (per metric ton) | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | |
| Non-Metallic Minerals - Open Storage (per metric ton) | 1.09 | 1.09 | 1.09 | 1.09 | 1.09 | 1.09 | 1.09 | 1.09 | |
| Waste and Scrap Materials (per metric ton) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | |
| Miscellaneous Cargos - Not Otherwise Specified | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | |
| Free Time and Penalty Storage (per metric ton/day) | | | | | | | | | |
| Covered Storage - General Cargo Sheds | 0.1103 | 0.1103 | 0.1103 | 0.1103 | 0.1103 | 0.1103 | 0.1103 | 0.1103 | |
| Open Docks and Patios | 0.0221 | 0.0221 | 0.0221 | 0.0221 | 0.0221 | 0.0221 | 0.0221 | 0.0221 | |
| | | | | | | | | | |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

| 150.00 | \$ | 150.00 |
|--------|----|--------|
| 200.00 | Ψ | 200.00 |
| 100.00 | | 100.00 |
| 65.00 | | 65.00 |
| 05.00 | | 05.00 |
| 0.15 | | 0.15 |
| 0.15 | | 0.15 |
| 0.15 | | 0.15 |
| 0.05 | | 0.05 |
| 0.09 | | 0.09 |
| 0.09 | | 0.09 |
| 75.00 | | 75.00 |
| | | |
| 0.05 | | 0.05 |
| 1.00 | | 1.00 |
| 0.46 | | 0.46 |
| 0.35 | | 0.35 |
| 1.37 | | 1.37 |
| 1.09 | | 1.09 |
| 1.00 | | 1.00 |
| 1.37 | | 1.37 |
| 0.1103 | | 0.1103 |
| 0.0221 | | 0.0221 |
| | | |

| | | | | | | | | | Calendar ` | Year | | | | | | | |
|-----------------------------------|----------|------------|----------|------------------|----|-----------|----|-----------|-------------------|-------------------|-------------------|----|-----------|----------------|---------|------|-----------|
| | <u>1</u> | 2/31/2017 | <u>1</u> | <u>2/31/2016</u> | 1 | 2/31/2015 | 1 | 2/31/2014 | <u>12/31/2013</u> | <u>12/31/2012</u> | <u>12/31/2011</u> | 12 | 2/31/2010 | <u>12/31/2</u> |)09 | 12/3 | 1/2008* |
| Vessel Revenue by Major Component | | | | | | | | | | | | | | | | | |
| Harbor Fees | \$ | 153,250 | \$ | 133,100 | \$ | 133,300 | \$ | 125,750 | \$ 125,213 | \$ 130,725 | \$ 160,166 | \$ | 104,525 | \$ 95 | ,423 \$ | 5 | 116,897 |
| Dockage | | 3,831,793 | | 3,189,883 | | 4,439,440 | | 3,105,870 | 2,528,683 | 3,125,720 | 2,227,647 | | 1,507,551 | 1,936 | ,903 | 2, | ,023,664 |
| Wharfage | | 5,446,130 | | 4,407,624 | | 3,999,989 | | 3,259,144 | 2,662,134 | 3,338,674 | 2,982,673 | | 2,351,775 | 2,175 | ,995 | 2, | ,492,871 |
| Penalty Storage | | 318,552 | | 219,957 | | 141,345 | | 179,013 | 449,104 | 454,799 | 429,412 | | 284,822 | 1,113 | ,225 | | 567,914 |
| Other Vessel Services | | 339,827 | | 538,902 | | 520,340 | | 348,807 | 317,061 | 350,163 | 271,393 | | 349,384 | 189 | ,346 | | 398,683 |
| Total Vessel Services | \$ | 10,089,552 | \$ | 8,489,466 | \$ | 9,234,414 | \$ | 7,018,584 | \$ 6,082,195 | \$ 7,400,081 | \$ 6,071,292 | \$ | 4,598,057 | \$ 5,510 | ,892 \$ | 5 5. | ,600,029_ |

Vessel Revenue by Major Component

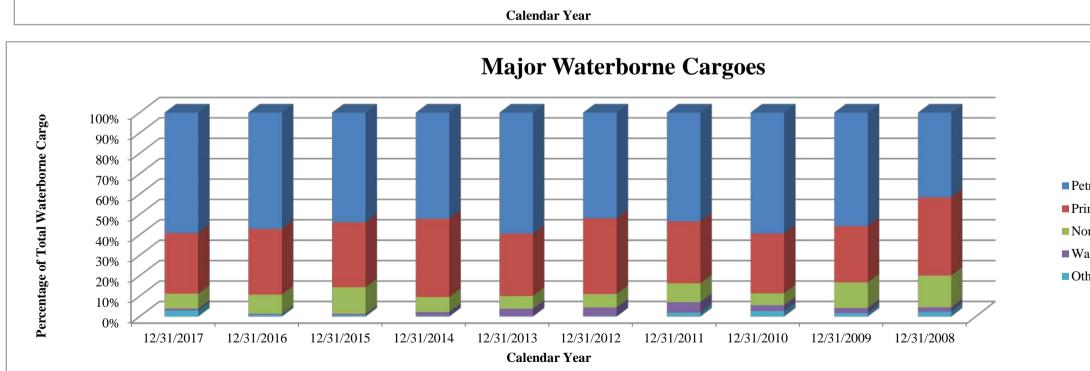
12/31/2012

12/31/2011

12/31/2010

12/31/2009

12/31/2008*



12/31/2013

12/31/2014

12/31/2015

* Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

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Percentage of Vessel Services Revenues

10% 0%

12/31/2017

12/31/2016

- Harbor Fees
- Dockage
- Wharfage
- Penalty Storage
- Other Vessel Services

Petroleum and Coal Products
Primary Metal Products
Non-Metallic Minerals
Waste and Scrap Materials
Other Cargos



Brownsville Navigation District of Cameron County, Texas Principal Customers for Vessel Services at the Port of Brownsville

Current Year and Nine Years Ago

| | | 2017 | | | 2008* | |
|--|--------------------|--------|------------|---------------|--------|------------|
| | | | Total | | | Total |
| | | _ | Percentage | | | Percentage |
| Customer | 2017 Revenues | Rank | 2017 | 2008 Revenues | Rank | 2008 |
| Dix Agency Brownsville, LLP | \$ 2,103,562 | 1 | 21% | \$ 1,455,708 | 1 | 26% |
| Frontera Brownsville, LLC | 1,963,584 | 2 | 19% | 005 170 | 2 | 1.60/ |
| Gulf Stream Marine | 1,617,066 | 3 | 16% | 895,178 | 2 5 | 16% |
| Schaefer Stevedoring Moran Shipping Agency of Texas, Inc. | 678,651 565,123 | 4 5 | 7% 6% | 587,636 | 5 | 10% |
| T. Parker Host Gulf, Inc. | 450,503 | 5 6 | 4% | | | |
| Norton Lilly International | 386,775 | 0 7 | 4% | | | |
| Admiral Steamship Agency | 377,132 | 8 | 4% | 616,609 | 4 | 11% |
| Maverick Fuel Oil Terminal, LLC | 304,278 | 9 | 3% | , | | |
| Transmontaigne Operating Co. LP | 229,330 | 10 | 2% | 727,808 | 3 | 13% |
| Strike, LLC | 197,186 | 11 | 2% | | | |
| ISS Marine Services, Inc. | 180,494 | 12 | 2% | 122,843 | 11 | 2% |
| Kaleido Logistics | 162,495 | 13 | 2% | | | |
| Vulcan Construction Materials | 154,298 | 14 | 2% | 222,506 | 6 | 4% |
| Signet Maritime Corp | 125,803 | 15 | 1% | | | |
| American Commercial Barge | | | | 183,049 | 7 | 3% |
| NSA Agencies, Inc. | | | | 174,829 | 8 | 3% |
| Gulf Harbor Shipping LLC | | | | 146,856 | 9 | 3% |
| Esco Marine, Inc. | | | | 139,638 | 10 | 2% |
| Bedoli Group, Inc. | | | | 86,248 | 12 | 2% |
| Keppel Amfels, Inc. | | | | 62,360 | 13 | 1% |
| 905 Logistics, LLC | | | | 44,936 | 14 | 1% |
| MEMCO | | | | 25,200 | 15 | 1% |
| Total Vessel Revenues | \$ 10,089,552 | | 94% | \$ 5,600,029 | | 98% |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Brownsville Navigation District of Cameron County, Texas

