

Brownsville Navigation District
OF CAMERON COUNTY, TEXAS

Comprehensive Annual Financial Report
FOR THE YEAR ENDED DECEMBER 31, 2011

Prepared By:
The Finance and Administration Department
Brownsville Navigation District

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	1-14
Principal Officials.....	15
Organizational Chart.....	16
FINANCIAL SECTION	
Independent Auditor's Report.....	17-19
Management's Discussion and Analysis.....	21-26
Basic Financial Statements:	
Statement of Net Assets.....	27-30
Statement of Revenues, Expenses and Changes in Net Assets.....	31-32
Statement of Cash Flows.....	33-35
Notes to the Financial Statements.....	36-67
REQUIRED SUPPLEMENTARY INFORMATION	
Analysis of Funding Progress.....	69
OTHER SUPPLEMENTAL INFORMATION	
Schedule of Operating Expenses.....	71
STATISTICAL INFORMATION (Unaudited)	
Financial Trend:	
Net Assets by Component.....	75
Changes in Net Assets.....	76
Revenue Capacity:	
Ad Valorem Property Taxes.....	77
Ten Principal Taxpayers.....	78
Operating Revenue and Expenses by Type.....	79
Vessel Services Revenue.....	80-81
Principal Customers for Vessel Services.....	82
Lease Rental Revenues.....	83
Principal Customers for Lease Rentals.....	84
Debt Capacity:	
Ratios of Net General Bonded Debt by Type.....	85

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

TABLE OF CONTENTS - CONTINUED

	<u>PAGE</u>
STATISTICAL INFORMATION (Unaudited) – Continued	
Debt Capacity – Continued:	
Revenue Bond Debt Service Requirements.....	86
Net Revenues Available for Debt Service on Revenue Bonds.....	87
Revenue Bond Debt Service Requirements.....	88
Demographic and Economic Information	
Miscellaneous Statistical Data.....	89
Demographic and Economic Statistics	90
Ten Principal Employers	91
Operational Information:	
Table of Physical Characteristics of the Port Facilities of the Port of Brownsville.....	93
Cargo Statistics.....	94-95
Vessel Calls by Type of Vessel.....	96
Annual Employment.....	97
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	99-101

INTRODUCTORY SECTION



May 02, 2012

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, 2011. 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. 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 89 employees as of December 31, 2011.

Mission Statement

The Port of Brownsville will be a leader in developing economic opportunities, improving the quality of life, creating the best transportation facilities possible, and exhibiting high standards of public administration . . . all with the goal of making the Brownsville area a great place to live and do business.

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 that flows into the Gulf of Mexico at the Brazos Santiago Pass. The City of Brownsville is two miles to the southwest and lies 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. The 17-mile ship channel has no bridges or other obstructions for the entire length of this virtually straight waterway. Currently the channel has a depth 42 feet to within .85 mile 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. The Turning Basin has a width of 1,200 feet. The District is currently completing the studies phase in conjunction with the U. S. Corps of Engineers to deepen the easternmost section of the channel to a depth of up to 50 feet and to widen the controlling width to 350 feet.

Business of the District

The District owns a diverse group of facilities designed for handling any type of cargo, including general cargo, containers, grain, 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 waste water treatment plants. The District is also the grantee for FTZ No. 62 and has been authorized by TxDOT to issue overweight permits for transit over a 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 plus a 30-foot small craft dock. Four Oil Docks, a 400 foot Bulk Cargo Dock serving the Grain Elevator and Bulk Plant, a Liquid Cargo Dock, an Express Dock and a 600 by 280 foot deepwater General Cargo Dock are located in the

Turning Basin Approach which is 7,000 feet long with a 650 foot bank width and a 500 foot controlling bottom width. A privately-owned 3,750,000 bu. capacity grain elevator as well as corrugated iron, sprinklered, cargo transfer sheds; open-surface storage yards; 43 miles of railroad trackage and mechanical freight handling equipment augment the Port of Brownsville's ability to handle a wide variety of cargos.

The District has purchased and put into operation a mobile harbor crane, located at the deepwater General Cargo Dock (Dock 15). This crane, while designed to handle container cargo, has proven its worth in the efficient handling of steel and bulk products. The District is currently seeking funding to construct a second, deepwater General Cargo Dock (Dock 16) adjacent to Dock 15. The mobile harbor crane would be able to service both docks.

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, and is equipped with all necessary facilities for handling and processing fish and shrimp, as well as maintaining and servicing shrimp vessels. In addition, support industries for the Port of Brownsville's oil rig construction facility have 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, except Shed No. 2, are protected with automatic fire sprinkler systems, 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. Storage capacity and pressure equalization are provided by one 500,000 gallon and one 1,000,000 gallon elevated water storage tank.

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.

All docks at the Port of Brownsville are equipped with electric lights, light and power lines, and fresh water. All docks are 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 KeppelAMFELS for operation as a dry dock to repair drilling rigs. KeppelAMFELS subsequently exercised their option to purchase the *Solomon P. Ortiz*. The dry dock was placed into service by KeppelAMFELS in May, 1996, and is now one of the few dry docks on the Gulf Coast carrying out oil rig repairs.

The District owns and controls approximately 40,000 acres of land adjoining the Turning Basin and Ship Channel, and approximately 18,000 acres of this land have been developed as an industrial park with additional land available for development. Developed and undeveloped sites are available for lease for cargo facilities, industrial sites, expansion, relocation, manufacturing, greenfield projects, and more.

In recent years over \$150 million worth of industrial development has been located on Port property, including petro-chemical plants, tank farms, heavy and light manufacturing, seafood processing, steel fabrication, and a grain elevator and storage facility. 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 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.

Table 1 – Waterborne Cargo Tonnage for The Port of Brownsville

Calendar Year ¹	Inbound Tonnage	Outbound Tonnage	Total Tonnage	Number of Vessels ⁽¹⁾	Foreign Trade Zone Value(1,000's) ⁽²⁾
1991	1,904,852	236,806	2,141,658	3,346	2,387,046
1992	1,615,230	364,370	1,979,600	3,180	2,570,000
1993	1,863,115	385,954	2,249,069	3,325	2,720,000
1994	2,206,041	340,725	2,546,766	2,852	3,182,000
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

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 Railroad

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

Fiscal Year 2008	\$ 747,554
Fiscal Year 2009	753,311
Fiscal Year 2010	772,925
Fiscal Year 2011	\$ 0
Total	\$ 2,273,790

Projects completed by the BRG with these excess revenues have included the construction of new rail, the rehabilitation of existing rail and rail crossings, the installation of a new rail scale and improvements to the maintenance facility buildings of the BRG. Total capital expenditures were \$1,284,539, with the remaining balance of \$989,252 being carried as a receivable by the District at the end of fiscal year 2011. These funds were transferred to the District in early 2011. An agreement was executed by the two Boards on April 20, 2011 which dedicated the entire remaining balance of excess cash from fiscal years 2008 and 2009, all of the excess cash from fiscal year 2010, and enough of the excess cash from 2011 as is required to complete the project, to the construction of a new rail yard, the "North Yard". There were no excess funds to be transferred to the District for fiscal year 2011. The District has reserved the funds received from the BRG for this purpose, and work on this project has begun in the first quarter of 2012. Further information regarding the BRG may be found in Note 13.

Port of Brownsville Infrastructure

The District owns and operates the following General Cargo and Liquid Cargo docks at the Port of Brownsville:

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
Oil Docks 1,2&3	Liquid Cargos	Light 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	Light Draft Vessels	South Side-TB Approach
Liquid Cargo Dock	Liquid Cargos	Light 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 of Turning Basin
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.

Capital Improvements Program

In an election held on October 19, 1991, voters in the District authorized, by a margin of 90%, commencement of a major capital improvements program. The \$63 million project was designed to expand and modernize the Port facilities and increase capabilities by: (1) construction of a Port of Brownsville/Matamoros cargo bridge including access and Port of Entry facilities (\$21 million); (2) widening and deepening the ship channel from 36 to 42 feet (\$17 million); and (3) improvements to Port dock and wharf space (\$5 million). The federal government authorized \$20 million for the U. S. Army Corps of Engineers to spend on the channel deepening project.

In the October 1, 1991 election, District voters approved the following:

Bonds Authorized	Purpose	For	Against	Balance Authorized but Unissued
\$21,000,000	International Bridge Project	2,373	242	8,000,000
\$17,000,000	Channel Deepening	2,348	247	-0-
\$5,000,000	Waterfront Improvement	2,346	254	-0-

The Channel Deepening Project was completed, on budget and on time, in April of 1995. The Waterfront Improvement project provided a new, deep-water liquid cargo dock, Oil Dock 5, as well as maintenance to other waterfront facilities. The International Bridge Project has received its United States Presidential Permit, and is currently awaiting a similar permit from the President of Mexico before construction may begin.

In 1996, the District issued \$7,250,000 in revenue bonds to finance the construction of a new, deep-water General Cargo Dock, General Cargo Dock No. 15. These funds were combined with a grant from the EDA to construct a \$12,000,000 facility that is one of the premier docks on the Gulf Coast today. The District has recently completed construction of a 100,000 square foot warehouse, a 60,000 square foot warehouse with overhead cranes on the dock as well as two rail spurs to serve the dock.

In 2000, the District issued \$4,000,000 in tax bonds to reimburse the District for costs incurred in connection with the construction of an international bridge across the Rio Grande River. In 2000, the District also issued \$4,000,000 in revenue bonds to acquire 3,000 acres of land for the expansion of the System. In 2002, the District issued \$1,790,000 in revenue bonds and \$1,900,000 in revenue bonds subject to alternative minimum tax (AMT) to finance improvements at the Port.

To take advantage of the increase in containerization in the shipping industry, the District has purchased a mobile harbor crane capable of handling Panamax-class vessels for use at General Cargo Dock No. 15. Additional improved storage areas have been developed in the area adjacent to the dock for container storage, as well as project cargos received at the Port.

The District continually works to diversify the cargo mix at the Port of Brownsville. The forecast for steel and liquid products for 2012 is optimistic, and the District has added in excess of 10 acres of open cargo storage area to prepare for the increase in cargo volumes. These new storage areas have already been put into service in the first quarter of 2012 with the movement of wind tower components through the Port of Brownsville.

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 12,000 acres under lease, generating a total annual revenue of \$5,152,653.

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 District-owned buildings, the rental rates are set at 15% of the valuation on an annual basis. The current table of land rental rates is as follows:

Land Rental Rates

Lease Type	Current Rates
TURNING BASIN LEASES	
Waterfront Property	\$5,844 per acre/year
Highway Frontage	\$3,819 per acre/year
Port Entrance Sites	\$3,403 per acre/year
Inside Port/Off Waterfront	\$2,025 per acre/year
Remote Sites	Negotiated Rates
Grazing Leases	\$2.25/acre/year
Tower Sites	\$17,000/site/year
Sign Sites	\$80/site/year
Fish Camps	\$350/camp/year
Billboards	Market Rate
FISHING HARBOR LEASES	
Water Front	\$4,494 per acre/year
Off-Water	\$4,156 per acre/year
Fishing Harbor Dock	\$1.25 per linear ft./month
Unimproved Bank Space	\$.75 per front ft. per month

Additional information regarding operating leases may be found in Note 11, 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 35 years are permitted for ground lease rentals under Texas law. Lease terms in excess of 35 years are available if advertised for competitive bidding. The District offers several advantages to industries interested in locating in the Brownsville area for the benefits the area provides. 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. The land rental rates are some of the most competitive in the area. 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 Motor Carrier Division, 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 the U. S. 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, 2011, a total of 451,280 overweight permits have been sold, generating \$11,579,957 in maintenance funds for TxDOT.

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 well-diversified, based on agricultural production, fishing industries, manufacturing plants, and tourism. Major agricultural crops include oranges, grapefruit, cotton, grains and sugar cane. Principal manufacturing products include off-shore drilling platforms, fiberglass products, dairy products, clothing, electric equipment, and frozen foods. The County is the only port of entry from Mexico that provides all four methods of transportation – sea, air, highway, and rail. Tourism attractions include South Padre Island, Laguna-Atascosa Wildlife Refuge, the Confederate Air Force Flying Museum, 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, which it joins by four international bridges. The City 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.

The City of Brownsville and the Port of Brownsville are collaborating in the critical effort to ensure that the future local economy can create the quality jobs that will be required. In addition to improving the education of the local workforce, they recognize that they must address the prevention and wellness initiatives that will help create a local workforce with true competitive advantages to attract and retain businesses.

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 floating 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.

Major Initiatives and Accomplishments

- **Marine Highway** – One of the District’s major accomplishments during 2010 was to be selected to receive the U. S. Department of Transportation’s designation of its Cross Gulf Container Expansion Project as a Marine Highway corridor, the “M-10”. The Marine Highway initiative’s purpose is to alleviate congestion on America’s roadways by moving more cargo on its waterways. The Cross Gulf Container Expansion Project is a container-on-barge service that connects the Port of Brownsville directly with Port Manatee in Florida. The project was awarded a \$3.34 million grant by the Department of Transportation for infrastructure improvements and equipment at both the ports of Brownsville and Manatee. The Port is actively working with its Marine Highway partners at the U. S. Maritime Administration (MARAD) and Port Manatee to secure an operator for the Cross-Gulf Container Expansion Project.
- **Cameron County Regional Mobility Authority Roads Projects** – In 2004, Governor Perry approved Cameron County’s request for the creation of the Cameron County Regional Mobility Authority (CCRMA). The purpose of the CCRMA is to provide Cameron County with an opportunity to accelerate needed transportation projects and have a local entity in place to make decisions on these projects that will be of benefit to its service area. The focus of the CCRMA is to enhance the economic vitality of the lower Rio Grande Valley. The Brownsville Navigation District has worked in cooperation with the CCRMA on a number of projects that enhance the landward access to the Port of Brownsville. The widening of FM 511 between Expressway 77/83 and the Port of Brownsville was completed in early 2010. This was followed by the initiation of two companion projects, the construction of a new truck route, SH 550, to bring truck traffic to the Port of Brownsville, and the construction of a connector road between an existing Port road and the terminus of SH 550. The connector road was completed in 2011, with the anticipated completion date of the new truck route now set at December 2012. The CCRMA is also in the planning stages for the “East Loop” project which will re-route truck traffic between the Port of Brownsville and the international bridges, away from heavily traffic-congested areas of the City. These projects coordinated with the District’s internal road rehabilitation project, which is now complete, to improve the accessibility to the Port by its trucking industry. The final piece of this transportation system improvement package, that of the direct connection of SH 550 to Expressway 77/83, has been scheduled to be let for construction in mid-2012. This is all part of a transportation system that will provide seamless access for truck traffic from northern points, through the Port of Brownsville and on to the international bridge crossings into Mexico.
- **Lease Rental Rate Increase** – The Brownsville Navigation District has approximately 5,000 acres developed for industrial use. The various sites within the Port are leased to its customers for their commercial use; in the past, land has not been sold by the District

for industrial development. In 2007, the District's Board of Commissioners commissioned a study of the lease rental rates at the Port of Brownsville as a part of its master planning process. These rates had not been adjusted since 1982. As a result of the study, new lease rental rates have been established, and were officially adopted by the Board of Commissioners on December 1, 2010. These rates have already been implemented for new leases, and began to be phased in for existing tenants in July, 2011. The new rates will be fully implemented by 2016. At that point, the lease rental rates at the Port of Brownsville will be subject to an annual adjustment based on the Consumer Price Index. In 2011, the implementation of the lease rental rate increases for current lessees resulted in an annualized increase in lease rental revenue of \$161,030.

- **Cargo Revenues** – The District derives approximately 45% of its operating revenues from Vessel and Cargo Operations at the Port of Brownsville. 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. In 2011, the Port of Brownsville saw an increase in nearly every classification of cargo, with an overall increase in cargo of 16%, or 759,965 metric tons.
- **Bridge Project Impairment** - The District is recording an amortization of \$1,110,000 against the plans and specifications prepared for the Port Bridge Project. That project was deemed to be impaired in prior fiscal years, and the cost of the impairment was charged to Net Assets. The costs to obtain the U. S. Presidential Permit were capitalized as a component of the land that the Permit authorized for the project, and the cost of the plans and specifications delivered by the engineer on the project will be amortized over four years at \$1,110,000 per year. Fiscal year 2011 is the third year to be affected by this amortization expense.
- **TIGER Grant Funding Projects** – As a part of the ARRA economic stimulus, the Federal government had a grant program for transportation projects entitled the Transportation Investment Generating Economic Recovery (TIGER) Grant Program. This grant program was specified for “shovel-ready” projects. The District applied for funding of a comprehensive transportation project that centered on the construction of a new deep draft cargo dock. Although the District's grant applications have not been successful to date, the District has submitted an application for the TIGER Grant that was announced in early 2012. The District will continue to consider participation in any future TIGER Grant Programs as they are announced.
- **Homeland Security Enhancements** – Homeland Security has placed a number of requirements for enhanced security in the Port of Brownsville in the past several years. The District has applied for project funding under four grant offerings, receiving awards of a total of \$9,410,308 which require a funding match by the District of \$3,114,727. These projects are underway, and are providing security enhancements at the Port of Brownsville. As new grants are announced, the District will continue to apply for the funding provided.
- **New Cargo Storage Areas** - During the years 2007 through 2011, the District invested in upgrading its mobile equipment. This new fleet of equipment has been put to use in

increasing the District's capacity by clearing and stabilizing new cargo storage areas. 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 through the Port of Brownsville.

- **Rolling Stock and Heavy Equipment Purchases** – In the fourth quarter of 2011, the District placed orders for 8 new pickup trucks, a maintainer and a bucket/lift truck. The total of these purchases was \$445,000. Due to the fact that these items had not been shipped or invoiced by the end of 2011, they were not recognized in the District's financials. Delivery dates for this equipment is in the first quarter of 2012.

Financial Information

The accounting policies of the District and this report conform to accounting principles generally accepted in the United States of America for local governmental units as prescribed by the Government Accounting Standards Board. 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 Audit Opinion letter which provides an analytical overview of the District's financial activities and serves as an introduction to the basic financial statements.

Independent Audit

The financial statements for the year ended December 31, 2011 listed in the foregoing Table of Contents was audited by independent auditors selected by the Board of Navigation and Canal Commissioners. The audit opinion, rendered by Long Chilton, LLP, is included in the financial section of this report.

Certificate of Achievement

The District has prepared this Consolidated Annual Financial Report under the guidelines established by the Government Finance Officers Association of the United States and Canada (GFOA) for their consideration of the CAFR in their Certificate of Achievement for Excellence in Financial Reporting Program. 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 principals and applicable legal requirements.

The District's management believes that this comprehensive annual financial report meets the Certificate of Achievement Program's requirements, and it will be submitted to the GFOA to determine its eligibility to be awarded this Certificate of Achievement. This will be the District's first submission of its CAFR to the GFOA for review.

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,



Deborah Lee Duke
Director of Finance and Administration



Eduardo A. Campirano
Port Director and CEO

Brownsville Navigation District of Cameron County, Texas

DIRECTORY OF OFFICIALS

NAVIGATION AND CANAL COMMISSIONERS

John Reed	Chairman
Ralph Cowen	Vice Chairman
Sergio Tito Lopez	Secretary
Martin C. Arambula	Asst. Secretary
Carlos R. Masso	Asst. Secretary

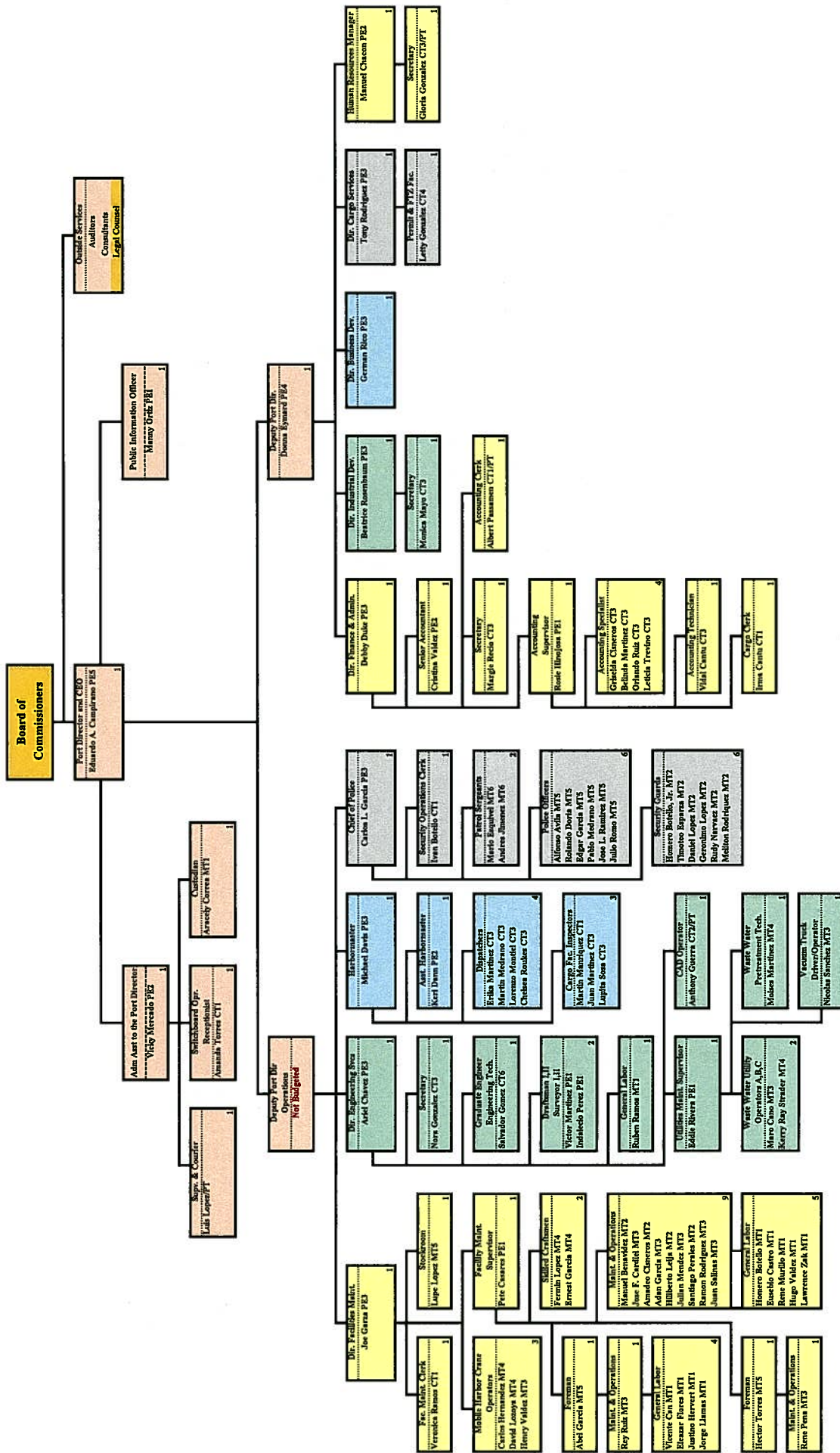
ADMINISTRATION

Eduardo A. Campirano	Port Director and CEO
Donna Eymard	Deputy Port Director
Deborah Lee Duke	Director of Finance and Administration
Ariel Chavez, II	Director of Engineering Services
Michael Davis	Harbormaster
Chief Carlos L. Garcia	Chief of Police
Jose G. Garza, Jr.	Director of Facilities Maintenance
German Rico	Director of Business Development
Antonio Rodriguez	Director of Cargo Services
Beatrice Rosenbaum	Director of Industrial Development
Cristina Valdez	Senior Accountant

CONSULTANTS AND ADVISORS

Certified Public Accountants	Long Chilton, L. L. P Brownsville, Texas
Legal Counsel	The Rentfro Law Firm Brownsville, Texas
Financial Advisor	Estrada Hinojosa & Company Dallas, Texas
Bond Counsel	Akin, Gump, Strauss, Hauer & Feld, L. L. P. San Antonio, Texas

Brownsville Navigation District Organizational Chart
Effective Date January 1, 2012



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the Brownsville Navigation District of Cameron County Texas as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Brownsville Navigation District of Cameron County Texas' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Brownsville Navigation District of Cameron County, Texas, as of December 31, 2011, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the Brownsville Navigation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 21 to 26 and the Analysis of Funding Progress on page 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brownsville Navigation District of Cameron County Texas' financial statements as a whole. The introductory section, other supplementary information and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section, other supplementary information, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Long Chilton LLP". The signature is written in a cursive, flowing style.

Brownsville, Texas
March 30, 2012

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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, 2011. We encourage readers to consider the information presented here in conjunction with the financial statements following this section and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- **Bond Refundings** – The District refunded two of its General Obligation Bonds and one of its First Lien Revenue Bonds during 2011. The net present value of the savings on the refunding of the General Obligation Bonds was \$222,609. The net present value of the savings on the refunding of the First Lien Revenue Bonds was \$287,456. These savings will be realized over the remaining lives of the bonds, which mature in 2020 (General Obligation Bonds) and in 2021 (First Lien Revenue Bonds).
- **Bond Rate Reset** – The District has two outstanding First Lien Revenue Bonds, Series 2002A and Series 2002B that are subject to a rate reset every five years. On March 1, 2012, the rates on the remaining maturities of these bonds were reset from 4.437% to 1.278%. The total outstanding principal on these two bonds at March 1, 2012 is \$2,490,000, and the final maturity date is 2022. These bonds will be subject to another rate reset on March 1, 2017. The annual interest savings for the first year from this rate reset is \$78,659.
- The assets of the District exceeded its liabilities at the close of the current fiscal year by \$102,032,322 (net assets). Of this amount, \$7,394,664 (unrestricted net assets) may be used to meet the District's ongoing obligations to creditors.
- Operating revenues for fiscal year 2011 were \$12,971,037; in fiscal year 2010 operating revenues were \$11,030,814. The increase in operating revenues is attributable to an increase in vessel services due to increased traffic and an increase in lease rentals due to new leases on Port property and the implementation of a lease rental rate increase for current lessees in July, 2011
- Revenues from vessel services related to cargo traffic were \$6,071,290 in fiscal year 2011, an increase over fiscal year 2010's figure of \$4,598,057, or 32%.
- Revenues from lease rentals and other operating revenues in fiscal year 2011 were \$6,899,747, and increase from fiscal year 2010's figure of \$6,432,757, an increase of 7.3%.
- Operating expenses, other than depreciation, for fiscal year 2011 were \$8,435,659. This compares equitably to the operating expenses for fiscal year 2010 which were \$8,455,421.
- Operating income (before depreciation) was \$4,535,378 for fiscal year 2011. This compares against the operating income for fiscal year 2010 of \$2,575,393.
- Non-operating income, net of non-operating expenses, was \$2,432,132 for fiscal year 2011. This compares to the prior fiscal year's non-operating income of \$3,573,893. The major component of this difference is attributable to Grant Revenues, which for fiscal year 2011 were \$102,464 and in fiscal year 2010 were \$1,061,585.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements include a discrete presentation of the financial statements of the District's only component unit, the Brownsville and Rio Grande International Railroad. The District's basic financial statements consist of the following: Notes to the Financial Statements.

The Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators as to whether the District's financial health is improving or deteriorating.

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

The Statement of Cash Flows reports how the District's cash and cash equivalents were used in and provided by its operating, non-capital financing, capital and related financing, and investing activities during the periods reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash and cash equivalent balances at December 31, 2011. These statements are prepared on a cash basis and only present cash receipts and cash disbursement information. The District uses the direct method of presenting cash flows, which includes a reconciliation of operating activities to operating income.

Notes to the Financial Statements. The financial statement disclosures are an integral part of the financial statements. Such disclosures are essential to a full understanding of the information provided in the fund financial statements. These notes can be found on pages 36-67.

FINANCIAL ANALYSIS

The District's financial health is reflected in the current year financial statements. The fiscal year ending December 31, 2011 showed total net assets of \$102,032,322, which are summarized as follows:

Condensed Statement of Net Assets

	<u>12/31/2011</u>	<u>12/31/2010</u>
Current and Other Assets	\$ 34,663,314	\$ 33,720,103
Capital Assets	106,818,117	107,936,781
Total Assets	141,481,431	141,656,884
Long-Term liabilities outstanding	24,410,300	32,745,434
Other liabilities	15,038,809	11,206,222
Total Liabilities	39,449,109	43,951,656
Net Assets:		
Invested in capital assets, net of related debt	87,750,239	85,432,090
Restricted for:		
Revenue bond debt retirement and contingency	3,187,128	3,143,835
General obligation bond debt service	3,700,291	3,722,998
Unrestricted	7,394,664	5,406,305
Total Net Assets	\$ 102,032,322	\$ 97,705,228

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

- The increase in current assets during fiscal year 2011 resulted from an increase in the District's operating reserve account (\$767,564) and the capital improvements fund (\$1,863,538). Cash was used to finance capital improvements during fiscal year 2011; a total of \$2,657,264 was utilized from the operating revenues.
- No new long-term debt was issued during the current fiscal year. The change in long-term debt represents principal payments on the outstanding bonds and the note payable for the mobile harbor crane.
- Other liabilities, which includes current liabilities, has increased in 2011 to recognize the maturing of the Union Carbide Pollution Control Bonds, Series 1977A. These bonds mature in full in the amount of \$4,600,000 on May 1, 2012, and have now been classified as current liabilities.

Changes in net assets are summarized as follows:

	<u>Changes in Net Assets</u>		
	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>	<u>Change</u>
Operating revenues			
Vessel services	\$ 6,071,290	\$ 4,598,057	\$ 1,473,233
Lease rentals			-
Port System	4,213,406	4,103,159	110,247
Other lease rentals	939,247	907,461	31,786
Other operating revenue	<u>1,747,094</u>	<u>1,422,137</u>	<u>324,957</u>
Total operating revenues	12,971,037	11,030,814	1,940,223
Operating expenses			
Wages and employee expenses	4,200,550	4,021,062	179,488
Maintenance and operation of facilities	1,994,619	1,956,255	38,364
General and administrative expenses	2,240,490	2,478,104	(237,614)
Depreciation and Amortization	<u>3,593,457</u>	<u>3,391,499</u>	<u>201,958</u>
Total operating expenses	12,029,116	11,846,920	182,196
Operating income (loss)	941,921	(816,106)	1,758,027
Non-operating income (expense)			
Interest income	438,244	502,991	(64,747)
Tax income - net of bad debt and collection expenses			
General obligation bond debt service	2,597,205	2,543,903	53,302
Maintenance and operations	571,669	612,400	(40,731)
Penalties and interest	125,130	129,549	(4,419)
Interest expense and other bond issuance costs	(1,325,871)	(1,527,159)	201,288
Grant revenue	102,465	1,061,585	(959,120)
Other non-operating income (expense)	<u>(76,710)</u>	<u>250,624</u>	<u>(327,334)</u>
Total non-operating income (expense)	2,432,132	3,573,893	(1,141,761)
Income before capital contributions	3,374,053	2,757,787	616,266
Capital contributions	<u>-</u>	<u>772,927</u>	<u>(772,927)</u>
Increase (decrease) in net assets	3,374,053	3,530,714	(156,661)
Net assets - beginning	97,705,228	94,174,514	3,530,714
Prior period adjustment	953,041	-	953,041
Net assets - ending	<u>\$ 102,032,322</u>	<u>\$ 97,705,228</u>	<u>\$ 4,327,094</u>

The District's total net assets increased by \$3,374,053, or 3.5%. This increase included an increase in the District's total unrestricted net assets of \$1,988,360, or 2.7%. This is a result of the reduction of the District's total liabilities between the end of fiscal 2010 and the end of fiscal 2011. This decrease in total liabilities was \$4,502,547, or 11.4%. The amount of the District's net assets invested in capital assets increased by \$2,318,149 during fiscal 2011, a reflection of the reduction in the bonded debt due to principal payments made during the fiscal year and an aggressive capital improvements program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

	<u>12/31/2011</u>	<u>12/31/2010</u>
Inland channel, turning basin, & jetties	\$ 52,116,635	\$ 51,160,011
Land	9,935,027	10,891,652
Easements	20,760	20,760
Docks and appurtenances	44,944,301	44,581,517
Water and sewer systems	8,232,881	8,226,822
Railroads	6,546,130	5,416,145
Land improvements and roads	14,411,876	14,109,444
Administration building	751,355	751,355
Industrial equipment	4,823,832	4,687,683
Furniture and equipment	507,038	507,038
Intangible Assets	5,895,274	5,895,274
Construction in progress	12,940,810	12,403,426
Total	<u>\$ 161,125,919</u>	<u>\$ 158,651,127</u>

In the years prior to 2008 and 2009, the District had deferred much-needed on-going facility maintenance and equipment replacement. During late 2008 and continuing on through 2009, 2010 and 2011, the District has embarked on an aggressive capital improvement program. Major capital asset transactions during the fiscal year ending December 31, 2011 included the following:

- **Channel Deepening and Widening Feasibility Study** – This is a long-term project to investigate the feasibility of deepening and/or widening the Port of Brownsville Ship Channel. It is viewed by the staff as a critical initiative for the future of the Port of Brownsville. This project is being performed by the U. S. Corps of Engineers as federal funding is appropriated. The District is required to match the federally funded portion with a 100% match. The District’s participation in the project during 2011 was \$981,583.00. The Feasibility Study is scheduled to be completed during fiscal 2013.
- **Turning Basin Road Rehabilitation Project** – The District has received federal funding in the amount of \$2,087,285 to be used for the rehabilitation of approximately 9.4 miles of roads in the Turning Basin area. The project manager for the pass-through funding was the Texas Department of Transportation. The District has contracted with TxDOT to manage this project. The project began in early 2010, with an anticipated completion date in the second quarter of 2011. Due to a number of factors, including an interruption in the supply of limestone for the project, the project is substantially complete by the end of fiscal 2011, with the District and the contractor working to resolve a number of “punch list” items prior to closing out the project, now anticipated for second quarter 2012.