Lease Rental Revenues

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

Summary information on lease rental rates is presented in these tables, complete information on lease rental rates at the Port of Brownsville may be found in the Leasing Policies that are published by the Port of Brownsville.

Selected rates from the TABLE OF LEASE RENTAL RATES

| | Fiscal Year Ended | | | | | | | | | | | | | | |
|---|-------------------|------------|---------------------|-------------------|--------|-----------------|----------|-----------|-------------------|------------|---------|------------|-------------------|----|------------|
| | 12/ | 31/2017 | <u>12/31/2016</u> | <u>12/31/2015</u> | | 12/31/2014 | <u>1</u> | 2/31/2013 | <u>12/31/2012</u> | 12/31/2011 | 12/31/2 | <u>010</u> | <u>12/31/2009</u> | *] | 12/31/2008 |
| Turning Basin Leases (per acre/year) | | | | | | | | | | | | | | | |
| Waterfront | \$ | 6,050 | \$ 5,874 | \$ 5,844 | \$ | 5,844 | \$ | 5,844 | \$ 5,844 | \$ 5,844 | \$ | 5,844 | \$ 3,600 | \$ | 3,600 |
| Highway Frontage | | 3,954 | 3,839 | 3,819 |) | 3,819 | | 3,819 | 3,819 | 3,819 | - | 8,819 | 2,400 | | 2,400 |
| Port Entrance Sites | | 3,524 | 3,421 | 3,403 | 3 | 3,403 | | 3,403 | 3,403 | 3,403 | - | 3,403 | - | | - |
| Commercial Property | | - | - | - | | - | | - | - | - | | - | 2,000 | | 2,000 |
| Inside Port/Off Waterfront | | 2,097 | 2,036 | 2,025 | 5 | 2,025 | | 2,025 | 2,025 | 2,025 | | 2,025 | 1,800 | | 1,800 |
| Fishing Harbor Leases | | | | | | | | | | | | | | | |
| Rate is calculated per linear foot of street from | tage/month | until 2010 |), when the rate wa | is changed to a p | er aci | re/year basis.) | | | | | | | | | |
| Waterfront | | 4,653 | 4,517 | 4,494 | ł | 4,494 | | 4,494 | 4,494 | 4,494 | 2 | ,494 | 1 | | 1 |
| Off-Water | | 4,302 | 4,177 | 4,156 | 5 | 4,156 | | 4,156 | 4,156 | 4,156 | 2 | ,156 | 1 | | 1 |

An increase to the Table of Lease Rental Rates was adopted by the Board in December, 2010. New leases had been negotiated at the 2010 lease rates beginning in 2008, and the new lease rates began to be implemented for current lessees at December 1, 2010 on July 1, 2011, with a 5-year phase-in.

| Rental Rates for Railroad Track | x Established by Con | ntract Between | the Brownsville | e Navigation Di | strict and the B | rownsville & Rio |) Grande l | International l | Railway, LLC | |
|---------------------------------|----------------------|----------------|-----------------|-----------------|------------------|------------------|------------|-----------------|--------------|-----------|
| Railroad Track Rental (per car) | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| | | | | | | | | | | |
| Lease Rental Revenues | \$ 11,793,094 \$ | 9,309,699 \$ | 8,961,934 \$ | 8,106,998 \$ | 6,442,334 \$ | 6,189,381 \$ 5, | 152,653 \$ | 5,010,620 \$ | 4,649,053 \$ | 4,312,310 |

*Fiscal year changed from a March 1 year-ending to a December 31 year-ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

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Brownsville Navigation District of Cameron County, Texas Principal Customers for Lease Rentals

Current Year and Nine Years Ago

(Unaudited)

| | Fiscal Year Ended | | | | | | | | | |
|--|---------------------------|--------|-----------------------------|---------------|------|-----------------------------|--|--|--|--|
| | | 2017 | | 2008 | | | | | | |
| Customer | 2017 Revenues | Rank | Total Percentage 2017 | 2008 Revenues | Rank | Total Percentage 2008 | | | | |
| | ф <u>1751</u> 060 | 1 | 1.50/ | | | | | | | |
| Valley Crossing Pipeline LLC Next Decade, LLC | \$ 1,751,960 1,505,865 | 1 2 | 15% 13% | | | | | | | |
| Transmontaigne Operating Co. LP | 1,104,702 | 2 3 | 9% | 484,279 | 2 | 11% | | | | |
| Bedoli Group, Inc. | 515,967 | 4 | 4% | 108,733 | 10 | 3% | | | | |
| Annova LNG LLC | 384,553 | 5 | 3% | 100,755 | 10 | 270 | | | | |
| Texas LNG Brownsville, LLC | 365,250 | 6 | 3% | | | | | | | |
| CMG Brownsville II, LLC | 359,721 | 7 | 3% | | | | | | | |
| International Shipbraking LTD | 358,951 | 8 | 3% | 195,381 | 7 | 5% | | | | |
| Brownsville Rio Grande International Railway | 316,787 | 9 | 3% | 746,521 | 1 | 17% | | | | |
| Citgo Petroleum Corporation | 256,568 | 10 | 2% | 235,676 | 5 | 5% | | | | |
| Brownsville Acquisition | 250,723 | 11 | 2% | | | | | | | |
| Bay Bridge Texas, LLC | 238,527 | 12 | 2% | | | | | | | |
| Brownsville Gulfside Warehouse | 227,942 | 13 | 2% | 83,689 | 13 | 2% | | | | |
| Keppel Amfels, Inc. | 216,324 | 14 | 2% | 396,409 | 3 | 9% | | | | |
| Fortune Ferrous, Inc. | 211,951 | 15 | 2% | | | | | | | |
| Esco Marine, Inc. | | | | 296,001 | 4 | 7% | | | | |
| Sunshine Cement | | | | 208,333 | 6 | 5% | | | | |
| PR3, LLC | | | | 144,000 | 8 | 3% | | | | |
| Deep SouthTex Terminal, LP | | | | 112,911 | 9 | 3% | | | | |
| Transforma Marine Corporation | | | | 99,714 | 11 | 2% | | | | |
| U-Pull IT Auto Parts, Inc. | | | | 86,882 | 12 | 2% | | | | |
| 905 Logistics, LLC | | | | 67,734 | 14 | 2% | | | | |
| Brownsville Public Utilities Board | | | | 66,808 | 15 | 2% | | | | |
| Total Lease Rental Revenues | \$ 11,793,094 | | 68% | \$ 4,312,310 | | 77% | | | | |

Table 9

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Debt Capacity

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Brownsville Navigation District of Cameron County, Texas Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

(Accrual Basis of Accounting) (Unaudited)

| Fiscal Year | General Obligation Bonds | Revenue Bonds | Loans | Capital Leases | Total Debt Outstanding | Assets Restricted for Debt Service | Total Net Outstanding Debt |
|--------------------|--------------------------------|--|--------------------------------|-------------------|---------------------------|--|---|
| 2008 | 22,126,006 | 14,209,934 | - | 1,416,065 | 37,752,005 | 7,639,453 | 30,112,552 |
| 2008a ² | 22,108,332 | 14,214,703 | - | 1,180,040 | 37,503,075 | 10,123,083 | 27,379,892 ¹ |
| 2009 | 20,447,614 | 12,850,428 | - | 884,780 | 34,182,822 | 9,400,848 | 24,781,974 ¹ |
| 2010 | 18,696,847 | 11,686,151 | - | 575,822 | 30,958,820 | 9,412,853 | 21,545,967 ¹ |
| 2011 | 16,783,171 | 10,456,874 | - | 252,530 | 27,492,575 | 9,452,674 | 18,039,901 ¹ |
| 2012 | 14,771,088 | 19,157,598 | - | - | 33,928,686 | 19,257,201 | 14,671,484 ¹ |
| 2013 | 12,674,005 | 17,783,322 | - | - | 30,457,327 | 16,779,159 | 13,405,326 ⁻¹ |
| 2014 | 10,481,922 | 14,669,045 | - | - | 25,150,967 | 12,842,435 | 12,410,500 ¹ |
| 2015 | 8,287,480 | 13,270,000 | - | - | 21,557,480 | 7,110,402 | 14,447,078 ¹ |
| 2016 | 5,921,069 | 41,712,834 | - | - | 47,633,903 | 11,417,852 | 36,216,051 ¹ |
| 2017 | 3,740,000 | 40,341,658 | - | - | 44,081,658 | 7,588,733 | 36,492,925 ¹ |
| | Taxable Property | Outstanding Debt as a Percentage of Taxable Property | Cameron County | Per Capita | | Per Capita | Outstanding Debt as a Percentage of Per Capita |
| Fiscal Year | Valuation | Value | Population ³ | Debt | | Income ³ | Income |
| 2008 | 6,543,368,909 | 0.42% | 387,717 | 150 | | 12,511 | 1.20% |
| 2008a ² | 6,543,368,909 | 0.38% | 387,717 | 136 | | 12,511 | 1.09% |
| 2009 | 6,676,131,020 | 0.32% | 387,717 | 118 | | 13,377 | 0.88% |
| 2010 | 6,755,307,381 | 0.27% | 406,220 | 94 | | 13,474 | 0.70% |
| 2011 | 7,283,310,136 | 0.20% | 406,220 | 77 | | 13,474 | 0.57% |
| 2012 | 7,119,854,819 | 0.19% | 406,220 | 70 | | 14,183 | 0.49% |
| 2013 | 7,368,557,604 | 0.17% | 415,557 | 63 | | 14,405 | 0.44% |
| 2014 | 7,539,555,606 | 0.19% | 417,296 | 74 | | 14,405 | 0.51% |
| 2015 | 7,644,482,406 | 0.19% | 420,392 | 73 | | 14,898 | 0.49% |
| 2016 | 8,252,793,196 | 0.44% | 422,156 | 182 | | 15,105 | 1.20% |
| 2017 | 8,237,094,816 | 0.44% | 422,135 | 184 | | 15,457 | 1.19% |

¹ Prior to Fiscal Year 2008a, the District's fiscal year coincided with the debt service payments, resulting in a minimal balance in the debt service accounts at the end of the fiscal year. The change from a March 1st fiscal year-end to a December 31st fiscal year-end has resulted in the bulk of the debt service remaining in the debt service accounts at the end of the fiscal year, with the principal payments and six month's of interest payments to be made in the second month of the following fiscal year.

² Fiscal year 2008a was a transitional fiscal year between a March 1st year-end and a December 31st year end. This fiscal year was 10-months in length, and subsequently, there was only one debt service payment date in Fiscal 2008a, on September 1, 2008, for interest-only payments. ³ Determine the Control of Cont

³ Data from the Cameron County 2017 CAFR

Notes: Details regarding the District's outstanding debt can be found in the Notes to the Financial Statements.

See Table 3 for property value data

Population data can be found in Table 15

Brownsville Navigation District of Cameron County, Texas Revenue Bond Debt Service Requirements

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Unaudited)