Additional information on the District’s capital assets can be found in Note 8 to the financial statements on pages 48-49 of this report.

The District's outstanding debt is summarized as follows:

	<u>Outstanding Debt</u>	
	<u>12/31/2011</u>	<u>12/31/2010</u>
Revenue bonds, net	\$ 10,456,874	\$ 11,686,151
General obligation bonds, net	16,783,171	18,696,851
Capital lease obligations	<u>252,530</u>	<u>575,822</u>
Total	<u>\$ 27,492,575</u>	<u>\$ 30,958,824</u>

The District issued two series of refunding bonds in 2011, one was a refunding of a first lien revenue bond, the other was a refunding of two general obligation bonds.

First Lien Revenue Refunding Bonds – Series 2011

The District issued these bonds on October 24, 2011. The bonds in the total amount of \$2,300,000 were issued to refund \$2,300,000 of the First Lien Revenue Bonds – Series 2000 prior to maturity. These refunded bonds are considered to be defeased and the liability for the bonds has been removed from the District's financial statements. The refunded bonds had coupon interest rates ranging from 5.1% to 5.4%. The new issue of refunding bonds has a coupon interest rate of 3.01%. The purchaser of the refunding bonds was Capital One Public Funding, LLC. The purchaser paid all costs of the bond issuance, and the District realized a net present value savings on the advanced refunding on the amount of \$287,456.

Unlimited Tax Refunding Bonds – Series 2011

The District issued these bonds on December 2, 2011. The bonds in the total amount of \$4,805,000 were issued to refund \$2,495,000 of the Unlimited Tax Bonds – Series 2000 and \$2,310,000 of the Unlimited Tax Refunding Bonds – Series 2005 prior to maturity. These refunded bonds are considered to be defeased and the liability for the bonds has been removed from the District's financial statements. The refunded bonds had coupon interest rates ranging from 3.5% to 5.1%. The new issue of refunding bonds has a coupon interest rate of 3.4%. The purchaser of the refunding bonds was Capital One Public Funding, LLC. The purchaser paid all costs of the bond issuance, and the District realized a net present value savings on the advanced refunding on the amount of \$222,609.

Additional information on the District's long-term debt can be found in Note 9 on pages 50-54 of this report.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS

December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
ASSETS			
Unrestricted Assets:			
Cash and cash equivalents	\$ 14,641,124	\$ 3,229,835	\$ 17,870,959
Accounts receivable, net of allowance for doubtful receivables	1,196,220	229,409	1,425,629
Notes receivable, current	244,452	-	244,452
Taxes receivable, net of estimated uncollectible taxes	291,618	-	291,618
Other receivables and accrued interest	176,063	-	176,063
Due from Brownsville Navigation District	-	486,572	486,572
Inventories	6,754	98,646	105,400
Prepaid expenses	302,876	33,079	335,955
Total Unrestricted Assets	<u>16,859,107</u>	<u>4,077,541</u>	<u>20,936,648</u>
Restricted Assets:			
District Obligations:			
Cash - revenue bond fund	3,814,883	-	3,814,883
Cash - general obligation bond fund	2,394,689	-	2,394,689
Cash - overweight permits	26,718	-	26,718
Taxes Receivable - G.O., net	1,305,602	-	1,305,602
Bond Proceeds Receivable - BRG	1,937,500	-	1,937,500
Total Restricted Assets - District Obligations	<u>9,479,392</u>	<u>-</u>	<u>9,479,392</u>
Restricted Assets:			
Utilized by Others:			
Installment sale agreement receivable, pollution control and environmental improvement revenue project	4,600,000	-	4,600,000
Total Restricted Assets - Utilized By Others	<u>4,600,000</u>	<u>-</u>	<u>4,600,000</u>
 Total Current Assets	 <u>30,938,499</u>	 <u>4,077,541</u>	 <u>35,016,040</u>

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
Capital Assets:			
Property, plant, and equipment	161,125,920	10,205,181	171,331,101
Less: accumulated depreciation and amortization	<u>(54,307,803)</u>	<u>(4,805,992)</u>	<u>(59,113,795)</u>
	<u>106,818,117</u>	<u>5,399,189</u>	<u>112,217,306</u>
Other Assets:			
Notes receivable, non-current	2,902,958	-	2,902,958
Deferred charges	509,729	126,885	636,614
Other assets	<u>312,128</u>	<u>-</u>	<u>312,128</u>
Total Other Assets	<u>3,724,815</u>	<u>126,885</u>	<u>3,851,700</u>
Total Assets	<u>\$ 141,481,431</u>	<u>\$ 9,603,615</u>	<u>\$ 151,085,046</u>

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 1,511,727	\$ 182,134	\$ 1,693,861
Accrued liabilities	621,917	-	621,917
Deferred lease rentals	1,511,031	-	1,511,031
Deferred property tax revenue	3,225,287	-	3,225,287
Current obligations under capital leases	252,530	-	252,530
Total Current Liabilities - Unrestricted	<u>7,122,492</u>	<u>182,134</u>	<u>7,304,626</u>
Current Liabilities - Restricted - District:			
Obligations:			
Current maturities of long-term debt - bonds	<u>7,945,000</u>	<u>-</u>	<u>7,945,000</u>
Noncurrent District Obligations:			
Revenue bonds	9,151,874	-	9,151,874
General obligation bonds	14,743,171	-	14,743,171
Due to Brownsville Navigation District	-	1,937,500	
Due to BRG International Railroad	486,572	-	486,572
Total Noncurrent District Obligations	<u>24,381,617</u>	<u>1,937,500</u>	<u>26,319,117</u>
 Total Liabilities	 <u>39,449,109</u>	 <u>2,119,634</u>	 <u>41,568,743</u>

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF NET ASSETS - CONTINUED

December 31, 2011

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
NET ASSETS			
Invested in capital assets, net of related debt	87,750,239	3,349,189	91,099,428
Restricted for:			
Revenue bond debt retirement and contingency	3,187,128	359,137	3,546,265
General obligation bond debt service	3,700,291	-	3,700,291
Unrestricted	7,394,664	3,775,655	11,170,319
Total Net Assets	<u>\$ 102,032,322</u>	<u>\$ 7,483,981</u>	<u>\$ 109,516,303</u>

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

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

For the Year Ended December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
OPERATING REVENUES			
Vessel services	\$ 6,071,290	\$ -	\$ 6,071,290
Lease rentals			
Port system	4,213,406	-	4,213,406
Other lease rentals	939,247	-	939,247
Other operating revenue	1,747,094	78,387	1,825,481
Switching	-	7,568,608	7,568,608
Incidental	-	139,685	139,685
Car repair	-	102,911	102,911
Demurrage	-	576,620	576,620
Total Operating Revenues	12,971,037	8,466,211	21,437,248
OPERATING EXPENSES, OTHER THAN DEPRECIATION & AMORTIZATION			
Wages and employee expenses	4,200,550	-	4,200,550
Maintenance and operation of facilities	1,994,619	5,093,397	7,088,016
General and administrative expenses	2,240,490	2,688,154	4,928,644
	8,435,659	7,781,551	16,217,210
Income from operations before depreciation and amortization	4,535,378	684,660	5,220,038
Amortization	1,110,000	-	1,110,000
Depreciation	2,483,457	365,456	2,848,913
OPERATING INCOME (LOSS)	941,921	319,204	1,261,125

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

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

For the Year Ended December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
NON-OPERATING INCOME (EXPENSE)			
Interest income on investments and direct financing leases - port system	351,411	8,863	360,274
Interest income - other	86,833	-	86,833
Tax income - net of bad debt and collection expenses			
Penalties and interest	125,130	-	125,130
Maintenance and operations	571,669	-	571,669
General obligation bond debt service	2,597,205	-	2,597,205
Interest expense	(1,248,819)	(86,833)	(1,335,652)
Amortization of bond issuance costs	(69,752)	-	(69,752)
Bond service fees	(7,300)	-	(7,300)
Grant revenue	102,465	-	102,465
Other non-operating income (expense)	(76,710)	113,871	37,161
Total Other Income (Expense)	<u>2,432,132</u>	<u>35,901</u>	<u>2,468,033</u>
Income (Loss) Before Contributions and Extraordinary Items	3,374,053	355,105	3,729,158
Net assets at beginning of year	97,705,228	7,128,876	104,834,104
Prior period adjustments	953,041	-	953,041
Net assets at beginning of year - as restated	<u>98,658,269</u>	<u>7,128,876</u>	<u>105,787,145</u>
Net assets at end of year	<u>\$ 102,032,322</u>	<u>\$ 7,483,981</u>	<u>\$ 109,516,303</u>

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

	Primary Government Enterprise Fund	Component Unit BRG International Railroad	Total Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 12,527,658	\$ 9,154,837	\$ 21,682,495
Receipts from sale of surplus materials	66,511	113,871	180,382
Payment to suppliers	(4,305,846)	(6,396,025)	(10,701,871)
Payment to employees	(3,462,861)	(2,772,779)	(6,235,640)
Net cash provided (used) by operating activities	<u>4,825,462</u>	<u>99,904</u>	<u>4,925,366</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Collections from maintenance and operation taxes	583,941	-	583,941
Collections from penalties and interest	22,931	-	22,931
Expenses paid net of county adjustments for maintenance and operation taxes	(12,272)	-	(12,272)
Discounts for maintenance and operation taxes	(11,289)	-	(11,289)
Interest received from unrestricted investments	345,000	-	345,000
Net cash provided (used) by noncapital financing activities	<u>928,311</u>	<u>-</u>	<u>-</u> <u>928,311</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Collections from general obligation taxes	2,653,047	-	2,653,047
Collections from penalties and interest	102,199	-	102,199
Expenses paid net of county adjustments for general obligation taxes	(55,842)	-	(55,842)
Discounts for general obligation taxes	(51,422)	-	(51,422)
(Gain) loss on sale of assets	-	2,356	2,356
Change in note receivable	231,708	-	231,708
Principal paid on bonds	(2,455,000)	(130,000)	(2,585,000)
Grant revenue	102,465	-	102,465
Other income	39,894	-	39,894

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2011

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
(Continued)			
Interest paid	(1,216,820)	-	(1,216,820)
Interest paid to Brownsville Navigation District	-	(86,833)	(86,833)
Bond premium	6,411	-	6,411
Acquisition and construction of capital assets	(2,474,794)	(382,633)	(2,857,427)
Principal paid to bond reserve fund	-	(5,745)	(5,745)
Capital lease principal payments	(323,292)	-	(323,292)
Other expenses	(30,905)	-	(30,905)
Net cash provided (used) in capital and related financing activities	<u>(3,472,351)</u>	<u>(602,855)</u>	<u>(4,075,206)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	86,833	8,863	95,696
Net cash provided (used) in investing activities	<u>86,833</u>	<u>8,863</u>	<u>95,696</u>
Net increase (decrease) in cash and cash equivalents	2,368,255	(494,088)	1,874,167
Cash and cash equivalents at beginning of year	<u>18,509,159</u>	<u>3,723,923</u>	<u>22,233,082</u>
Cash and cash equivalents at end of year	<u>\$ 20,877,414</u>	<u>\$ 3,229,835</u>	<u>\$ 24,107,249</u>
Cash and cash equivalents presented on the Statement of Net Assets consists of the following:			
Cash and cash equivalents - unrestricted	\$ 14,641,124	\$ 3,229,835	\$ 17,870,959
Cash - revenue bond fund	3,814,883	-	3,814,883
Cash - general obligation bond fund	2,394,689	-	2,394,689
Cash - overweight permits	26,718	-	26,718
	<u>\$ 20,877,414</u>	<u>\$ 3,229,835</u>	<u>\$ 24,107,249</u>

(Continued)

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2011

	<u>Primary Government Enterprise Fund</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 941,921	\$ 319,204	\$ 1,261,125
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	2,483,457	365,456	2,848,913
Amortization	1,110,000	11,367	1,121,367
Gain (loss) on sale of assets	23,750	(2,356)	21,394
Payments for sale of surplus	-	116,227	116,227
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(552,968)	633,938	80,970
(Increase) decrease in taxes receivable	7,323	-	7,323
(Increase) decrease in inventories	(136)	54,851	54,715
(Increase) decrease in prepaid expenses	43,160	(163)	42,997
(Increase) decrease in other assets	1,019,515	-	1,019,515
Increase (decrease) in accounts payable	(93,494)	(1,398,620)	(1,492,114)
Increase (decrease) in accrued liabilities	(85,324)	-	(85,324)
Increase (decrease) in deferred lease rentals and other credits	(71,742)	-	(71,742)
Net cash provided by operating activities	<u>\$ 4,825,462</u>	<u>\$ 99,904</u>	<u>\$ 4,925,366</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Interest	\$ 1,216,820	\$ 86,833	\$ 1,303,653
Income taxes	-	-	-

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *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. (See Note 14 for operations of the Railroad). The District derives its operating revenues from charges for lease rentals, wharfage, storage, vessel dockage, and the sale of various port services such as utilities and security.

The reporting entity of the District consists of the primary government (in this case, the District) and a discretely presented component unit, Brownsville and Rio Grande International Railroad ("Railroad"). The Railroad is a component unit of the District as defined in GASB Statement No. 14, *The Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. On June 1, 1983, the District issued Junior Lien Railroad Revenue Bonds which created the Brownsville and Rio Grande International Railroad ("Railroad"). The Railroad is operated and maintained as a separate and distinct entity from the District. The District must continue to pay the debt service of these Junior Lien Revenue Bonds regardless of whether the Railroad reimburses the District and must meet reasonable and necessary expenses of operating and maintaining the District and the system, including the Railroad.

The locally-elected Board of Navigation and Canal Commissioners is exclusively responsible for all public decisions and accountable for the decisions it makes. The Board of Navigation and Canal Commissioners appoints the Director/General Manager of the District. The activities under the purview of the Director are within the scope of the reporting entity and the management is accountable to the Board of Navigation and Canal Commissioners for the activities being managed. The Board of Navigation and Canal Commissioners has the statutory authority to significantly influence operations. This authority includes but is not limited to, adoption of the budget, control over all assets, including facilities and properties, short-term borrowing, and signing contracts. The responsibility and accountability over all funds is vested to the Board of Navigation and Canal Commissioners.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are presented in accordance with accounting standards generally accepted in the United States of America for proprietary funds of governmental entities. The District complies with all applicable pronouncements of the GASB. The District is accounted for as a proprietary fund. Proprietary funds are used to account for operations that are financed 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 accounting, 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 measurable. All assets and liabilities are included on the statement of net assets. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable GASB pronouncements and the FASB Accounting Standards Codification unless they conflict with or contradict GASB pronouncements for each proprietary fund activity.

3. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

The District’s operating revenues for vessel and cargo services are collected from charges assessed pursuant to its tariffs. 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.

4. Budgetary Policy

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. *Contingent Liabilities*

The District provides for contingent liabilities when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated.

6. *Assets, Liabilities and Net Assets*

a. Cash and Cash Equivalents

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

b. Investments

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

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

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

b. Investments - Continued

deposits are examples of nonparticipating interest-earning investment contracts. Fair value determinations of all securities are made on a monthly basis.

c. 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 \$111,557 as of December 31, 2011. The balance in the reserve for lease rentals is \$47,842 as of December 31, 2011.

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, 2011, is \$2,397 and \$24,925 for maintenance and operations and general obligation bonds respectively, for a total of \$27,322.

d. Inventories

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

e. Restricted Assets

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

f. Capital Assets

Capital assets, which include property, plant, and equipment, are stated at cost. They are defined as assets with an initial, individual cost of more than \$5,000.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

f. Capital Assets - Continued

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

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

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

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

g. Deferred Debt Expense

The expenses related to approval and sale of the revenue bonds series 2002 and 2011, and the general obligation bonds series 2003, 2007, 2008 and 2011 are amortized on a straight-line basis over the period during which the bonds are outstanding.

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

h. 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.

i. Net Assets

Net assets represent the residual interest in the District's assets after liabilities are deducted and consist of three sections: invested in capital assets net of related debt, restricted and unrestricted. Net assets invested in capital assets, net of related debt include capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when constraints are imposed by third parties. All remaining net assets that do not meet the definition of invested in capital, net of related debt 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.

j. Deferred Compensation Plans

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

k. Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense at December 31, 2011 was \$44,009.

l. Use of Estimates

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

m. Subsequent Events

Subsequent events were evaluated through March 30, 2012, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS

The District and the Railroad's cash and cash equivalents of \$20,877,414 and \$3,229,835 respectively, are maintained in demand accounts. The amount on deposit in demand accounts is fully covered by the federal deposit insurance through the FDIC or collateralized by either a FHLB Letter of Credit (District) or by pledged securities held in the entity's name (Railroad).

On September 21, 2011, 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 requirements, 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, and Texas local Government Investment Pools.