| | | | | | | Fiscal Year Ended | | | | |
|---|-------------------------------|-------------|------------------|-----------------|---------------|--------------------------|----------------------|----------------------|----------------------|--------------|
| | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008* |
| First Lien Revenue Bond - Series 1993 | | | | | | | | | | |
| Principal Maturity | - | - | - | - | - | - | - | - | - | - |
| Interest Payments | - | | | | | | - | | | |
| Total Bond Requirement | - | - | - | - | - | - | - | - | - | - |
| First Lien Revenue Bond - Series 1996 | | | | | | | | 600,000 | < 10 000 | |
| Principal Maturity Interest Payments | - | - | - | - | - | - | - | 680,000 19,380 | 640,000 178,965 | - 159,585 |
| Total Bond Requirement | - | - | - | - | - | - | - | 699,380 | 818,965 | 159,585 |
| First Lien Revenue Bond - Series 2000 | | | | | | | | | | |
| Principal Maturity | - | - | - | - | - | 200,000 | 190,000 | 185,000 | 175,000 | - |
| Interest Payments | | | | | | 5,100 | 142,183 | 151,465 | 162,123 | 84,124 |
| Total Bond Requirement | - | - | - | - | - | 205,100 | 332,183 | 336,465 | 337,123 | 84,124 |
| First Lien Revenue Bond - Series 2002A | | | | | | | | | | |
| Principal Maturity | 110,000 | | | | | | 85,000 | 80,000 | 75,000 | - |
| Interest Payments Total Bond Requirement | <u> </u> | - | | | - | <u>34,186</u> 119,186 | 56,000 141,000 | <u> </u> | <u> </u> | <u> </u> |
| Total Bolia Requirement | 121,117 | 115,0 | JA 111,374 | 107,020 | 105,800 | 119,100 | 141,000 | 159,050 | 159,554 | 55,479 |
| First Lien Revenue Bond - Series 2002B | 115 000 | 110.0 | 105 000 | 105.000 | 100.000 | 95,000 | 90,000 | 05 000 | 00.000 | |
| Principal Maturity Interest Payments | 115,000 11,565 | | | | | 36,140 | 90,000 59,260 | 85,000 63,352 | 80,000 68,107 | - 35,447 |
| Total Bond Requirement | 126,565 | 120,4 | | | 114,503 | 131,140 | 149,260 | 148,352 | 148,107 | 35,447 |
| First Lien Revenue Bond - Series 2009 | | | | | | | | | | |
| Principal Maturity | - | - | 900,000 | 855,000 | 815,000 | 775,000 | 740,000 | 10,000 | - | - |
| Interest Payments | | | 21,825 | | | 143,439 | 180,179 | 198,367 | 83,304 | |
| Total Bond Requirement | - | - | 921,825 | 5 919,384 | 919,881 | 918,439 | 920,179 | 208,367 | 83,304 | - |
| First Lien Revenue Bond - Series 2011 | | | | | | | | | | |
| Principal Maturity Interest Payments | 260,000 38,227 | | | | | 15,000 61,122 | - | - | - | - |
| Total Bond Requirement | 298,227 | | | | | 76,122 | | | | |
| - | | | | | | | | | | |
| First Lien Revenue Bond - Series 2012 Principal Maturity | 345,000 | 335,0 | 00 50,000 |) 50,000 | - | - | - | - | - | - |
| Interest Payments | 299,407 | 310,4 | 316,608 | 318,203 | 216,211 | | - | | | |
| Total Bond Requirement | 644,407 | 645,4 | 57 366,608 | 368,203 | 216,211 | - | - | - | - | - |
| First Lien Revenue Bond - Series 2016 | | | | | | | | | | |
| Principal Maturity | 635,000 | | - | - | - | - | - | - | - | - |
| Interest Payments Total Bond Requirement | <u>1,167,069</u> 1,802,069 | | | | | | - | | - | - |
| Total Bolia Requirement | 1,802,009 | 566,16 | - | - | - | - | - | - | - | - |
| Junior Lien Revenue Bond - Series 2002 Principal Maturity | | | | | | | | | 275,000 | |
| Interest Payments | - | - | - | - | - | - | - | - | 275,000 7,219 | - 7,219 |
| Total Bond Requirement | - | - | - | - | - | - | - | - | 282,219 | 7,219 |
| Junior Lien Revenue Bond - Series 2003 | | | | | | | | | | |
| Principal Maturity | - | - | - | - | 140,000 | 135,000 | 130,000 | 130,000 | 125,000 | - |
| Interest Payments | | | | | 78,495 | | 88,404 | 93,035 | 97,185 | 49,530 |
| Total Bond Requirement | - | - | - | - | 218,495 | 218,584 | 218,404 | 223,035 | 222,185 | 49,530 |
| Total Revenue Bonds | | | 1 100 000 | | 1 000 000 | 1 005 000 | 1 225 000 | 1 150 000 | 1 050 000 | |
| Principal Maturity Interest Payments | 1,465,000 1,527,385 | | | | | 1,305,000 363,571 | 1,235,000 526,026 | 1,170,000 585,457 | 1,370,000 661,237 | - 369,384 |
| Annual Revenue Bond Debt Service | \$ 2,992,385 | - | | - | | | | | | |
| | | | | | | | | | | |
| Net Revenues Available for Debt Service on Revenue Bonds (See Table 12) | \$ 12,444,201 | \$ 9,281,8' | 71 \$ 17,389,618 | 8 \$ 22,505,299 | \$ 12,894,088 | \$ 7,683,277 | \$ 5,107,834 | \$ 5,182,971 | \$ 7,069,737 | \$ 4,398,776 |
| Coverage Ratio (Net Revenues Available for Debt Service/Annual Debt Service) | 5.13 | 3. | 32 23.96 | 5 28.09 | 12.76 | 7.88 | 3.02 | 2.12 | 2.69 | 2.46 |
| All of the net revenues of the D | listrict are r | lodgod for | the new men | t of the hore | d nrincipal | and interest o | f the First | I ion Povon | ua Randa | Saa Nata O |

All of the net revenues of the District are pledged for the payment of the bond principal and interest of the First Lien Revenue Bonds - See Note 9

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Brownsville Navigation District of Cameron County, Texas Net Revenues Available for Debt Service on Revenue Bonds

Last Ten Fiscal Years (Accrual Basis of Accounting) (Unaudited)

| | | | | | F ISCAI | Year Ended | | | | |
|---|----------------------|---------------------|----------------------|----------------------|----------------------|---------------------|---|---|---------------------|--------------------|
| | 12/31/2017 | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008* |
| Gross Revenues | | | | | | | | | | |
| Operating Revenues | | | | | | | | | | |
| Wharf Operations | \$ 10,588,550 | 8,296,515 | \$ 8,839,423 | \$ 6,734,176 | \$ 5,785,934 | \$ 7,183,128 | \$ 5,824,799 | \$ 4,286,523 | \$ 5,353,121 | \$ 5,229,445 |
| Industrial Development | 10,890,045 | 8,709,256 | 8,702,288 | 7,969,720 | 6,403,675 | 6,031,971 | 5,101,059 | 4,973,262 | 4,613,875 | 4,269,036 |
| Foreign Trade Zone | 452,708 | 430,387 | 412,423 | 411,863 | 402,739 | 451,418 | 431,554 | 410,851 | 379,367 | 302,347 |
| Facilities Maintenance | 63,112 | 2 239,041 | 121,647 | 70,178 | 34,800 | (6,968) | 289,228 | 261,382 | 194,017 | 310,499 |
| Mobile Harbor Crane | 304,28 | 499,537 | 433,065 | 263,173 | 202,306 | 285,306 | - | - | - | - |
| Security | 724,360 | 656,067 | 559,112 | 439,378 | 412,988 | 468,276 | 411,157 | 342,220 | 360,054 | 328,985 |
| Communications & Public Relations | 34,550 | ō - | - | - | - | - | - | - | - | - |
| Environmental Services | - | - | - | - | - | - | - | - | - | 95,740 |
| Engineering & Utilities | 480,479 | 647,808 | 544,724 | 571,709 | 625,974 | 754,329 | 831,452 | 668,698 | 589,249 | 530,033 |
| Water Plant & Distribution System | 124,542 | | 106,580 | 76,101 | 87,176 | 86,117 | 81,789 | 87,878 | 290,165 | - |
| Total | 23,662,633 | | 19,719,262 | 16,536,299 | 13,955,592 | 15,253,578 | 12,971,038 | 11,030,814 | 11,779,847 | 11,066,085 |
| Total | 25,002,053 | 19,393,314 | 19,719,202 | 10,330,299 | 15,955,592 | 13,233,378 | 12,971,038 | 11,050,814 | 11,//9,84/ | 11,000,08. |
| Non-Operating Revenues | | | | | | | | | | |
| Interest on Investments | 526,477 | 321,026 | 279,454 | 296,834 | 352,605 | 337,396 | 454,763 | 526,175 | 595,089 | 810,406 |
| Other | 1,193,624 | 909,634 | 7,789,952 | 15,782,778 | 7,796,071 | 1,150,884 | 782,889 | 2,761,105 | 3,549,185 | 480,950 |
| Total | 1,720,10 | 1,230,660 | 8,069,407 | 16,079,612 | 8,148,676 | 1,488,279 | 1,237,652 | 3,287,280 | 4,144,274 | 1,291,356 |
| Total Gross Revenues | 25,382,734 | 20,826,174 | 27,788,668 | 32,615,911 | 22,104,268 | 16,741,857 | 14,208,690 | 14,318,094 | 15,924,122 | 12,357,441 |
| | | | | | | | | | | |
| Operating Expenses | | | | | | | | | | |
| Maintenance and Operation of Facilities | | | | | | | | | | |
| Wharf Operations | 676,739 | 654,467 | 649,775 | 646,906 | 566,147 | 578,499 | 592,424 | 485,461 | 428,895 | 392,403 |
| Industrial Development | 1,192,150 | 5 224,962 | 190,057 | 223,301 | 253,317 | 369,220 | 248,855 | 321,895 | 340,451 | 614,445 |
| Foreign Trade Zone | 260,632 | 2 224,799 | 112,953 | 113,774 | 112,322 | 131,757 | 121,390 | 114,655 | 108,078 | 102,969 |
| Facilities Maintenance | 2,168,024 | 2,129,819 | 2,098,057 | 1,940,721 | 1,776,528 | 1,787,394 | 1,984,724 | 2,007,620 | 1,980,035 | 1,533,101 |
| Utility Service | 41,140 | ō - | - | - | - | - | - | - | - | - |
| Harbor Mobile Crane | 351,379 | 9 407,787 | 320,189 | 290,959 | 299,191 | 356,054 | - | - | - | - |
| Security | 1,470,310 | | 1,069,513 | 1,118,256 | 1,037,642 | 1,032,737 | 972,004 | 1,010,961 | 966,646 | 760,921 |
| Environmental Services | - | _ | - | - | - | _ | 1,716 | 1,990 | 23,609 | 37,433 |
| Engineering & Utilities | 1,514,183 | 3 1,463,137 | 1,346,258 | 1,348,238 | 1,213,823 | 1,262,570 | 1,330,182 | 1,231,092 | 1,175,697 | 943,752 |
| Communications & Public Relations | 24,555 | | 1,540,250 | 1,540,250 | 1,215,025 | 1,202,570 | 1,550,102 | 1,231,072 | 1,175,057 | 745,152 |
| | | | - רדר 10 | 122 644 | - | 122.052 | 100.020 | 109 745 | 105 752 | - 09 291 |
| Water Plant & Distribution System | 142,41 | | 48,777 | 132,644 | 139,016 | 132,952 | 109,930 | 108,745 | 105,752 | 98,381 |
| Total | 7,841,54 | 6,507,887 | 5,835,580 | 5,814,800 | 5,397,987 | 5,651,184 | 5,361,225 | 5,282,420 | 5,129,163 | 4,483,406 |
| General and Administrative Expenses | 4,535,260 | 4,637,569 | 4,134,077 | 3,718,267 | 3,064,398 | 2,983,398 | 3,080,737 | 3,149,308 | 2,896,954 | 2,723,173 |
| Total Operating Expenses | 12,376,807 | 11,145,456 | 9,969,657 | 9,533,067 | 8,462,386 | 8,634,582 | 8,441,962 | 8,431,727 | 8,026,117 | 7,206,580 |
| | | | | | | | | | | |
| Non-Operating Expenses | 108 F. | 0 | 22 | | | | | | | |
| Interest Expense | 483,595 | | 396,750 | 503,519 | 580,539 | 333,915 | 526,309 | 599,496 | 662,889 | 663,770 |
| Other Expense | 78,13 | 28,895 | 32,644 | 74,026 | 167,256 | 90,083 | 132,585 | 103,900 | 165,378 | 88,314 |
| Total Non-Operating Expenses | 561,720 | 398,847 | 429,394 | 577,546 | 747,794 | 423,998 | 658,895 | 703,395 | 828,267 | 752,085 |
| Total Expenses | 12,938,533 | 3 11,544,303 | 10,399,051 | 10,110,613 | 9,210,180 | 9,058,580 | 9,100,856 | 9,135,123 | 8,854,385 | 7,958,664 |
| Net Revenues Available For Debt Service on Revenue Bonds | <u>\$ 12,444,201</u> | <u>\$ 9,281,871</u> | <u>\$ 17,389,618</u> | <u>\$ 22,505,299</u> | <u>\$ 12,894,088</u> | <u>\$ 7,683,277</u> | <u>\$ </u> | <u>\$ </u> | <u>\$ 7,069,737</u> | <u>\$ 4,398,77</u> |
| | | | | | | | | | | |
| Average Annual Debt Service on Revenue Bonds | \$ 2,356,870 |) \$ 2,481,562 | \$ 725,668 | \$ 801,300 | \$ 1,010,611 | \$ 974,741 | \$ 1,691,389 | \$ 2,441,384 | \$ 2,630,077 | \$ 1,788,097 |
| | | | | | | | | | | |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

Brownsville Navigation District of Cameron County, Texas Revenue Bond Debt Service Requirements

(Unaudited)

This table sets forth the annual debt sevice requirements on the District's Revenue Bonds as of December 31, 2017, excluding bonds that have been refunded and defeased.

| Fiscal Year Ending December 31 | Outstanding Debt Service Requirements |
|-----------------------------------|--|
| 2018 | 3,006,930 |
| 2019 | 3,022,708 |
| 2020 | 3,020,831 |
| 2021 | 3,021,403 |
| 2022 | 2,723,862 |
| 2023 | 2,451,003 |
| 2024 | 2,448,321 |
| 2025 | 2,447,989 |
| 2026 | 2,449,805 |
| 2027 | 2,340,396 |
| 2028 | 2,339,718 |
| 2029 | 2,345,811 |
| 2030 | 2,353,392 |
| 2031 | 2,353,776 |
| 2032 | 2,361,912 |
| 2033 | 2,367,098 |
| 2034 | 2,369,248 |
| 2035 | 2,373,248 |
| 2036 | 2,378,829 |
| 2037 | 2,387,754 |
| 2038 | 2,390,651 |
| 2039 | 1,804,800 |
| 2040 | 1,805,400 |
| Total | <u>\$ 56,564,883</u> |

Demographic and Economic Information

Brownsville Navigation District of Cameron County, Texas Miscellaneous Statistical Data

Last Ten Years (Unaudited)

Brownsville Navigation District Facts:

| Date of Incorporation: | 1936 |
|------------------------|---|
| Form of Government: | A political subdivision of the State of Texas |
| Area: | 40,000 acres |
| Altitude: | 8 feet to 15 feet above mean sea level |

| <u>Year</u> | GDP (a) | National Unemployment (b) | Total U.S. Exports (c) | Total U.S. Imports (c) | U.S. Rig Count (d) | Oil Price \$/Bbl (e) | PMI (f) |
|-------------|---------|------------------------------|---------------------------|---------------------------|-----------------------|-------------------------|---------|
| 2017 | 4.3% | 4.4% | \$ 1,550.7 | \$ 2,361.5 | 875 | \$ 50.80 | 59.3 |
| 2016 | 4.2% | 4.9% | 1,469.8 | 2,209.9 | 517 | 51.97 | 52.7 |
| 2015 | 3.4% | 5.3% | 1510.3 | 2272.9 | 714 | 37.19 | 50.9 |
| 2014 | 3.9% | 6.2% | 1623.4 | 2314.0 | 1,882 | 59.29 | 52.3 |
| 2013 | 4.1% | 7.4% | 1,578.8 | 2,239.8 | 1,771 | 97.63 | 54.0 |
| 2012 | 3.1% | 8.1% | 1,546.5 | 2,251.0 | 1,784 | 111.67 | 50.2 |
| 2011 | 3.0% | 8.9% | 1,480.5 | 2,186.9 | 1,875 | 111.26 | 53.4 |
| 2010 | 2.8% | 9.6% | 1,277.5 | 1,912.1 | 1,546 | 79.48 | 57.3 |
| 2009 | -1.6% | 9.3% | 1,056.0 | 1,559.6 | 1,089 | 61.95 | 46.2 |
| 2008 | 0.0% | 5.8% | 1,287.4 | 2,103.6 | 1,879 | 99.67 | 45.5 |