The District adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and the Investment Policy has been revised to fully reflect all requirements in GASB Statement No. 40. The language requirements for this statement are fully formalized in writing.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

All deposits with financial institutions are carried at cost. At December 31, 2011, the District and the Railroad had the following investments:

District:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Allocation</u>	<u>Rating</u>
Checking	\$ 2,504,529	N/A	N/A	N/A
Savings	<u>18,372,885</u>	N/A	N/A	N/A
	<u>\$ 20,877,414</u>			

Railroad:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Allocation</u>	<u>Rating</u>
Checking	\$ 411,448	N/A	N/A	N/A
Money Market	<u>2,818,387</u>	N/A	N/A	N/A
	<u>\$ 3,229,835</u>			

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, 2011, all deposits are entirely insured or collateralized by a FHLB Letter of Credit.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 – TRADE AND LEASE RENTAL RECEIVABLES

Receivables as of year-end including the applicable allowances for uncollectible accounts are as follows:

District:

Accounts receivable – trade	\$ 1,136,225
Less: allowance for uncollectible accounts	(111,557)
Accounts receivable – lease rentals	219,394
Less: reserve for lease rentals	<u>(47,842)</u>
	<u>\$ 1,196,220</u>
 Accounts receivable – other	 <u>\$ 176,063</u>

Railroad:

Accounts receivable – trade	\$ 239,409
Less: allowance for uncollectible accounts	<u>(10,000)</u>
	<u>\$ 229,409</u>

NOTE 4 – TAXES RECEIVABLE

Property taxes are levied in October in conformity with Subtitle E, Texas Property Tax Code for the year in which assessed. Property is appraised, and a lien on such property becomes enforceable, as of January 1, 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.

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.

	Maintenance & Operation (M&O)	General Obligation
Taxes receivable, gross	\$ 294,015	\$ 1,330,527
Allowance for uncollectible taxes	<u>(2,397)</u>	<u>(24,925)</u>
Taxes receivable, net	<u>\$ 291,618</u>	<u>\$ 1,305,602</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 5 – NOTE RECEIVABLE

Notes receivable as of December 31, 2011 consist of the following:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Note receivable, City of Brownsville, collateralized by Deed of Trust on 279.84 acre tract of land	5.50%	10/10/2001	2021	\$4,990,000	\$ 3,147,410
Less: Current Maturities					<u>(244,452)</u>
Long-term Notes Receivable					<u>\$ 2,902,958</u>
 Bond proceeds receivable, Brownsville & Rio Grande International Railroad – 2003 Junior Lien Revenue Bond	 2.5% - 4.5%	 2/19/2003	 2023	 3,000,000	 \$ 2,050,000
Less: Current Maturities paid to date					<u>(112,500)</u>
Long-term Notes Receivable					<u>\$ 1,937,500</u>

Approximate maturities of notes receivable subsequent to December 31, 2011 are as follows:

<u>Year</u>	<u>City of Brownsville</u>	<u>District</u>
2012	\$ 244,452	\$ 135,000
2013	257,897	140,000
2014	272,082	145,000
2015	287,046	155,000
2016	302,834	160,000
2017-2021	1,783,099	895,000
2022-2023	-	420,000
	<u>\$ 3,147,410</u>	2,050,000
Less: principal payments received by December 31, 2011		<u>(112,500)</u>
		<u>\$ 1,937,500</u>

The next principal payment for the Series 2003 Junior Lien Revenue Bond is due March 1, 2012. The Railroad sends monthly payments in amounts equal to one-twelve the principal payment to the District. As such, the Railroad and the District have already recognized ten monthly payments, or \$112,500, to reduce the net amount of the receivable to \$1,937,500 at December 31, 2011.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 – INTRAFUND RECEIVABLES/PAYABLES

<u>BROWNSVILLE NAVIGATION DISTRICT</u>		<u>BRG INTL RAILROAD</u>	
Notes (Bonds) Receivable	\$ 2,050,000	Notes (Bonds) Payable	(\$ 2,050,000)
Less: pymts made by BRG thru December 31	(112,500)	Less: pymts made to BND thru December 31	112,500
Bonds Proceeds Receivable	<u>\$ 1,937,500</u>	Bonds Proceeds Payable	<u>(\$ 1,937,500)</u>
Due to BRG:		Due from BND:	
Interest Reserve	(76,853)	Interest Reserve	76,853
Bond Reserve	(246,637)	Bond Reserve	246,637
Railroad Revenue Payable	(163,082)	Undeposited – Due from BND	<u>163,082</u>
Total Due to BRG	<u>(\$ 486,572)</u>	Due from BND	<u>\$ 486,572</u>

NOTE 7 – RESTRICTED ASSETS

Bond Restrictions

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

Contract Restrictions

On February 25, 1998 the District entered into an agreement with the State of Texas for authority to issue permits for the movement of overweight or oversize vehicles on State Highway 48/State Highway 4 between the Gateway International Bridge and the entrance to the Port and on State Highway 48/State Highway 4 between the Veterans International Bridge at Los Tomates and the entrance to the Port of Brownsville. The agreement authorizes the District to collect a permit fee in an amount not to exceed \$80

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 7 – RESTRICTED ASSETS – CONTINUED

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, 2011, the following assets are restricted assets – district obligations:

Revenue Bond Funds

Debt reserve fund	
Cash	\$ 1,614,852
Contingencies fund	
Cash	285,529
Railroad bond fund	
Cash	627,755
Interest and redemption fund	
Cash	<u>1,286,747</u>
	3,814,883
Railroad bond fund	
Bond proceeds receivable - net of allowance	1,937,500
Total Revenue Bond Fund Assets	<u>\$ 5,752,383</u>

General Obligation Bond Fund

Debt service fund	
Cash	\$ 2,394,689
Taxes receivable, less estimated uncollectible taxes of \$(24,295)	<u>1,305,602</u>
Total General Obligation Bond Fund Assets	<u>\$ 3,700,291</u>
Overweight Permit Assets	
Cash	<u>\$ 26,718</u>
Total Restricted Assets - District Obligations	<u>\$ 9,479,392</u>

Installment sale agreement receivable, pollution control and environmental improvement revenue project	<u>\$ 4,600,000</u>
Total Restricted Assets - Utilized By Others	<u>\$ 4,600,000</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

Primary Government:

	Balance December 31, 2010	Additions	Deletions	Reclas- sifications	Balance December 31, 2011
Capital assets, not being depreciated:					
Inland channel and turning basin	\$ 15,324,008	\$ -	\$ -	\$ -	\$ 15,324,008
Jetties and jetty channel	35,836,003	-	-	-	35,836,003
Land	9,935,027	-	-	-	9,935,027
Construction in progress	12,403,426	2,552,985	(78,192)	(1,937,409)	12,940,810
Easements	20,760	-	-	-	20,760
Total capital assets, not being depreciated	<u>73,519,224</u>	<u>2,552,985</u>	<u>(78,192)</u>	<u>(1,937,409)</u>	<u>74,056,608</u>
Capital assets, being depreciated:					
Docks and appurtenances	45,538,142	-	-	362,784	45,900,926
Water and sewer systems	8,226,823	-	-	6,059	8,232,882
Railroads	5,416,145	-	-	1,129,985	6,546,130
Land improvements and roads	14,109,444	-	-	302,432	14,411,876
Administration building	751,354	-	-	-	751,354
Industrial equipment	4,687,683	-	-	136,149	4,823,832
Furniture and equipment	507,038	-	-	-	507,038
Intangible assets	5,895,274	-	-	-	5,895,274
Total capital assets, being depreciated	<u>85,131,903</u>	<u>-</u>	<u>-</u>	<u>1,937,409</u>	<u>87,069,312</u>
Less accumulated depreciation for:					
Docks and appurtenances	(25,382,353)	(1,092,179)	-	-	(26,474,532)
Water and sewer systems	(6,576,928)	(207,307)	-	-	(6,784,235)
Railroads	(3,173,928)	(130,406)	-	-	(3,304,334)
Land improvements and roads	(9,100,497)	(565,703)	-	-	(9,666,200)
Administration building	(561,852)	(18,784)	-	-	(580,636)
Industrial equipment	(3,191,785)	(469,043)	-	-	(3,660,828)
Furniture and equipment	(507,002)	(36)	-	-	(507,038)
Intangible assets	(2,220,000)	(1,110,000)	-	-	(3,330,000)
Total accumulated depreciation	<u>(50,714,345)</u>	<u>(3,593,458)</u>	<u>-</u>	<u>-</u>	<u>(54,307,803)</u>
Total capital assets, being depreciated, net	<u>34,417,558</u>	<u>(3,593,458)</u>	<u>-</u>	<u>1,937,409</u>	<u>32,761,509</u>
Total capital assets, net	<u>\$ 107,936,782</u>	<u>\$ (1,040,473)</u>	<u>\$ (78,192)</u>	<u>\$ -</u>	<u>\$ 106,818,117</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 8 – CAPITAL ASSETS – CONTINUED

Capital asset activity for the Railroad for the year ended December 31, 2011 was as follows:

Discretely Presented Component Unit:

	Balance December 31, 2010	Additions	Deletions	Reclassi- fication	Balance December 31, 2011
Capital assets, not being depreciated:					
Constructon in process	\$ -	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, being depreciated:					
Buildings	882,650	75,497	-	-	958,147
Machinery and equipment	3,290,329	302,930	(82,496)	-	3,510,763
Railroad system and leasehold improvements	<u>5,732,065</u>	<u>4,206</u>	<u>-</u>	<u>-</u>	<u>5,736,271</u>
Total capital assets being depreciated	<u>9,905,044</u>	<u>382,633</u>	<u>(82,496)</u>	<u>-</u>	<u>10,205,181</u>
Less accumulated depreciation for:					
Buildings	(322,542)	(25,332)	-	-	(347,874)
Machinery and equipment	(2,263,620)	(225,725)	80,140	-	(2,409,205)
Railroad system and leasehold improvements	<u>(1,934,514)</u>	<u>(114,399)</u>	<u>-</u>	<u>-</u>	<u>(2,048,913)</u>
Total accumulated depreciation	<u>(4,520,676)</u>	<u>(365,456)</u>	<u>80,140</u>	<u>-</u>	<u>(4,805,992)</u>
Total capital assets, being depreciated, net	<u>5,384,368</u>	<u>17,177</u>	<u>(2,356)</u>	<u>-</u>	<u>5,399,189</u>
Capital assets, net	<u>\$ 5,384,368</u>	<u>\$ 17,177</u>	<u>\$ (2,356)</u>	<u>\$ -</u>	<u>\$ 5,399,189</u>

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 9 – LONG-TERM DEBT

Changes in long-term obligations for the year ended December 31, 2011 are as follows:

	Balance Outstanding January 1, 2011	Additions	Deletions	Balance Outstanding December 31, 2011	Due Within One Year
Bonds Payable:					
Pollution Control Bond	\$ 4,600,000	\$ -	\$ -	\$ 4,600,000	\$ 4,600,000
Revenue Bonds - First Lien	9,530,000	2,390,000	(3,495,000)	8,425,000	1,170,000
Revenue Bonds - Junior Lien	2,180,000	-	(130,000)	2,050,000	135,000
Less: Unamortized discounts	(23,849)	-	5,723	(18,126)	-
General Obligation Bonds	18,556,828	4,805,000	(6,406,828)	16,955,000	2,040,000
Plus: Premium on capital appreciation bonds	42,904	-	(9,780)	33,124	-
Plus: Accretion on capital appreciation bonds	344,070	-	(344,070)	-	-
Less: Unamortized discounts	-	-	-	-	-
Less: Deferred amounts on refunding	(246,955)	-	42,002	(204,953)	-
Total bonds payable	<u>34,982,998</u>	<u>7,195,000</u>	<u>(10,337,953)</u>	<u>31,840,045</u>	<u>7,945,000</u>
Capital lease obligations	575,822	-	(323,292)	252,530	252,530
Total long-term debt	<u>\$ 35,558,820</u>	<u>\$ 7,195,000</u>	<u>\$ (10,661,245)</u>	<u>\$ 32,092,575</u>	<u>\$ 8,197,530</u>

Revenue Bonds

	Interest Rates	Issue Date	Issue Matures	Original Issue	Unpaid Principal
Series 2000	4.90-7.50	12-15-00	2021	\$ 4,040,000	\$ 200,000
Series 2002A	3.38-4.80	7-10-02	2022	1,790,000	1,210,000
Series 2002B	3.38-4.80	7-10-02	2022	1,900,000	1,280,000
Series 2003	2.50-4.50	3-11-03	2023	3,000,000	2,050,000
Series 2009	4.85	4-1-09	2015	4,095,000	3,345,000
Series 2011	3.01	10-24-11	2021	2,390,000	2,390,000
					<u>\$10,475,000</u>
Less: Unamortized discount					<u>(18,126)</u>
					10,456,874
Less: Current maturities					<u>(1,305,000)</u>
					<u>\$ 9,151,874</u>

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 – LONG-TERM DEBT – CONTINUED

Revenue Bonds – Continued

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

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

On October 24, 2011 the District issued \$2,390,000 First Lien Revenue Refunding Bonds, Series 2011. The bonds were issued to refund \$2,390,000 of the Series 2000 First Lien Revenue Bonds prior to maturity to achieve a debt service savings and to pay costs related to the issuance of such bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the Statement of Net Assets. This advanced refunding resulted in a net present value of savings of \$287,456.

General Obligation Bonds – District Obligations

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Issue Matures</u>	<u>Original Issue</u>	<u>Unpaid Principal</u>
Series 2000	4.50-7.50	12-15-00	2012	\$ 4,000,000	\$ 245,000
Series 2003	2.50-4.50	3-11-03	2023	6,500,000	4,440,000
Series 2005	3.00-4.00	3-01-05	2012	5,060,000	410,000
Series 2007	3.91-4.32	9-04-07	2017	2,750,000	1,955,000
Series 2008	3.42	5-01-08	2018	5,145,000	5,100,000
Series 2011	3.40	12-02-11	2020	4,805,000	<u>4,805,000</u>
					\$16,955,000
Less: Unamortized deferred amount on refunding					(204,953)
Plus: Premium on Capital Appreciation Bonds					<u>33,124</u>
					16,783,171
Less: Current maturities					<u>(2,040,000)</u>
					<u>\$14,743,171</u>

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 – LONG-TERM DEBT – CONTINUED

General Obligation Bonds – District Obligations – Continued

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

Authorized and unissued general obligation bonds at December 31, 2011 are as follows:

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

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

On December 2, 2011 the District issued \$4,805,000 Unlimited Tax Refunding Bonds, Series 2011. The bonds were issued to refund \$2,495,000 of the Series 2000 Unlimited Tax Bonds and \$2,310,000 of the Series 2005 Unlimited Tax Refunding Bonds of the District prior to maturity to achieve a debt service savings and to pay costs related to the issuance of such bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Enterprise Fund activities column of the Statement of Net Assets. This advanced refunding resulted in a net present value of savings of \$222,609.

PRIOR-YEAR DEFEASANCE OF DEBT

The District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the District's financial statements. As of December 31, 2011, the amount of defeased debt outstanding but removed from the District's financial statements amounted to \$2,310,000.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 – LONG-TERM DEBT – CONTINUED

Capital Lease Obligations

On December 19, 2001 the District entered into a lease purchase agreement with Siemens Financial Services, Inc. for the lease of a Gottwald Mobile Harbor Crane HMK 300E in the amount of \$2,650,343 for a term of ten (10) years with the option to purchase the equipment for \$1 at the end of the lease term. Monthly payments in the amount of \$28,564, including interest at 4.97%, commenced on October 18, 2002. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments at date of inception. The present value of future minimum lease payments at December 31, 2011 amounted to \$252,530.

Future Maturities

Annual maturities of debt subsequent to December 31, 2011, are as follows:

Year Ending December 31,	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 1,305,000	\$ 363,566	\$ 2,040,000	\$ 548,587
2013	1,380,000	279,624	2,125,000	514,513
2014	1,440,000	224,107	2,185,000	438,080
2015	1,505,000	165,729	2,260,000	358,693
2016	630,000	100,239	2,340,000	275,749
2017-2021	3,520,000	334,549	5,105,000	567,482
2022-2024	695,000	20,882	900,000	40,950
Total	<u>\$ 10,475,000</u>	<u>\$ 1,488,696</u>	<u>\$ 16,955,000</u>	<u>\$ 2,744,054</u>

Year Ending December 31,	Capital Lease Obligations	
	Principal	Interest
2012	\$ 252,530	\$ 4,809
Total	<u>\$ 252,530</u>	<u>\$ 4,809</u>

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%.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 – LONG-TERM DEBT – CONTINUED

Interest Expense

Port system interest expense is as follows:

Revenue bonds	\$ 500,164
General obligation bonds	728,916
Other	<u>19,739</u>
	<u>\$ 1,248,819</u>

NOTE 10 – BONDS PAYABLE - OBLIGATIONS SERVICED BY OTHERS

Special obligation debt as of December 31, 2011, follows:

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

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

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

NOTE 11 – OPERATING LEASES

The District leases certain assets to others. These leases pertain to land, buildings and improvements and rail spurs. Costs of the assets under lease totaled \$4,013,765, consisting of \$828,266 in buildings and improvements, \$247,196 in rail spurs, and \$2,938,303 of land with a net book value of \$2,940,017. Current year depreciation on these assets was \$121. As of December 31, 2011, 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:

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 11 – OPERATING LEASES - CONTINUED

<u>Year Ending</u>	<u>Future Minimum Lease Rentals</u>
2012	\$4,756,255
2013	5,160,005
2014	5,563,756
2015	5,967,506
2016	6,206,206

Thereafter, the District’s Leasing Policies provide for annual increases in lease rental rates that correspond to the annual CPI.