(a) Gross Domestic Product percent changed based on 2009 dollars. Source: Bureau of Economic Analysis

(b) Annual average unemployment rate per year. Source: Bureau of Labor Statistics

(c) Billions of dollars. Figures for 2016 were not available at the time of the printing of this report. Source: Customs data from Department of Commerce, U.S. Census Bureau

(d) Annual average total U.S. rig count. Source: Baker Hughes rig count data

(e) Cushing, OK WTI spot price. Source: Energy Information Administration (EIA)

(f) Purchasing Managers Index value above 50 means growth. Source: Institute for Supply Management

Brownsville Navigation District of Cameron County, Texas Demographic and Economic Statistics for Cameron County

Last Ten Calendar Years (Unaudited)

Fiscal Per Capita School Unemployment Personal Year Income Median Age Enrollment Population Rate Income 15,457 2017 422,135 31.3 100,731 27,055 6.4% 2016 422,156 15,105 31.2 101,992 6.9% 26,826 2015 420,392 14,898 31.0 103,585 6.9% 25,211 2014 417,296 24,802 103,585 14,405 30.6 8.5% 2013 415,557 14,405 30.6 103,585 10.5% 23,236 2012 406,220 14,183 30.6 101,477 10.2% 23,236 2011 406,220 13,474 101,832 18,550 29.1 11.9% 2010 406,220 13,474 101,832 18,550 29.1 11.1% 2009 387,717 13,377 29.0 100,165 9.9% 18,275 387,717 12,511 18,200 2008 28.8 99,713 7.5%

Source: Cameron County, Texas CAFR

Brownsville Navigation District of Cameron County, Texas Ten Principal Employers

(Unaudited)

Port of Brownsville Employers

| No. | Employer | Type of Activity | 2017 Estimated No. of Employees | % of Total Port of Brownsville Employment | 2008 Estimated No. of Employees |
|-----|---|------------------------|---------------------------------------|---|---------------------------------------|
| 1 | | | 1 0 | <u> </u> | of Employees |
| 1 | Valley Crossing Pipeline | Pipeline Construction | 380 | 10.87% | - |
| 2 | Strike, Inc. | Pipeline Construction | 321 | 9.18% | - |
| 3 | International Shipbreaking Limited, LLC | Ship Breaking/Scrap | 252 | 7.21% | 160 |
| 4 | Brownsville Acquisition, Inc. | Scrap Recycling | 245 | 7.01% | - |
| 5 | Keppel AmFELS, Inc. | Manufacturer | 221 | 6.32% | 2,907 |
| 6 | Bedoli Group, Inc. | Scrap Recycling | 191 | 5.46% | - |
| 7 | Duro Standard Products Co., LLC | Paper Products | 115 | 3.29% | 146 |
| 8 | Brownsville Navigation District | Vessel/Rental Services | 101 | 2.89% | 85 |
| 9 | Gulf Stream Marine | Stevedoring | 100 | 2.86% | 100 |
| 10 | Cumberworth Investments, Inc. | Trucking | 96 | 2.75% | 117 |

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Source: Brownsville Navigation District Industrial Development Department

Cameron County, Texas Employers

| | | | 2017 Estimated No. of | % of Total Cameron County | 2008 Estimated No. |
|-----|-------------------------------|-------------------------|--------------------------|------------------------------|-----------------------|
| No. | Employer | Type of Activity | Employees | Employment | of Employees |
| 1 | Brownsville ISD | Education | 7,670 | 28.79% | 7,625 |
| 2 | Valley Baptist Medical Center | Health Care | 3,971 | 14.91% | 3,000 |
| 3 | Harlingen CISD | Education | 3,321 | 12.47% | 2,500 |
| 4 | Cameron County | Government | 1,950 | 7.32% | 1,528 |
| 5 | Wal-Mart Associates Inc | Retail | 1,784 | 6.70% | 1,735 |
| 6 | UTRGV | Education | 1,734 | 6.51% | 2,077 |
| 7 | San Benito ISD | Education | 1,675 | 6.29% | 1,638 |
| 8 | Amfels | Manufacturer | 1,650 | 6.19% | 2,278 |
| 9 | H-E-B Grocery | Retail | 1,582 | 5.94% | - |
| 10 | Abundant Life Home Health | Medical/Healthcare | 1,300 | 4.88% | - |

Source: Cameron County, Texas CAFR

Operating Information

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Brownsville Navigation District of Cameron County, Texas Table of Physical Characteristics of the Port Facilities of the Port of Brownsville

| (Unaudited) |
|-------------|
|-------------|

| | | Berth Length (Feet) | Berth Width (feet) | Height (feet) | Vessel Draft (feet) | 10ft. Off Dock Special Fendering (feet) | Available Rail |
|---|---------------------------------------|---------------------------|--------------------------|------------------|------------------------|---|---|
| General Cargo Docks Dock No. 1 | General Cargo | 420 | 165 | 14.8 | 27 | 31 | Double depressed track |
| Dock No. 2 | General Cargo | 420 | 165 | 14.8 | 27 | 31 | Double depressed track |
| Dock No. 3 | General Cargo | 440 | 165 | 14.8 | 32 | 36 | Double depressed track |
| Dock No. 4 | General Cargo | 470 | 165 | 14.8 | 27 | 31 | Double depressed track |
| Dock No. 7 | General Cargo | 500 | 140 | 12.8 | 23 | 25 | Double depressed track |
| Dock No. 8 | General Cargo | 500 | 140 | 12.8 | 23 | 25 | Double depressed track |
| Dock No. 10 | Light Draft Vessels | 650 | 280 | 12 | 14 | 18 | (1) Apron Track (2) Double depressed track |
| Dock No. 11 | Deep sea-Open Dock | 626 | 280 | 12 | 36 | | Apron Track |
| Dock No. 12 | General Cargo | 550 | 280 | 12 | 36 | | Double depressed track |
| Dock No. 13 | General Cargo | 550 | 280 | 12 | 36 | | Double depressed track |
| Dock No. 15 | Heavy Duty/Multi purpose open dock | 600 | 145 | 12 | 40 | | |
| Dock No. 16 | Heavy Duty/Multi purpose open dock | 600 | 145 | 12 | 40 | | |
| Liquid Cargo Docks Liquid Cargo Dock | | 30 | 60 | | 39.5 | 40 | |
| Dock No. 1 | | 420 | 120 | 14.8 | 28 | 32 | |
| Dock No. 2 | | 420 | 120 | 14.8 | 27 | 32 | |
| Dock No. 3 | | 420 | 120 | 14.8 | 35 | 38 | |
| Dock No. 5 | | 1100 | 220 | 16.6 | 40 | | |
| Dock No. 6 | under construction | 1345 | 324 | 16.6 | | | |
| Bulk Cargo (Grain E | Elevator) Dock | 400 | 43 | 12 | 39 | 40 | |
| Cargo Storago Faciliti | 05 | | | | | | |

Cargo Storage Facilities

Covered Storage Areas Open Storage Areas 635,000 square feet 3 + million square feet

Tank Storage (private terminals)

3,400,0000 barrels

Cargo Handling Equipment

(2) Mobile Harbor Cranes

Gottwald 100-ton mobile harbor cranes located on Docks 15 & 16

Mobile cranes and additional cargo-handling equipment are owned by the licensed stevedores and freight handlers operating at the Port of Brownsville.

Fishing Harbor

Location Vessle Draft Docks 5 miles east of Turning Basin on Ship Channel 14 ft 8,657 linear ft of marginal docks Three 40 ft finger piers

Brownsville Navigation District of Cameron County, Texas Cargo Statistics for the Port of Brownsville

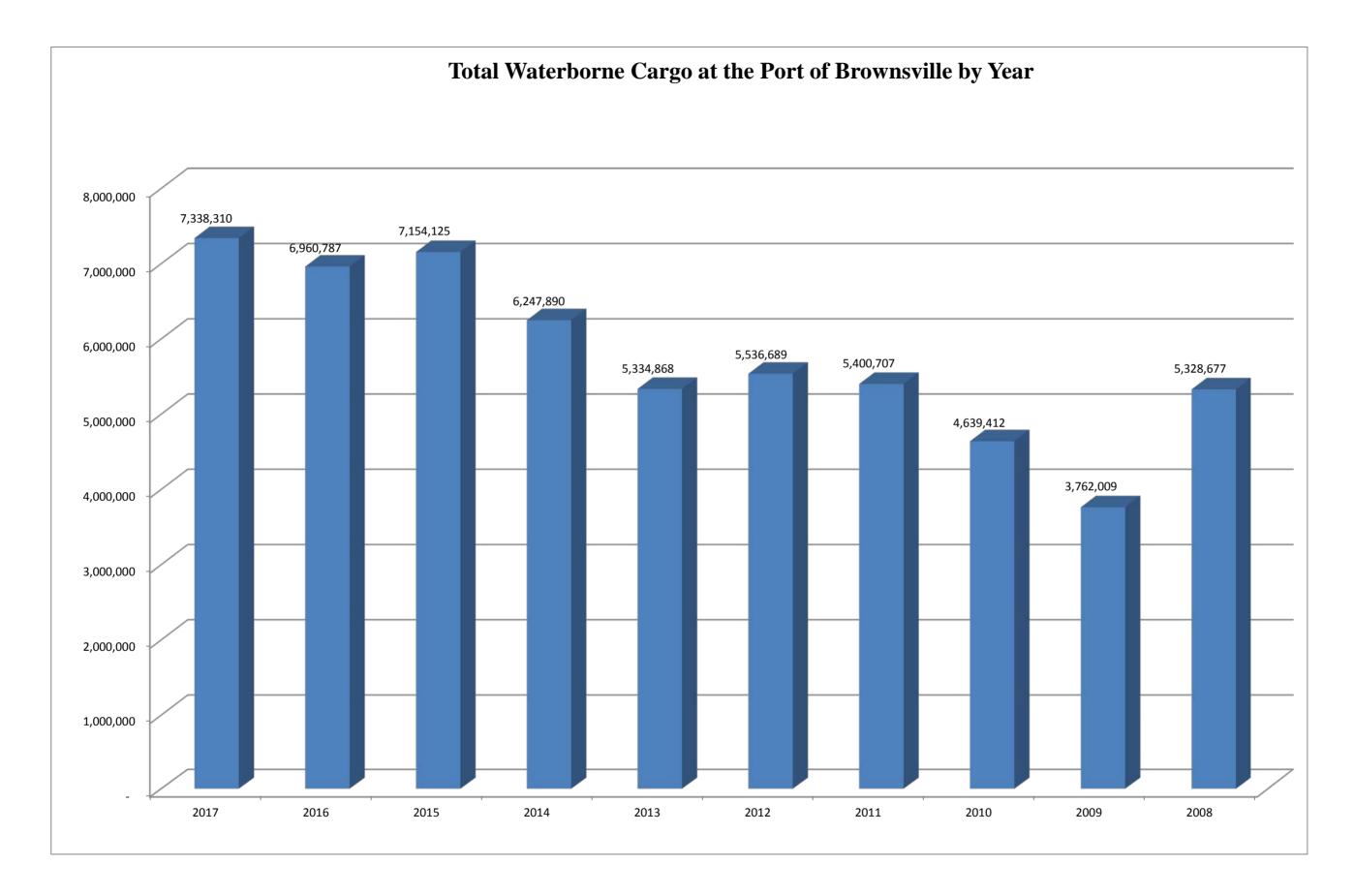
Reported in Metric Tons Last Ten Years (Unaudited)

| | | Breakdo | wn of Waterb | orne Cargo by | Product Classi | ification | | | | |
|---|-----------|-----------|---------------|----------------|----------------|-----------|-----------|-----------|-----------|-----------|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Farm Products | - | - | - | - | - | - | - | 11,709 | - | - |
| Forest Products | - | - | 20 | | | | | | | |
| Metallic Ores | 6,063 | 5,980 | 20,754 | 66,876 | 54,608 | 35,061 | 11,911 | 49,786 | 12,081 | 36,179 |
| Coal | - | - | - | | - | - | - | 13,603 | - | 1,345 |
| Nonmetallic Minerals, Except Fuels | 534,921 | 653,142 | 933,470 | 457,538 | 332,346 | 364,257 | 493,777 | 267,319 | 550,864 | 822,158 |
| Food and Kindred Products | 68,420 | - | - | | 10,493 | - | 5,110 | 2,414 | 3,118 | 1,967 |
| Chemicals and Allied Products | 6,032 | 63,554 | 23,679 | 29,705 | 49,366 | 45,240 | 28,311 | 9,996 | - | 8,467 |
| Petroleum and Coal Products | 4,330,383 | 3,906,192 | 3,823,846 | 3,220,882 | 3,115,995 | 2,825,286 | 2,932,034 | 2,784,654 | 2,084,578 | 2,268,068 |
| Rubber and Miscellaneous Plastic Products | - | - | - | | - | - | - | - | 19 | - |
| Stone, Clay and Concrete Products | 14,001 | 252 | - | | - | - | - | - | - | 2,914 |
| Primary Metal Products | 2,174,706 | 2,237,335 | 2,256,784 | 2,333,491 | 1,576,543 | 2,018,001 | 1,648,311 | 1,358,982 | 999,004 | 2,036,628 |
| Fabricated Metal Products | 46,608 | 43,309 | 37,545 | 11,977 | - | 8,220 | - | 1,347 | - | 724 |
| Lumber and Wood Products | 79,158 | 372 | | | | | | | | |
| Machiners | - | 252 | 1,004 | 4,472 | - | - | 309 | 158 | 124 | 776 |
| Special Items | 818 | 8,112 | 3,127 | 3,270 | 2,878 | 7,592 | 1,954 | 1,677 | 12,581 | 5,350 |
| Transportation Equipment | 81 | 535 | 586 | 222 | - | - | - | 384 | 223 | 379 |
| Miscellaneous Prducts of Manufacturing | - | - | - | | - | - | - | - | 254 | - |
| Waste and Scrap Materials | 71,316 | 35,962 | 48,221 | 115,192 | 188,633 | 229,612 | 273,209 | 131,334 | 94,092 | 120,676 |
| Water | 5,803 | 5,790 | 5,089 | 4,264 | 4,004 | 3,420 | 5,781 | 6,049 | 5,072 | 23,045 |
| Total | 7,338,310 | 6,960,787 | 7,154,125 | 6,247,890 | 5,334,868 | 5,536,689 | 5,400,707 | 4,639,412 | 3,762,009 | 5,328,677 |
| | | Sum | mary of Water | rborne Cargo b | y Movement T | Гуре | | | | |