NOTE 12 – PENSION PLAN

Plan Description

Brownsville Navigation District (the “District”) sponsors a single-employer defined benefit pension plan for all eligible employees. The plan provides retirement, withdrawal, disability and certain death benefits. Amendments to the plan are made only with the authority of the District. The plan was converted to a cash balance pension plan design effective January 1, 2010. The plan does not issue a stand-alone financial report. However, an annual actuarial valuation report is available from Brownsville Navigation District and may be obtained by writing Brownsville Navigation District, 1000 Foust Road, Brownsville, Texas 78521.

Funding Policy

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

Effective January 1, 2010, employees are required to contribute 4% of gross compensation to the Plan. The District makes contributions based upon a recommended contribution rate as a percentage of total estimated District payroll for each plan year (ending December 31). The recommended contribution rate is actuarially determined to pay the plan's normal cost (determined as a level percentage of total participant compensation) using the frozen initial liability actuarial cost method plus an amount that will amortize the unfunded actuarial liability over a period between 10 and 25 years. In the event that plan changes and/or unexpected gains or losses cause the amortization period to be less than 10 years or greater than 25 years in a future valuation year, the adopted methodology would require the District to reset the recommended contribution rate so that the unfunded actuarial liability is amortized over a period of 15 years beginning in that valuation year. The recommended contribution rate times the total estimated District payroll for a given plan year is the recommended contribution amount and the GASB Statement No. 27 compliant amount. The District may contribute a percentage of actual total District payroll each plan year that is expected to be equal to the recommended contribution amount.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

Annual Pension Cost

For the fiscal year commencing January 1, 2011 and ending December 31, 2011, the District's Annual Required Contribution is \$365,795, which was the recommended contribution determined in the January 1, 2011 actuarial valuation. This was determined as 10.25% of expected 2011 District payroll.

The District's employer contributions deposited during the 12-month period ending on December 31, 2011 were \$359,928. The net pension asset (or negative NPO) is: (i) increased by \$7,932 for interest on the prior year's NPO, and (ii) reduced by \$14,386 for both an amortized recognition of the prior year's NPO and the difference between actual and expected contributions. In combination, the net pension asset (or negative NPO) will decrease by \$6,454 (\$14,386 - \$7,932). Changes in NPO affect the current year Annual Pension Cost as shown in the required NPO disclosure below. The Annual Pension Cost for the 12-month fiscal year ending December 31, 2011 is \$366,382.

		<u>Net Pension Obligation (NPO)</u>	
1	Annual Required Contribution (ARC)	\$	365,795
2	Interest on Prior End of Year NPO		(7,932)
3	Adjustment to ARC		<u>8,519</u>
4	Annual Pension Cost (APC)	\$	366,382
5	Actual Contributions Made		(359,928)
6	Shortfall due to short-term timing differences		<u>-</u>
7	Change in NPO	\$	6,454
8	NPO Beginning of Year		<u>(107,338)</u>
9	NPO End of Year	\$	<u>(100,884)</u>

The required contribution for the 2011 plan year was based on the results of the actuarial valuation as of January 1, 2011, using the frozen initial liability actuarial cost method and was in compliance with the GASB Statement No. 27 parameters. The actuarial assumptions for this valuation included (a) an 8.0% gross investment rate of return for the Cash Balance Investment Subaccount of the trust and 7.0% gross investment return for the Annuity Financing Investment Subaccount of the trust and (b) projected salary increases of 5.25% per year on average. Both (a) and (b) included an inflation component of 3.5%. The plan does not provide for any postretirement benefit increases. The actuarial value of plan assets equals market value less deferred net asset gains plus deferred net asset losses. Assets gains and losses are recognized over a 5-year period in 20% increments. The actuarial value of assets is adjusted as to not be in excess of 130% of market value nor to be less than 70% of market value. The interest on prior end of year NPO was determined using the equivalent single investment return rate assumption (7.39%) that would result in approximately the same actuarial accrued liability used in determining the ARC, reflecting the assumed forms of payment and the 8.0% and 7.0% assumptions for separate trust investment subaccounts. The unfunded actuarial liability was being amortized on a level percentage of payroll basis over a 15-year period for the January 1, 2011 actuarial valuation.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

Analysis of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Liability (UAL) ¹	Actuarial Liability ¹ [(1)+(2)]	Funded Ratio [(1)/(3)]	Present Value of Future Employer Normal Costs ¹	Annual Covered Payroll ²	Unfunded Actuarial Liability as a Percentage of Covered Payroll [(2)/(6)]
January 1, 2002	\$ 1,397,008	\$ 458,675	\$ 1,855,683	75.3%	\$ 899,083	\$ 1,697,100	27.0%
January 1, 2003 ³	1,245,026	1,417,598	2,662,624	46.8%	392,662	1,896,270	74.8%
January 1, 2004	1,706,332	1,332,074	3,038,406	56.2%	257,349	2,035,409	65.4%
January 1, 2005	1,648,812	1,273,994	2,922,806	56.4%	380,927	2,126,130	59.9%
January 1, 2006	1,647,634	1,287,247	2,934,881	56.1%	643,419	2,287,387	56.3%
January 1, 2007	1,793,079	1,253,801	3,046,880	58.8%	781,654	2,304,396	54.4%
January 1, 2008	1,980,444	1,232,781	3,213,225	61.6%	728,977	2,373,987	51.9%
January 1, 2009	1,782,364	1,205,153	2,987,517	59.7%	1,523,654	2,680,091	45.0%
January 1, 2010 ⁴	2,161,639	2,698,269	4,859,908	44.5%	881,599	3,225,493	83.7%
January 1, 2011	2,443,350	2,682,968	5,126,318	47.7%	953,497	3,491,014	76.8%

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

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

³ Effective January 1, 2003, the actuarial methodology for determining the actuarial value of assets was changed. Under the Funding Method this requires a redetermination of the UAL (established using the Individual Entry Age Normal actuarial cost method), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

⁴ Effective January 1, 2010, the plan was converted to a cash balance plan design. Under the Funding Method this requires a redetermination of the UAL (established using the Unit Credit actuarial cost method effective January 1, 2010 due to the new plan design which reflects benefits based on career pay instead of final pay), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

Three-Year Trend Information

The three-year trend information is presented as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
12/31/2009	262,880	101%	(105,356)
12/31/2010	343,813	101%	(107,338)
12/31/2011	366,382	98%	(100,884)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

Actuarial Funding Method and Assumptions

1. Significant Assumptions Used

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective.

2. Actuarial Funding Method

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

The unfunded frozen initial liability is determined at the time that the plan is established and is redetermined whenever changes in plan benefits, actuarial assumptions, or actuarial methods are made or when a positive unfunded liability reemerges after the plan has completely amortized a prior unfunded frozen initial liability. When the unfunded frozen initial liability is determined or redetermined, it is set equal to the excess of the plan's accrued liability over the value of current plan assets, if any. This accrued liability is determined under the Unit Credit actuarial funding method and is the sum of the individually determined accrued liability for each active participant plus the present value of future benefits for all retirees and vested terminated participants. In years when the accrued liability is not redetermined, the unfunded frozen initial liability is based on an expected (projected) unfunded accrued liability.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

3. Actuarial Value of Assets

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

4. Actuarial Assumptions

a. Mortality: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

- i. Pre-retirement Mortality: UP 1994 Mortality Table projected to 2002 (Sex distinct)
- ii. Post-retirement Mortality: UP 1994 Mortality Table projected to 2002 (Sex distinct)

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

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

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

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

d. Annual Cash Balance Interest Crediting Rates

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

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

4. Actuarial Assumptions – Continued

- e. Earnings Progression: The increase in the levels of participant compensation is assumed to occur in accordance with normal rates as illustrated below:

<u>Attained Age</u>	<u>Rate of Increase</u>
20	6.50%
25	6.50
30	6.00
35	5.50
40	5.00
45	4.50
50	4.00
55	3.50
60+	3.00

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

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

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

- h. Expenses: Administration and investment expenses necessary to the operation of this plan are assumed to be paid from plan assets and are offset against expected investment returns in the Cash Balance Investment Subaccount when establishing the annual cash balance interest crediting rate.

- i. Recognition of IRC Section 415 Limitations: The limitations under IRC Section 401 (a)(17) and 415(b) have been reflected in the determination of plan costs.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 12 – PENSION PLAN – CONTINUED

4. Actuarial Assumptions – Continued

j. Assumed Form of Payment:

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

NOTE 13 – RAILROAD RETIREMENT SYSTEM

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

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

Today, RRS remains independent of the Social Security program, although the two systems now have many common features and do coordinate coverage. In 1975, the RRS was restructured to resemble the two-part retirement available to most private-sector employees: a Tier I component that not only substitutes for Social Security but also provides extra benefits; and a corporate-type component, Tier II,

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 13 – RAILROAD RETIREMENT SYSTEM - CONTINUED

which in some instances may be augmented by a longevity supplement and a "windfall," or dual, payment earned by non-railroad employment prior to 1975.

About 62 percent of RRS revenues come from the payroll taxes that railroad employees and employers pay, and about 28 percent come from a transfer payment from Social Security. (The intent of the transfer payment was to assure that neither the RRS nor the Social Security program is better or worse off financially because of their independence. The transfer currently works to the advantage of RRS, because past declines in railroad employment have resulted in smaller payroll tax revenues to support Social Security-type benefits now being paid by RRS.) The remaining RRS revenue comes mainly from interest and federal appropriations, which finance windfall payments.

The plan provisions for the Brownsville and Rio Grande Railroad are as follows:

<u>Step</u>	<u>As of 6/30/2011</u>
A Net Benefit charge for 12 calendar quarters	\$ 24,040.57
B 3-year compensation base	\$ 2,335,195.35
C Benefit Ratio (A divided by B) rounded	0.0103
D Net cumulative contribution balance	\$ 148,162.81
E Cumulative benefit balance	\$ 71,066.25
F Reserve balance (D minus E)	\$ 77,096.56
G 1-year compensation base	\$ 884,325.15
H Reserve Ratio (F divided by G) rounded	0.0872

For Calendar Year 2012

I Basic contribution rate	7.69-%
(C minus H minus Pooled Credit Ratio) x 100	
J Basic contribution rate adjusted for minimum	0.00-%
(maximum of I or zero)	
K Administrative fund charge (fixed rate)	0.65-%
L Surcharge rate	1.50-%
M Compared contribution rate	2.15-%
(J+K+L+Pooled Charge Ratio)	
N Contribution rate adjusted for maximum or new	2.15-%

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 13 – RAILROAD RETIREMENT SYSTEM - CONTINUED

Annual Proclamation

The following system level information is used in calculating the rate. This system level information is the same for all employers for this year.

The following system level information applies to the Railroad Unemployment Insurance Account as of June 30, 2011:

• RUI Account Balance	\$	66,198,068.70
• System Compensation Base	\$	3,597,631,820.16
• Cumulative System Unallocated Charge Balance	\$	(335,379,239.56)

This information pertains to the calendar year beginning January 1, 2011:

• System Pooled Credit Ratio	0.0000
• System Pooled Charge Ratio	0.00
• Administrative Fund Charge (Fixed Rate)	00.65%
• System Surcharge Rate	1.50%
• Maximum Contribution Rate	12.00%
• Contribution Rate for New Employers	2.65%

NOTE 14 – BROWNSVILLE AND RIO GRANDE INTERNATIONAL RAILROAD

On June 1, 1983, the District issued Junior Lien Railroad Revenue Bonds which created the Brownsville and Rio Grande International Railroad ("Railroad"). Subsequently, on January 1, 1994, the District issued the Junior Lien Railroad Revenue Refunding Bonds Series 1994 for the purpose of refunding the Series 1983 Junior Lien Railroad Revenue Bonds. As of March 1, 2005 the Series 1994 bonds have been paid off entirely. On December 19, 2001, the District issued the Junior Lien Railroad Revenue Bonds, Series 2002 to construct and improve railroad tracks; to purchase a building, a locomotive, and equipment; and to finance other extensions and improvements to the system. The Series 2002 bonds have been paid off entirely. Additionally, on March 11, 2003, the District issued the Junior Lien Railroad Revenue Bonds, Series 2003 to construct and improve railroad tracks and to finance other extensions and improvements to the system. The Railroad is operated and maintained as a separate and distinct entity. The District transferred the proceeds, less the reserve funds required by the Bond Indenture (See Note 7) and amounts representing the cost of assets acquired for the benefit of the Railroad, to the Railroad for use as operating funds and to acquire and finance port-related railroad facilities. Therefore, according to provisions of the Bond Indenture, the Railroad is liable to the District for reimbursement of the total bond debt service of these Junior Lien Revenue Bonds.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 14 – BROWNSVILLE AND RIO GRANDE INTERNATIONAL RAILROAD – CONTINUED

The District must continue to pay the debt service of these Junior Lien Revenue Bonds regardless of whether the Railroad reimburses the District and must meet reasonable and necessary expenses of operating and maintaining the District and the System, including the Railroad. The District expenses debt service costs and costs of operations and maintenance of the rail system as incurred. Reimbursements by the Railroad for costs of operations and maintenance are credited to those costs while reimbursement of the debt service costs are recognized as interest income by the District and a reduction of bond proceeds receivable. For the year ended December 31, 2011, the Railroad reimbursed the District debt service costs of \$93,035.

As indicated in Note 7, the District has recorded bond proceeds receivable from the Railroad for \$1,937,500 which represents the net principal amount due the District from the Railroad on the 2003 Revenue Bonds. No reserve for possible loss on this receivable is recorded for the year ended December 31, 2011, because the Railroad's approximate realizable value of tangible net assets is greater than the bond proceeds receivable of \$1,937,500. The bond resolution requires, among other things, that a reserve fund be equal to the average principal and interest requirements on all Junior Lien Bonds. In accordance with the bond resolution, the Railroad is transferring funds into the reserve fund in approximately equal monthly installments to fully fund the reserve fund. Accordingly, \$246,637 of the proceeds from the issuance of the 2003 Bonds together with installments made are held by the Railroad and have been classified in the accompanying statement of net assets as prepaid bond principal. Such amounts are to be used to retire the last of the bonds outstanding.

The District leases to the Railroad its railroad track system, a 3.70 acre site that houses the Railroad's administrative offices and mail railroad operations, and a maintenance yard site.

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

The District's assets (with the corresponding liability) held at December 31, 2011, for the benefit of the Brownsville and Rio Grande International Railroad, are as follows:

Railroad operating fund	\$ 163,082
Railroad bond fund cash	435,990
Bond proceeds receivable	<u>1,937,500</u>
Total Assets	<u>\$ 2,536,572</u>
Junior Lien Railroad Revenue Bonds, Series 2003	\$ 2,050,000
Due to BRG International Railroad	<u>486,572</u>
Total Liabilities	<u>\$ 2,536,572</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 15 – 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 \$109,930 for expenses for fiscal year ending September 20, 2011 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, 2011, were \$38,965,000.

In 2011, the District sold its share of the production from the Authority to the Brownsville Public Utilities Board for \$81,789.

NOTE 16 – 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. The District is also exposed to 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.

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. The District does not have any liability for workers’ compensation claims outside of the payment of the premium for the coverage.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 16 – RISK MANAGEMENT - CONTINUED

Health Insurance Program

The District provides a group health insurance plan through a commercial insurance company for all of its full-time employees. Coverage under the plan for employees' dependents is available, but is not provided by the District. The District does not have any liability for health claims outside of the payment of the premium for the coverage.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

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.

NOTE 18 – PENDING GASB'S

Statement 61 – The Financial Reporting Entity: Omnibus – an amendment of GASB No. 14 and No. 34

This Statement is intended to improve financial reporting for a governmental financial reporting entity. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement provides amendments to GASB No. 14, *The Financial Reporting Entity*, and GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The requirements of this Statement are effective for fiscal periods beginning after June 15, 2012. The District will implement this Statement in 2013. The District has not determined the impact, if any, of the adoption of this standard on its financial position, results of operations or cash flows.

Statement 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

This Statement is intended to improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This requirement will bring the authoritative accounting and financial reporting literature together in one place. This Statement will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in more consistent application of applicable guidance. The requirements of this Statement are effective for fiscal periods beginning after December 15, 2011. The District will implement this Statement in 2012.

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 18 – PENDING GASB’S - CONTINUED

Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective beginning after December 15, 2011. The District has not determined the impact, if any, of the adoption of this standard on its financial position, results of operations or cash flows.

NOTE 19– PRIOR PERIOD ADJUSTMENT

The District recorded a prior period adjustment in the amount of \$953,041. Of this amount, \$760,446 increased the fund balance due to the removal of an amount deemed not owed by the District. Another \$176,100 also increased the fund balance due to the write-off of old account balances. Finally, an entry for \$16,495 was recorded to properly recognize interest.

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REQUIRED SUPPLEMENTARY INFORMATION

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

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

Analysis of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
							Unfunded Actuarial Liability as a Percentage of Covered Payroll [(2)/(6)]
Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Liability ¹	Actuarial Liability ¹ [(1)+(2)]	Funded Ratio [(1)/(3)]	Present Value of Future Normal Costs ¹	Annual Covered Payroll ²	
Jan. 1, 2001	\$ 1,926,858	\$ 468,955	\$ 2,395,813	80.4%	\$ 399,804	\$ 1,692,737	27.7%
Jan. 1, 2002	1,397,008	458,675	1,855,683	75.3%	899,083	1,697,100	27.0%
Jan. 1, 2003 ³	1,245,026	1,417,598	2,662,624	46.8%	392,662	1,896,270	74.8%
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Jan. 1, 2005	1,648,812	1,273,994	2,922,806	56.4%	380,927	2,126,130	59.9%
Jan. 1, 2006	1,647,634	1,287,247	2,934,881	56.1%	643,419	2,287,387	56.3%
Jan. 1, 2007	1,793,079	1,253,801	3,046,880	58.8%	781,654	2,304,396	54.4%
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¹ Based on Frozen Initial Liability Funding Method. Initial liability was established under the Individual Entry Age Normal cost method prior to 2010 and under the Unit Credit cost method after 2009.

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

³ Effective January 1, 2003, the actuarial methodology for determining the actuarial value of assets was changed. Under the Funding Method this requires a redetermination of the UAL (established using the Individual Entry Age Normal actuarial cost method), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

⁴ Effective January 1, 2010, the plan was converted to a cash balance plan design. Under the Funding Method this requires a redetermination of the UAL (established using the Unit Credit actuarial cost method effective January 1, 2010 due to the new plan design which reflects benefits based on career pay instead of final pay), which resulted in a larger UAL and a smaller Present Value of Future Normal Cost than the prior year.

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OTHER SUPPLEMENTAL INFORMATION

BROWNSVILLE NAVIGATION DISTRICT OF CAMERON COUNTY, TEXAS

SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2011

	<u>Primary Government</u>	<u>Component Unit BRG International Railroad</u>	<u>Total Reporting Entity</u>
Wages	\$ 3,462,861	\$ 1,160,788	\$ 4,623,649
Payroll taxes	276,655	232,506	509,161
Services	322,115	-	322,115
Materials	581,740	-	581,740
Utility	751,295	89,168	840,463
Insurance	1,092,838	330,331	1,423,169
Dues	88,278	18,133	106,411
Legal and auditing	205,955	17,422	223,377
Consulting fees	530,469	38,518	568,987
Supplies	69,946	16,426	86,372
Computer expense	105,473	131,994	237,467
Employee expense	66,660	-	66,660
Other expense	88,015	64,059	152,074
Contract rental and repairs	23,742	121,313	145,055
Travel	145,674	31,614	177,288
Advertising	44,009	6,710	50,719
Safety	10,455	36,806	47,261
Doubtful accounts	-	2,984	2,984
Shop cost of sales	9,330	23,926	33,256
Land lease and rental rebate	42,963	-	42,963
Retirement	383,919	-	383,919
Railway operating	-	4,968,686	4,968,686
Roadway operating	-	490,167	490,167
Promotional expenses	<u>133,267</u>	<u>-</u>	<u>133,267</u>
	<u>\$ 8,435,659</u>	<u>\$ 7,781,551</u>	<u>\$16,217,210</u>

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STATISTICAL INFORMATION
(Unaudited)

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.

<u>CONTENTS</u>	<u>PAGE</u>
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.	75-76
Revenue Capacity These schedules contain information to help the reader assess the District's local revenue source.	77-84
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.	85-88
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.	89-92
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.	93-97

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

This is the first year the Brownsville Navigation District prepared a Comprehensive Annual Financial Report that includes statistical information; as such, the District is not required to report all ten years of information retroactively. The District has reported ten years of information whenever the data was readily available.

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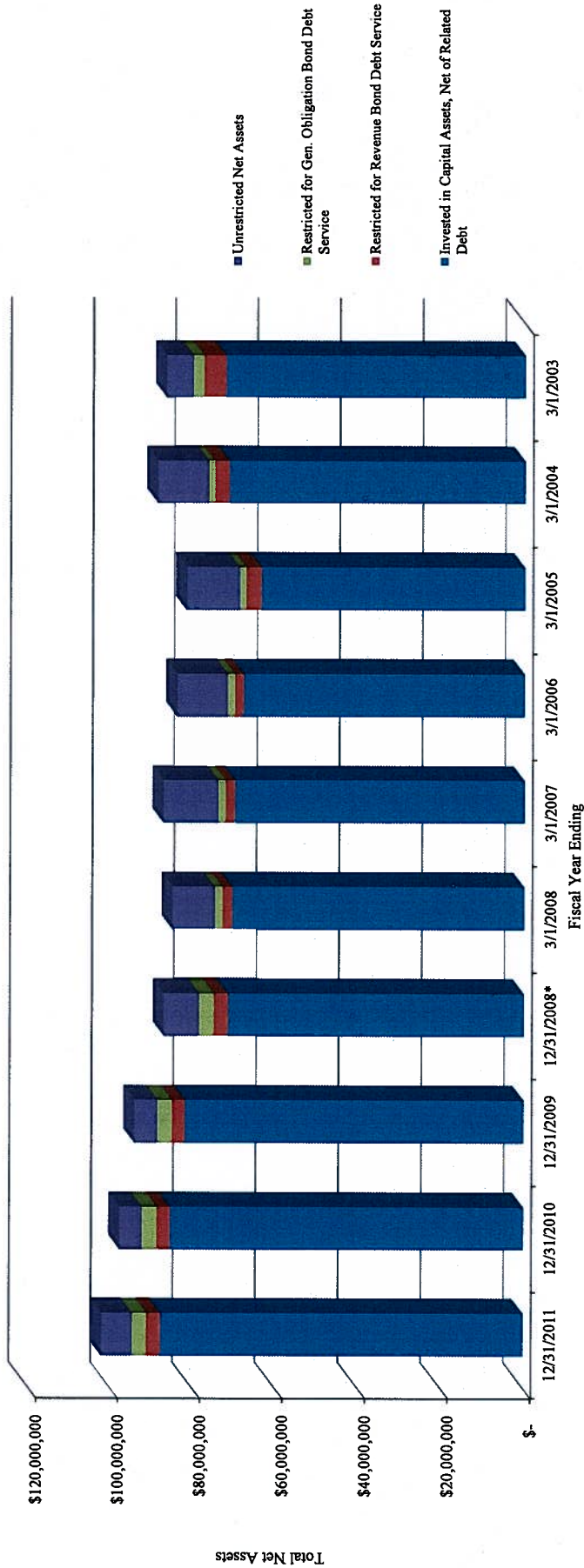
Financial Trends

Brownsville Navigation District of Cameron County, Texas
Net Assets by Component

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

	Fiscal Year Ending									
	12/31/2011	12/31/2010	12/31/2009	12/31/2008*	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	3/1/2003
Enterprise Fund										
Invested in Capital Assets, Net of Related Debt	\$ 87,750,239	\$ 85,432,090	\$ 81,853,912	\$ 71,486,406	\$ 70,503,901	\$ 69,907,583	\$ 67,861,715	\$ 63,569,817	\$ 71,464,462	\$ 72,274,386
Restricted Net Assets for:										
- Revenue Bond Debt Retirement and Contingency	3,187,128	3,143,836	3,071,700	3,391,345	2,294,246	2,201,867	2,109,461	3,698,962	3,554,673	5,362,984
- General Obligation Bond Debt Service	3,700,291	3,722,999	3,665,627	3,612,104	1,996,856	1,874,004	1,744,651	1,666,197	1,415,279	2,630,721
Unrestricted Net Assets	7,394,664	5,406,303	5,583,275	8,524,353	10,155,915	13,276,721	12,230,638	12,710,812	12,331,329	6,467,145
Total Enterprise Fund Net Assets	\$ 102,032,322	\$ 97,705,228	\$ 94,174,514	\$ 87,014,208	\$ 84,950,918	\$ 87,260,175	\$ 83,946,465	\$ 81,645,788	\$ 88,765,743	\$ 86,735,236

Net Assets by Component



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

Brownsville Navigation District of Cameron County, Texas
Changes in Net Assets
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)
 (Unaudited)

	Fiscal Year Ending									
	12/31/2011	12/31/2010	12/31/2009	12/31/2008*	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	3/1/2003
Operating Revenues										
Vessel services	\$ 6,071,290	\$ 4,598,057	\$ 5,510,892	\$ 5,600,029	\$ 6,148,619	\$ 5,352,218	\$ 5,441,043	\$ 4,485,610	\$ 4,797,112	\$ 4,468,572
Lease rentals	4,213,406	4,103,159	3,766,022	3,331,357	3,563,295	3,361,075	3,159,169	2,661,348	2,844,917	2,824,350
Port system	939,247	907,461	883,031	980,953	1,396,295	1,163,637	1,180,196	977,072	803,646	686,032
Other lease rentals	1,747,094	1,422,137	1,619,902	1,153,747	1,509,749	1,161,896	1,100,710	832,836	919,745	924,125
Other operating revenue	12,971,037	11,030,814	11,779,847	11,066,086	12,617,958	11,038,826	10,881,118	8,956,866	9,365,420	8,903,079
Total Operating Revenues	8,435,659	8,455,421	8,030,279	7,206,580	8,369,931	7,786,597	7,740,327	7,087,212	6,853,047	6,438,529
Operating Expenses, Other Than Depreciation										
Income from Operations Before Depreciation	4,535,378	2,575,393	3,749,568	3,859,506	4,248,027	3,252,229	3,140,791	1,869,654	2,512,373	2,464,550
Amortization	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000	1,110,000
Depreciation	2,483,457	2,281,499	2,135,614	1,761,528	2,085,111	2,118,256	2,086,318	2,418,082	2,531,438	2,262,979
Operating Income (Loss) After Depreciation	941,921	(816,106)	503,954	2,097,978	2,162,916	1,133,973	1,054,473	(548,428)	(19,065)	201,571
Non-Operating Income (Expense)										
Gain (Loss) on sale of equipment	351,411	411,473	577,825	705,344	788,460	675,579	682,271	732,013	681,370	643,831
Interest income on investments and direct financing leases - port system	86,833	91,518	98,341	94,581	131,310	148,410	161,965	175,173	181,759	101,290
Interest income - other	125,130	129,549	130,902	113,986	153,506	158,359	155,788	137,149	129,678	128,352
Tax income - net of bad debt and collection expenses	571,669	612,400	602,150	436,847	550,779	516,662	481,305	476,331	493,993	549,932
Penalties and interest	2,597,205	2,543,903	2,276,470	2,276,470	2,855,553	2,890,311	2,855,553	2,854,571	2,594,581	2,342,802
Maintenance and Operations	(1,248,819)	(1,450,407)	(1,602,304)	(1,452,131)	(2,070,626)	(2,186,526)	(2,423,680)	(2,017,165)	(2,664,391)	(2,419,399)
General Obligation Debt Service	(69,752)	(69,752)	(66,264)	(57,682)	(78,266)	(74,375)	(81,275)	(78,866)	(81,659)	(61,039)
Amortization of bond issuance costs	(7,300)	(7,000)	(6,500)	(5,265)	(13,500)	(14,000)	(12,289)	(11,099)	(12,138)	(5,431)
Bond service fees	102,465	1,061,585	1,869,900	-	(6,938,520)	(14,000)	(12,289)	(11,099)	(12,138)	(5,431)
Grant revenue	(76,710)	250,624	78,203	(37,795)	(41,975)	63,645	78,571	(9,200,000)	-	-
Impairment loss on Bridge Project	2,452,132	3,573,893	4,238,031	2,074,355	(4,731,214)	2,178,065	1,595,203	(6,886,022)	651,380	-
Other non-operating income (expense)	3,374,053	2,757,787	4,741,985	4,172,333	(2,568,298)	3,312,038	2,649,676	(7,434,450)	2,049,572	6,221,953
Net Non-Operating Income (Expense)	-	772,927	753,313	360,394	259,041	28,169	1,000	284,152	-	1,002,821
Income (Loss) Before Contributions and Extraordinary Items	941,921	(44,183)	1,257,267	2,458,372	2,421,967	1,162,142	1,055,473	(253,266)	(19,065)	1,204,392
Capital contributions	-	-	-	-	-	-	-	-	-	-
Extraordinary items	-	-	-	-	-	-	(350,000)	-	-	-
Increase (decrease) in net assets	3,374,053	3,530,714	5,495,298	4,532,727	(2,309,257)	3,340,207	2,300,676	(7,150,298)	2,030,507	7,426,345
Net assets at beginning of year	97,705,228	94,174,514	87,014,208	84,950,918	87,260,175	83,946,465	81,645,789	88,765,743	86,735,236	79,308,891
Prior period adjustments	953,041	-	1,665,008	(2,469,436)	-	(26,497)	-	30,343	-	-
Net assets at beginning of year - as restated	98,658,269	94,174,514	88,679,216	82,481,482	87,260,175	83,919,968	81,645,789	88,796,086	86,735,236	79,308,891
Net assets at end of year	\$ 102,032,322	\$ 97,705,228	\$ 94,174,514	\$ 87,014,209	\$ 84,950,918	\$ 87,260,175	\$ 83,946,465	\$ 81,645,788	\$ 88,765,743	\$ 86,735,236

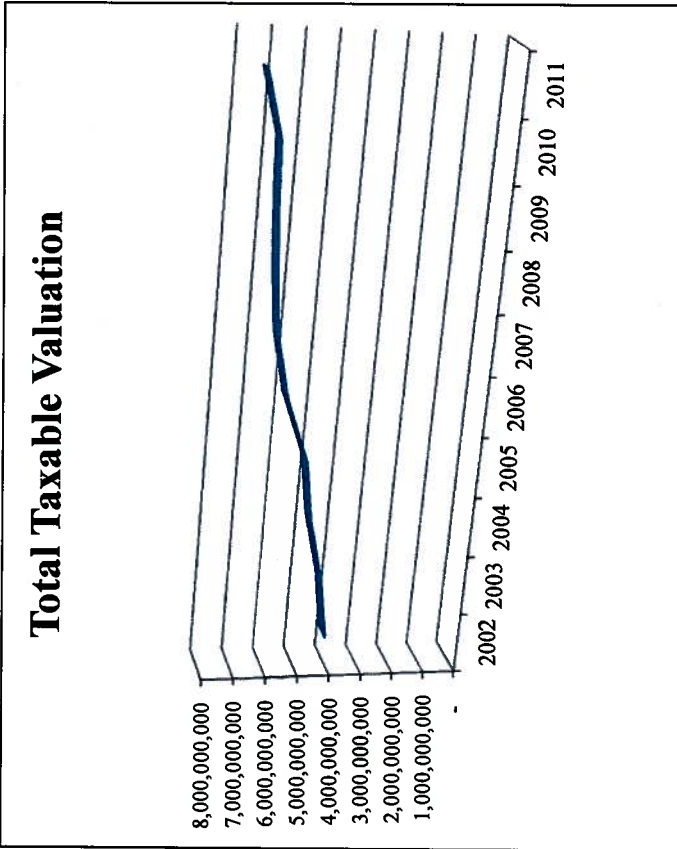
Revenue Capacity

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

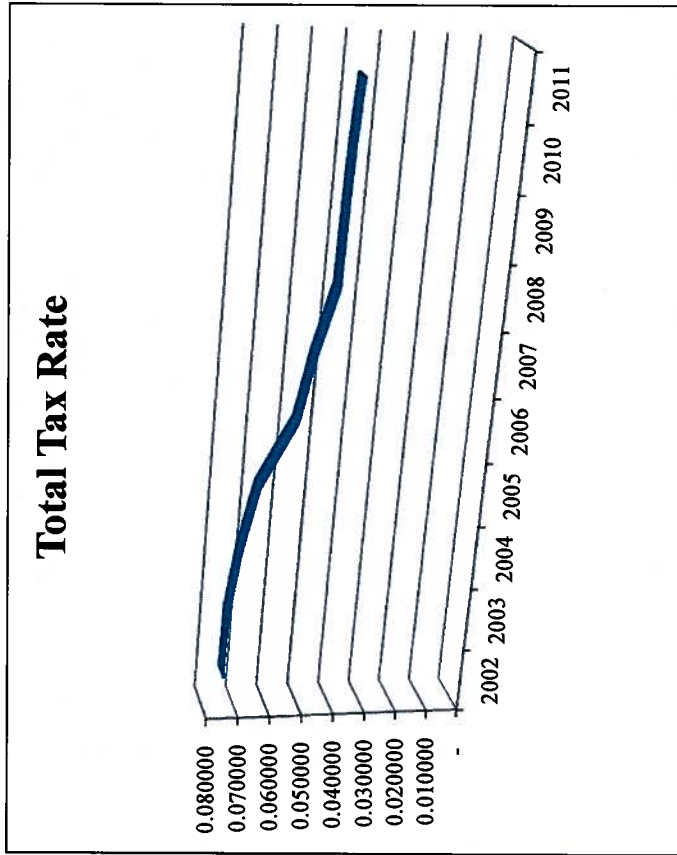
Last Ten Tax Years
(Accrual Basis of Accounting)
(Unaudited)