| | | | Sum | mary of Water | rborne Cargo b | y Movement T | Гуре | | | | |
|-----------------|---------------------------|-----------|-----------|---------------|----------------|--------------|-----------|-----------|-----------|-----------|-----------|
| | | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
| Foreign | | | | | | | | | | | |
| Imports | | 3,148,009 | 3,069,005 | 3,651,992 | 2,912,016 | 1,995,829 | 2,805,683 | 2,800,164 | 2,400,429 | 2,541,299 | 3,295,768 |
| Exports | | 798,782 | 495,349 | 687,250 | 247,007 | 271,498 | 125,565 | 456,067 | 345,284 | 167,746 | 289,582 |
| | Total Foreign | 3,946,791 | 3,564,354 | 4,339,242 | 3,159,023 | 2,267,327 | 2,931,248 | 3,256,231 | 2,745,713 | 2,709,044 | 3,585,350 |
| Coastwise | | | | | | | | | | | |
| Receipts | | 1,589,505 | 1,690,879 | 1,238,634 | 1,237,280 | 1,333,951 | 918,999 | 614,069 | 645,230 | 164,403 | 318,599 |
| Shipments | | 115,522 | 544,982 | 426,847 | 622,411 | 646,736 | 406,378 | 88,237 | 15,569 | 11,711 | 58,684 |
| | Total Coastwise | 1,705,027 | 2,235,861 | 1,665,481 | 1,859,691 | 1,980,687 | 1,325,377 | 702,306 | 660,799 | 176,114 | 377,283 |
| Interncoastal | | | | | | | | | | | |
| Receipts | | 1,457,353 | 959,848 | 761,379 | 716,173 | 538,336 | 716,208 | 764,584 | 673,247 | 393,227 | 843,941 |
| Shipments | | 229,139 | 200,724 | 388,024 | 513,004 | 548,518 | 563,857 | 677,586 | 559,652 | 483,624 | 522,103 |
| | Total Intercoastal | 1,686,492 | 1,160,572 | 1,149,402 | 1,229,176 | 1,086,854 | 1,280,064 | 1,442,170 | 1,232,899 | 876,851 | 1,366,044 |
| Total Imports | | 2 148 000 | 2 060 005 | 2 651 002 | 2 012 016 | 1 005 820 | 2 905 692 | 2 800 161 | 2 400 420 | 2 541 200 | 2 205 769 |
| Total Imports | | 3,148,009 | 3,069,005 | 3,651,992 | 2,912,016 | 1,995,829 | 2,805,683 | 2,800,164 | 2,400,429 | 2,541,299 | 3,295,768 |
| Total Exports | | 798,782 | 495,349 | 687,250 | 247,007 | 271,498 | 125,565 | 456,067 | 345,284 | 167,746 | 289,582 |
| Total Receipts | | 3,046,858 | 2,650,727 | 2,000,012 | 1,953,453 | 1,872,288 | 1,635,207 | 1,378,653 | 1,318,477 | 557,631 | 1,162,540 |
| Total Shipments | | 344,661 | 745,706 | 814,871 | 1,135,415 | 1,195,253 | 970,234 | 765,823 | 575,221 | 495,334 | 580,787 |
| | Total | 7,338,310 | 6,960,787 | 7,154,125 | 6,247,890 | 5,334,868 | 5,536,689 | 5,400,707 | 4,639,412 | 3,762,009 | 5,328,677 |

*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.





*Fiscal year changed from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ended 12/31/2008 was for 10 months only.

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Brownsville Navigation District of Cameron County, Texas Vessel Calls by Type of Vessel at the Port of Brownsville

Last Ten Years (Unaudited)

| | Fiscal Year | | | | | | | | | | | |
|------------------------|-------------|-------|-------|-------|-------|-------|-------|------|------|-------|--|--|
| _ | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | | |
| Barges | 741 | 525 | 632 | 653 | 618 | 707 | 858 | 657 | 419 | 733 | | |
| Cargo Vessels | 44 | 29 | 131 | 118 | 102 | 124 | 110 | 77 | 80 | 158 | | |
| Deck Barges | 1 | - | 3 | - | 8 | 5 | - | 1 | 1 | 1 | | |
| Drilling Rig | 6 | 12 | 19 | 3 | 4 | 3 | 10 | 4 | 2 | 5 | | |
| Fishing Vessels | - | - | - | - | - | - | - | - | - | 18 | | |
| Miscellaneous | 340 | 322 | 177 | 127 | 91 | 62 | 84 | 77 | 12 | 39 | | |
| Ocean Barges | 92 | 123 | 51 | 51 | 111 | 78 | 46 | 55 | 42 | 23 | | |
| Scrap Vessels / Barges | 7 | 6 | 9 | 15 | 27 | 32 | 37 | 36 | 20 | 29 | | |
| Tankers | 86 | 74 | 118 | 92 | 69 | 72 | 92 | 79 | 75 | 93 | | |
| 92 Total | 1,317 | 1,091 | 1,140 | 1,059 | 1,030 | 1,083 | 1,237 | 986 | 651 | 1,099 | | |

Brownsville Navigation District of Cameron County, Texas Annual Employment

Last Ten Calendar Years

(Unaudited)

| | | | | | Fiscal Year | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|--------------------|-------------|-------------|-------------|-------------|-------------|
| _ | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| Hourly/Salaried Employees | | | | | | | | | | |
| Hourly Employees (Non-Exempt) | 76 | 74 | 74 | 75 | 73 | 74 | 73 | 73 | 71 | 67 |
| Salaried Employees (Exempt) | 25 | 25 | 24 | 21 | 19 | 19 | 16 | 19 | 18 | 18 |
| | 101 | 99 | 98 | 96 | 92 | 93 | 89 | 92 | 89 | 85 |
| Operations Employees | | | | | | | | | | |
| Hourly Employees (Non-Exempt) | 58 | 58 | 56 | 58 | 57 | 58 | 58 | 60 | 59 | 56 |
| Salaried Employees (Exempt) | 9 | 9 | 9 | 10 | 6 | 5 | 3 | 6 | 6 | 6 |
| | 67 | 67 | 65 | 68 | 63 | 63 | 61 | 66 | 65 | 62 |
| Administrative Employees | | | | | | | | | | |
| Hourly Employees (Non-Exempt) | 18 | 16 | 18 | 17 | 16 | 16 | 15 | 13 | 12 | 11 |
| Salaried Employees (Exempt) | 16 | 16 | 15 | 11 | 13 | 14 | 13 | 13 | 12 | 12 |
| | 34 | 32 | 33 | 28 | 29 | 30 | 28 | 26 | 24 | 23 |

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COMPLIANCE SECTION

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Carr, Riggs & Ingram, LLC 3125 Central Boulevard Brownsville, Texas 78520

(956) 546-1655 (956) 546-0377 (fax) CRIcpa.com

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

Board of Navigation and Canal Commissioners Brownsville Navigation District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Brownsville Navigation District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Brownsville Navigation District's basic financial statements and have issued our report thereon dated July 20, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Can Rigger & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Brownsville, Texas July 20, 2018



BROWNSVILLE NAVIGATION DISTRICT 1000 FOUST ROAD

PH: 956.831.4592 / FAX: 956.831.5001

www.portofbrownsville.com