Tax Year	Assessed Valuation		Adopted Tax Rates		M&O Levy	Assessed Levy		Total Levy	Collections to		Collection Percentage
	Assessed Value	Taxable Value	M&O Rate	G.O. Rate		G.O. Levy	Total Levy		Date	Percentage	
2011	\$ 7,819,215,942	\$ 7,283,310,136	0.008430	0.038400	\$ 580,593	\$ 2,644,694	\$ 3,225,287	\$ 2,262,729	70.16%		
2010	7,645,015,630	6,755,307,381	0.008628	0.039200	622,473	2,645,695	3,268,168	3,096,148	94.74%		
2009	7,632,032,815	6,676,131,020	0.009353	0.038900	628,527	2,614,109	3,242,636	3,149,071	97.11%		
2008	7,546,736,522	6,543,368,909	0.009353	0.039144	622,869	2,606,820	3,229,689	3,168,188	98.10%		
2007	7,243,157,088	6,351,998,091	0.008843	0.044766	561,579	2,841,930	3,403,509	3,355,374	98.59%		
2006	6,399,437,985	5,908,277,454	0.008470	0.048770	506,529	2,870,329	3,376,858	3,337,757	98.84%		
2005	5,850,202,872	5,165,304,549	0.009683	0.057617	500,060	2,975,518	3,475,578	3,442,390	99.05%		
2004	5,467,038,388	4,866,549,970	0.010229	0.061181	497,800	2,977,408	3,475,208	3,445,235	99.14%		
2003	4,920,603,000	4,331,426,055	0.012007	0.061928	512,055	2,688,287	3,200,342	3,174,178	99.18%		
2002	4,661,157,872	4,078,317,297	0.014240	0.059885	580,713	2,442,133	3,022,846	2,998,287	99.19%		

Total Taxable Valuation



Total Tax Rate



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

Current Year and Nine Years Ago
(Unaudited)

No.	Taxpayer	Type of Activity	Fiscal Year		Percentage		Fiscal Year		Percentage	
			2011 Assessed Value	2011 Assessed Value	of Assessed Valuation	of Assessed Valuation	2002 Assessed Value	2002 Assessed Value	of Assessed Valuation	of Assessed Valuation
1	AEP Texas Central Co.	Electrical Utility	\$ 99,534,903	\$ -	0.60%	-	\$ -	-	-	-
2	Southwestern Bell Telephone	Telephone Company	47,941,560	87,898,407	0.29%	-	87,898,407	-	1.17%	-
3	Sapphire VP, L.P.	Real Estate	39,146,357	-	0.24%	-	-	-	-	-
4	Wal-Mart Stores, Inc.	Retail	38,903,902	-	0.24%	-	-	-	-	-
5	CBL/Sunrise Commons, L.P.	Retail Mall	38,734,331	-	0.23%	-	-	-	-	-
6	United Launch Alliance, L.L.C.	Space Launch Services	38,271,757	-	0.23%	-	-	-	-	-
7	Trico Products Corp.	Manufacturing	32,080,510	26,548,626	0.19%	-	26,548,626	-	0.35%	-
8	Union Pacific Rail Road	Rail Road	32,080,510	-	0.19%	-	-	-	-	-
9	GLH, L.P.		29,684,365	-	0.18%	-	-	-	-	-
10	Columbia Valley Healthcare Systems, L.P.	Health Care	29,338,753	34,560,954	0.18%	-	34,560,954	-	0.46%	-
Total Assessed Valuation			\$ 425,716,948	\$ 149,007,987	2.57%		\$ 149,007,987		1.98%	

*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

Brownsville Navigation District of Cameron County, Texas
Operating Revenue and Expenses by Type
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)
 (Unaudited)

	Fiscal Year Ending									
	12/31/2011	12/31/2010	12/31/2009	12/31/2008*	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	3/1/2003
Operating Revenues										
Vessel Services	\$ 6,071,290	\$ 4,598,057	\$ 5,510,892	\$ 5,600,029	\$ 6,148,619	\$ 5,352,218	\$ 5,441,043	\$ 4,485,610	\$ 4,797,112	\$ 4,468,572
Lease Rentals - Port System	4,213,406	4,103,159	3,766,022	3,331,357	3,563,295	3,361,075	3,159,169	2,661,348	2,844,917	2,824,350
Other Lease Rentals	939,247	907,461	883,031	980,953	1,396,295	1,163,637	1,180,196	977,072	803,646	686,032
Other Operating Revenue	1,747,094	1,422,137	1,619,902	1,153,747	1,509,749	1,161,896	1,100,710	832,836	919,745	924,125
Total Operating Revenue	12,971,037	11,030,814	11,779,847	11,066,085	12,617,958	11,038,826	10,881,118	8,956,866	9,365,420	8,903,079
Operating Expenses										
Materials	581,740	666,179	596,943	539,951	650,752	761,927	481,062	402,979	387,220	388,698
Services	322,115	250,076	263,071	218,886	411,941	443,672	399,520	364,917	382,838	385,127
Contracts Rental & Repairs	23,742	21,961	29,690	19,390	31,158	103,443	139,810	183,660	93,064	158,867
Wages	3,462,861	3,300,810	3,315,291	2,523,191	2,722,408	2,721,681	2,502,585	2,373,398	2,454,305	2,291,084
Payroll Taxes	276,655	250,004	228,782	179,876	193,171	216,226	180,003	192,125	176,246	161,913
Retirement & Life	383,919	402,551	273,856	175,000	211,443	246,281	231,435	239,133	294,890	197,904
Employee Expenses	66,660	57,902	82,436	53,869	59,301	73,066	50,432	48,000	546,978	467,055
Safety	10,455	9,796	7,623	695	3,740	6,527	3,653	3,653	2,224	2,179
Land Lease and Rental Rebate	42,963	137,347	159,513	466,953	248,330	81,688	238,322	188,760	156,360	172,560
Utilities	751,295	675,562	647,933	601,574	756,520	623,232	514,458	542,698	428,112	458,339
Insurance	1,092,838	1,108,981	1,068,276	905,686	1,099,060	1,054,238	935,557	894,153	380,997	361,702
Dues & Subscription	88,278	87,663	78,281	30,016	45,392	47,000	55,263	43,472	32,182	32,113
Legal & Auditing	205,955	149,751	165,656	160,159	507,009	263,121	608,268	516,463	183,291	141,017
Consultant Fees	530,469	564,257	856,225	600,201	838,489	400,928	451,544	522,079	516,641	572,684
Office Supplies	69,946	63,848	85,719	73,759	77,447	74,921	77,544	51,404	64,887	65,158
Computer Expense	105,473	88,588	55,548	40,634	40,132	57,992	59,747	71,447	75,608	33,576
Travel	145,674	149,128	119,789	124,533	113,086	144,934	119,566	90,573	131,979	222,187
Advertising	44,009	34,159	67,363	145,180	99,123	112,994	76,428	125,215	95,059	86,477
Promotional	133,267	46,105	40,906	82,808	25,996	57,659	162,420	69,050	289,223	65,523
Doubtful Accounts	-	208,794	(153,429)	114,165	125,443	222,276	346,319	83,126	97,711	87,842
Other Expense	97,345	181,960	40,809	148,107	113,036	76,078	103,518	80,909	63,231	61,632
Total Operating Expenses	8,435,659	8,455,421	8,030,280	7,206,579	8,369,931	7,786,597	7,740,325	7,087,214	6,853,047	6,413,637
Net Operating Income before Depreciation and Amortization	4,535,378	2,575,393	3,749,568	3,859,506	4,248,027	3,252,229	3,140,793	1,869,652	2,512,374	2,489,442
Non-Operating Income (Expense)										
Gain(loss) on sale of equipment	438,244	502,991	-	705,344	788,460	675,579	(303,006)	7,329	74,999	4,941,615
Interest Inc. on investments and direct leases	-	-	-	-	-	-	682,271	732,013	681,370	643,831
Tax income - net of bad debt and collection exp.	-	-	676,166	-	-	-	-	-	-	-
Penalty and interest	125,130	129,549	130,902	113,986	153,506	158,359	155,788	137,149	129,678	128,352
Maintenance and operations	571,669	612,400	602,150	436,847	550,779	516,662	481,305	476,331	493,993	549,932
General Obligation Bond Debt Service	2,597,205	2,543,903	2,555,778	2,276,470	2,787,618	2,890,311	2,855,553	2,854,571	2,594,581	2,342,802
Interest Expense and Bond Costs	(1,325,871)	(1,527,159)	(1,675,068)	(1,515,078)	(2,162,392)	(2,274,901)	(2,517,244)	(2,107,130)	(2,758,188)	(2,485,869)
Grant Revenue	102,465	1,061,585	1,869,900	-	(6,938,520)	-	-	(9,200,000)	-	-
Impairment Loss on Bridge Project	(76,710)	250,624	78,203	56,786	89,335	212,055	240,536	213,715	833,139	101,290
Other Non-Operating Income (Expense)	2,432,132	3,573,893	4,238,031	2,074,355	(4,731,214)	2,178,065	1,595,203	(6,886,022)	2,049,572	6,221,953
Net Non-Operating Income (Expense)	2,432,132	3,573,893	4,238,031	2,074,355	(4,731,214)	2,178,065	1,595,203	(6,886,022)	2,049,572	6,221,953
Net Income before Depreciation and Amortization	\$ 6,967,510	\$ 6,149,286	\$ 7,987,599	\$ 5,933,861	\$ (483,187)	\$ 5,430,294	\$ 4,735,596	\$ (5,016,370)	\$ 4,561,946	\$ 8,711,395

*Fiscal year change from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ending 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.

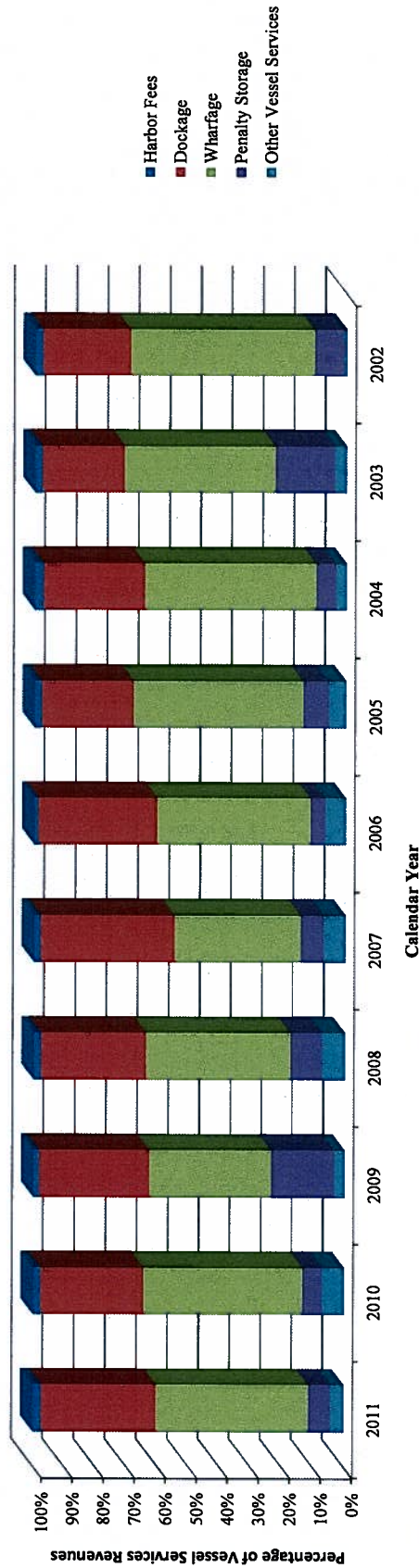
Port Calls by Vessel Type	Calendar Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Deep Sea Vessels	379	329	277	348	275	309	281	215	238	215
River Barges	859	657	506	733	760	463	757	825	638	713
Mexican Fishing Vessels	-	-	-	18	24	22	66	145	278	338
	1,238	986	783	1,099	1,059	794	1,104	1,185	1,154	1,266
Waterborne Cargo Traffic (metric tons)										
Petroleum and Coal Products	2,863,803	2,732,112	2,455,046	2,204,631	1,803,935	1,397,195	1,739,108	1,506,113	1,165,888	1,949,099
Primary Metal Products	1,636,080	1,354,076	1,212,640	2,036,858	1,914,316	2,608,864	2,135,918	1,542,634	2,040,032	1,876,722
Non-Metallic Minerals	493,777	267,319	552,215	822,158	266,114	411,309	359,441	400,515	322,670	286,986
Waste and Scrap Materials	274,774	131,334	115,707	120,676	109,330	35,254	28,743	-	-	-
Other Cargoes	103,217	125,259	71,149	121,988	188,314	306,603	213,112	309,461	120,403	83,508
Total Cargo Traffic	5,371,651	4,610,100	4,406,757	5,306,311	4,282,009	4,759,225	4,476,322	3,758,723	3,648,993	4,196,315

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.

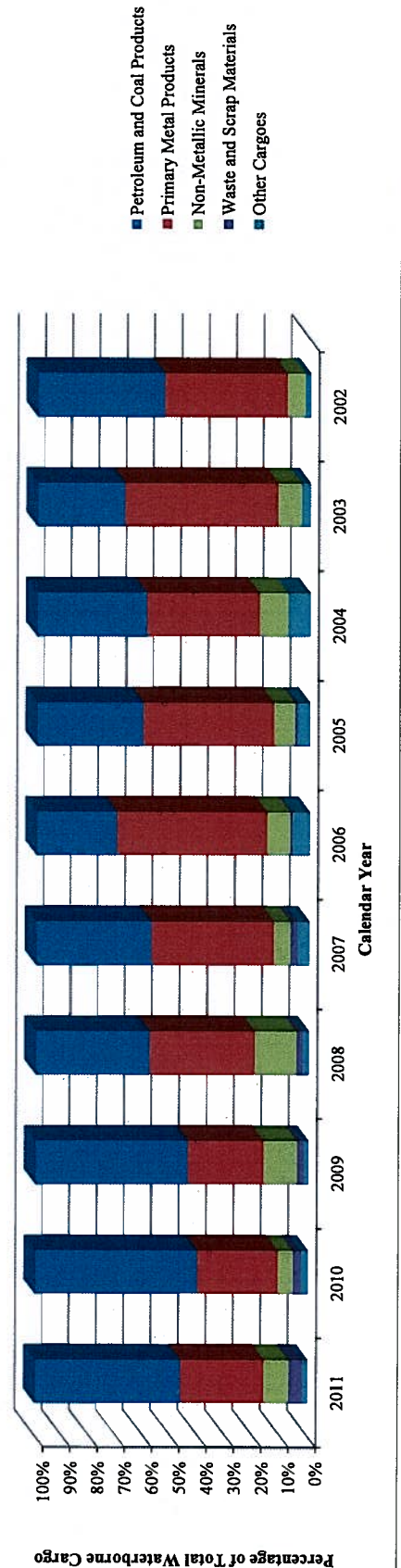
	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$	150.00	\$		
Harbor Fees (per Port Call)																							
Deep Sea Vessels	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00	200.00
River Barges	100.00	100.00	100.00	100.00	100.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00
Mexican Fishing Vessels	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	65.00	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	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
Dockage - Bulk Cargo Dock	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	
Dockage - Oil Docks/Liquid Cargo Docks/Express Dock	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	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	0.05	0.05	0.05	0.05	0.05	0.05	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	0.09	0.09	0.09	0.09	0.09	0.09	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	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	
Dockage - River Barges (per day)	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	
Wharfage - Major Commodities																							
Petroleum and Coal Products (per barrel)	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	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	1.00	1.00	1.00	1.00	1.00	1.00	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	0.46	0.46	0.46	0.46	0.46	0.46	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	0.35	0.35	0.35	0.35	0.35	0.35	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	1.37	1.37	1.37	1.37	1.37	1.37	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	1.09	1.09	1.09	1.09	1.09	1.09	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	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Miscellaneous Cargoes - Not Otherwise Specified	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	1.37	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	0.1103	0.1103	0.1103	0.1103	0.1103	0.1103	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	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	0.0221	

	Calendar Year										
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2002
Vessel Revenue by Major Component											
Harbor Fees	\$ 160,166	\$ 104,525	\$ 95,423	\$ 136,782	\$ 123,916	\$ 64,438	\$ 113,723	\$ 110,615	\$ 104,605	\$ 98,422	\$ 98,422
Dockage	2,227,647	1,507,551	1,936,903	2,126,184	2,636,962	2,120,730	1,573,304	1,334,561	1,296,371	1,208,228	1,208,228
Wharfage	2,982,673	2,351,775	2,175,995	2,934,204	2,513,859	2,759,732	2,924,780	2,279,058	2,386,945	2,554,906	2,554,906
Penalty Storage	429,412	284,822	1,113,225	641,365	444,220	258,489	428,810	260,760	933,164	413,892	413,892
Other Vessel Services	250,193	319,509	175,471	456,020	425,329	360,581	296,495	134,589	176,799	28,935	28,935
Total Vessel Services	\$ 6,050,091	\$ 4,568,182	\$ 5,497,017	\$ 6,294,555	\$ 6,144,286	\$ 5,563,970	\$ 5,337,112	\$ 4,119,583	\$ 4,897,884	\$ 4,304,383	\$ 4,304,383

Vessel Revenue by Major Component



Major Waterborne Cargoes



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

Current Year and Nine Years Ago
(Unaudited)

Customer	Fiscal Year Ending					
	2011			2012		
	2011 Revenues	Rank	Percentage	2012 Revenues	Rank	Percentage
Dix Agency Brownsville	\$ 1,546,347	1	26%	\$ 1,163,575	1	27%
Transmontaigne Operating Company	1,070,220	2	18%	852,488	4	20%
Gulf Stream Marine	807,921	3	13%	631,510	2	15%
Schaefer Stevedoring	674,947	4	11%	297,481	3	7%
Admiral Steamship Agency	286,375	5	5%	278,076	5	6%
Gulf Harbor Shipping	242,352	6	4%			0%
Keppel Amfels, Inc.	184,759	7	3%			0%
Esco Marine, Inc.	180,465	8	3%			0%
ISS Marine Service	172,014	9	3%			0%
Vulcan Construction Materials	150,849	10	2%			0%
American Commercial Barge	127,902	11	2%	41,927	12	1%
NSA Agencies, Inc.	109,765	12	2%	34,095	11	1%
Bedoli Group, Inc.	89,174	13	1%			0%
Frontera Brownsville, LLC	87,440	14	1%			0%
AEP River Operations	79,750	15	1%			0%
Citgo Petroleum				270,010	6	6%
Biehl & Company, Inc.				190,646	7	4%
Fillette, Green Shipping Service				94,532	8	2%
Thyssenkrupp Steel				61,175	9	1%
RTW Properties, LP				51,402	10	1%
Interlube Corporation				25,205	13	1%
Hollywood Marine, Inc.				23,685	14	1%
B P Exploration & Oil, Inc.				22,032	15	1%
Total Vessel Revenues	\$ 6,050,091		96%	\$ 4,304,383		94%

**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									
	12/31/2011	12/31/2010	12/31/2009	*12/31/2008	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	3/1/2003
Turning Basin Leases (per acre/year)										
Waterfront	\$ 5,844	\$ 5,844	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600
Highway Frontage	3,819	3,819	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400
Port Entrance Sites	3,403	3,403	-	-	-	-	-	-	-	-
Commercial Property	-	-	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Inside Port/Off Waterfront	2,025	2,025	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Fishing Harbor Leases										
Waterfront	4,494	4,494	1	1	1	1	1	1	1	1
Off-Water	4,156	4,156	1	1	1	1	1	1	1	1

Rate is calculated per linear foot of street frontage/month until 2010, when the rate was changed to a per acre/year basis.)

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 Established by Contract Between the Brownsville Navigation District and the Brownsville & Rio Grande International Railroad

Railroad Track Rental (per car)	20	20	20	20	20	15	15	15	15	15
Lease Rental Revenues	\$ 5,152,653	\$ 5,010,620	\$ 4,649,053	\$ 4,312,310	\$ 4,959,590	\$ 4,524,712	\$ 4,339,365	\$ 3,638,420	\$ 3,648,563	\$ 3,510,382

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

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

Current Year and Nine Years Ago
(Unaudited)

Customer	Fiscal Year Ending					
	2011			2012		
	2011 Revenues	Rank	Total Percentage 2011	2012 Revenues	Rank	Total Percentage 2012
Transmontaigne Operating Co LP	\$ 678,186	1	13%	\$ 631,249	2	18%
Esco Marine, Inc.	628,203	2	12%	186,318	5	5%
Brownsville & Rio Grande International Railroad	610,649	3	12%	480,087	3	14%
KeppelAMFELS, Inc.	231,226	4	4%	705,015	1	20%
Bay Bridge Texas, LLC	227,473	5	4%			
Bedoli Group, Inc.	219,785	6	4%			
International Shipbreaking	196,790	7	4%	163,764	6	5%
Citgo Petroleum Corporation	193,649	8	4%			
Brownsville Public Utility Board	114,104	9	2%	148,873	7	4%
Marine Metals, Inc.	107,882	10	2%			0%
Brownsville Gulfside Warehouse	88,427	11	2%	98,333	10	3%
U-Pull-It Brownsville, Inc.	86,882	12	2%			
Trinity Scrap Processors, Inc.	76,878	13	1%			
Gulf Facilities, Inc.	70,855	14	1%	131,732	8	4%
Port Elevator Brownsville, Inc.	52,916	15	1%	43,320	4	7%
Penn Octane				236,882	9	4%
Rio Grande Royalty Co., Inc.				129,997	11	3%
City of Brownsville				94,629	12	2%
Gulf Stream Marine, Inc.				86,041	13	2%
Duro Standard Products Co., LLC				72,747	14	2%
RTW Properties. LP				69,264	15	2%
New Process Steel, LP				61,132		
Total Lease Rental Revenues	\$ 5,152,653		70%	\$ 3,555,246		93%

Debt Capacity

Brownsville Navigation District of Cameron County, Texas
Ratios of Net General Bonded Debt by Type
Last Ten Fiscal Years
 (Accrual Basis of Accounting)
 (Unaudited)

Fiscal Year	General Obligation Bonds	Less Debt Service Funds Cash	Net General Obligation Bonded Debt	Percentage of Taxable Property Value	Per Capita
2003	\$ 2,466,536	\$ 708,141	\$ 1,758,395	0.0406%	\$ 12
2004	2,947,699	299,920	2,647,779	0.0544%	17
2005	3,011,996	455,851	2,556,145	0.0495%	16
2006	3,002,854	261,381	2,741,473	0.0464%	17
2007	2,917,169	585,280	2,331,889	0.0367%	14
2008	2,819,760	748,904	2,070,856	0.0316%	13
2008a	313,483 **	3,837,911	(3,524,428) *	-0.0539%	(22)
2009	2,608,491	3,761,392	(1,152,901) *	-0.0176%	(7)
2010	2,608,780	3,873,697	(1,264,917) *	-0.0189%	(7)
2011	2,654,405	3,901,482	(1,247,077) *	-0.0185%	(7)

	Revenue Bonds	Total Outstanding Debt	Percentage of Taxable Property Value	Per Capita
2003	\$ 1,886,441	\$ 3,644,836	0.4474%	\$ 24
2004	2,110,447	4,758,226	0.0000%	31
2005	2,110,816	4,666,961	0.0000%	30
2006	2,102,748	4,844,221	0.0000%	30
2007	2,109,267	4,441,156	0.0000%	27
2008	2,113,442	4,184,298	0.0000%	26
2008a	369,384 **	(3,155,044)	0.0000%	(20)
2009	2,031,237	878,336	0.0000%	5
2010	1,755,457	490,540	0.0000%	3
2011	1,761,026	513,949	0.0000%	3

**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.*

***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.*

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 Ending									
	12/31/2011	12/31/2010	12/31/2009	12/31/2008*	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	3/1/2003
First Lien Revenue Bond - Series 1973										
Principal Maturity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,000	\$ 225,000	\$ 225,000
Interest Payments	-	-	-	-	-	-	-	14,688	27,907	41,126
Total Bond Requirement	-	-	-	-	-	-	-	264,688	252,907	266,126
First Lien Revenue Bond - Series 1993										
Principal Maturity	-	-	-	-	190,000	145,000	145,000	145,000	100,000	100,000
Interest Payments	-	-	-	-	10,640	18,615	26,445	34,130	39,330	44,430
Total Bond Requirement	-	-	-	-	200,640	163,615	171,445	179,130	139,330	144,430
First Lien Revenue Bond - Series 1996										
Principal Maturity	-	680,000	640,000	-	410,000	420,000	390,000	110,000	145,000	110,000
Interest Payments	-	19,380	178,965	159,585	342,130	367,750	393,490	400,750	410,320	417,580
Total Bond Requirement	-	699,380	818,965	159,585	752,130	787,750	783,490	510,750	555,320	527,580
First Lien Revenue Bond - Series 2000										
Principal Maturity	190,000	185,000	175,000	-	165,000	155,000	145,000	135,000	125,000	115,000
Interest Payments	142,183	151,465	162,123	84,124	180,623	192,248	203,123	213,248	222,623	231,248
Total Bond Requirement	332,183	336,465	337,123	84,124	345,623	347,248	348,123	348,248	347,623	346,248
First Lien Revenue Bond - Series 2002A										
Principal Maturity	85,000	80,000	75,000	-	75,000	70,000	65,000	65,000	65,000	-
Interest Payments	56,000	59,858	64,334	33,479	69,333	69,050	71,689	74,146	76,343	48,987
Total Bond Requirement	141,000	139,858	139,334	33,479	144,333	139,050	136,689	139,146	141,343	48,987
First Lien Revenue Bond - Series 2002B										
Principal Maturity	90,000	85,000	80,000	-	80,000	75,000	70,000	70,000	70,000	-
Interest Payments	59,260	63,352	68,107	35,447	74,406	73,194	76,036	78,682	81,048	51,780
Total Bond Requirement	149,260	148,352	148,107	35,447	154,406	148,194	146,036	148,682	151,048	51,780
First Lien Revenue Bond - Series 2009										
Principal Maturity	740,000	10,000	-	-	-	-	-	-	-	-
Interest Payments	180,179	198,367	83,304	-	-	-	-	-	-	-
Total Bond Requirement	920,179	208,367	83,304	-	-	-	-	-	-	-
Junior Lien Revenue Bond - Series 1994										
Principal Maturity	-	-	-	-	-	-	-	-	-	400,000
Interest Payments	-	-	-	-	-	-	-	-	-	19,200
Total Bond Requirement	-	-	-	-	-	-	-	-	-	419,200
Junior Lien Revenue Bond - Series 2002										
Principal Maturity	-	-	275,000	-	265,000	260,000	240,000	235,000	225,000	-
Interest Payments	-	-	7,219	7,219	28,350	42,000	52,680	63,138	73,150	82,091
Total Bond Requirement	-	-	282,219	7,219	293,350	302,000	292,680	298,138	298,150	82,091
Junior Lien Revenue Bond - Series 2003										
Principal Maturity	130,000	130,000	125,000	-	120,000	115,000	115,000	110,000	105,000	-
Interest Payments	88,404	93,035	97,185	49,530	102,960	106,410	109,285	112,035	119,756	-
Total Bond Requirement	218,404	223,035	222,185	49,530	222,960	221,410	224,285	222,035	224,756	-
Total Revenue Bonds										
Principal Maturity	1,235,000	1,170,000	1,370,000	-	1,305,000	1,240,000	1,170,000	1,120,000	1,060,000	950,000
Interest Payments	526,026	585,457	661,237	369,384	808,442	869,267	932,748	990,816	1,050,477	936,441
Annual Revenue Bond Debt Service	\$ 1,761,026	\$ 1,755,457	\$ 2,031,237	\$ 369,384	\$ 2,113,442	\$ 2,109,267	\$ 2,102,748	\$ 2,110,816	\$ 2,110,477	\$ 1,886,441
Net Revenues Available for Debt Service on Revenue Bonds (See Table 12)	\$ 5,107,834	\$ 5,182,971	\$ 7,069,737	\$ 4,398,776	\$ (1,929,929)	\$ 3,710,373	\$ 3,049,551	\$ (6,790,749)	\$ 3,292,644	\$ 8,542,605
Coverage Ratio (Net Revenues Available for Debt Service/Annual Debt Service)	2.90	2.95	3.48	11.91	(0.91)	1.76	1.45	(3.22)	1.56	4.53

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 change from a March 1 year ending to a December 31 year ending in 2008. Fiscal year ending 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)

	Fiscal Year Ending									
	12/31/2011	12/31/2010	12/31/2009	12/31/2008	3/1/2008	3/1/2007	3/1/2006	3/1/2005	3/1/2004	03/01/2003
Gross Revenues										
Operating Revenues										
Wharf Operations	\$ 5,824,799	\$ 4,286,523	\$ 5,353,121	\$ 5,229,445	\$ 5,721,209	\$ 4,956,768	\$ 5,103,525	\$ 4,378,389	\$ 4,578,860	\$ 4,203,535
Industrial Development	5,101,059	4,973,262	4,613,875	4,269,036	4,918,890	4,415,401	4,293,210	3,540,666	3,773,768	3,905,293
Foreign Trade Zone	431,554	410,851	379,367	302,347	446,652	202,066	244,904	214,260	205,255	183,279
Facilities Maintenance	289,228	261,382	194,017	310,499	288,249	291,837	218,724	158,384	221,241	134,076
Security	411,157	342,220	360,054	328,985	352,062	294,579	265,130	107,005	325	197
Environmental Services	-	-	-	95,740	181,072	190,313	111,898	-	-	-
Engineering & Utilities	831,452	668,698	589,249	530,033	685,363	687,862	643,727	558,162	570,974	476,700
Water Plant & Distribution System	81,789	87,878	290,165	-	-	-	-	-	-	-
Total	12,971,038	11,030,814	11,779,847	11,066,085	12,593,497	11,038,826	10,881,118	8,956,866	9,350,423	8,903,079
Non-Operating Revenues										
Interest on Investments	454,763	526,175	595,089	810,406	791,686	835,330	814,016	864,105	812,970	726,707
Other	782,889	2,761,105	3,549,185	480,950	981,228	663,737	583,266	825,291	1,229,148	1,625,272
Total	1,237,652	3,287,280	4,144,274	1,291,356	1,772,914	1,499,066	1,397,282	1,689,396	2,042,118	2,351,979
Total Gross Revenues	14,208,690	14,318,094	15,924,122	12,357,441	14,366,411	12,537,892	12,278,400	10,646,262	11,392,541	11,255,058
Operating Expenses										
Maintenance and Operation of Facilities										
Wharf Operations	592,424	485,461	428,895	392,403	190,589	202,430	245,014	202,743	528,038	252,852
Industrial Development	248,855	321,895	340,451	614,445	454,389	242,215	358,462	307,103	839,033	902,520
Foreign Trade Zone	121,390	114,655	108,078	102,969	149,212	78,833	57,854	49,843	166,786	102,000
Facilities Maintenance	1,984,724	2,007,620	1,980,035	1,533,101	1,913,880	2,092,226	1,691,147	1,497,438	1,420,576	1,286,920
Security	972,004	1,010,961	966,646	760,921	1,038,367	993,080	864,701	794,772	662,985	646,815
Environmental Services	1,716	1,990	23,609	37,433	53,472	69,432	(12,100)	77,524	87,844	133,795
Engineering & Utilities	1,330,182	1,231,092	1,175,697	943,752	1,050,321	1,208,745	1,065,359	1,079,699	683,894	634,628
Water Plant & Distribution System	109,930	108,745	105,752	98,381	188,568	-	-	-	-	-
Total	5,361,225	5,282,420	5,129,163	4,483,406	5,038,798	4,886,962	4,270,438	4,009,121	4,389,156	3,959,530
General and Administrative Expenses	3,080,737	3,149,308	2,896,954	2,723,173	3,313,422	2,899,804	3,447,036	3,078,518	2,452,049	2,454,107
Total Operating Expenses	8,441,962	8,431,727	8,026,117	7,206,580	8,352,221	7,786,765	7,717,474	7,087,639	6,841,205	6,413,637
Non-Operating Expenses										
Interest Expense	526,309	599,496	662,889	663,770	877,406	954,244	1,074,644	1,047,523	1,208,075	1,129,391
Other Expense	132,585	103,900	165,378	88,314	7,066,714	86,511	436,732	9,301,850	50,617	(4,830,575)
Total Non-Operating Exp	658,895	703,395	828,267	752,085	7,944,120	1,040,754	1,511,375	10,349,372	1,258,692	(3,701,184)
Total Expenses	9,100,856	9,135,123	8,854,385	7,958,664	16,296,340	8,827,520	9,228,849	17,437,011	8,099,897	2,712,453
Net Revenues Available For Debt Service on Revenue Bonds	\$ 5,107,834	\$ 5,182,971	\$ 7,069,737	\$ 4,398,776	\$ (1,929,929)	\$ 3,710,373	\$ 3,049,551	\$ (6,790,749)	\$ 3,292,644	\$ 8,542,605
Average Annual Debt Service on Revenue Bonds	\$ 1,691,389	\$ 2,441,384	\$ 2,630,077	\$ 1,788,097	\$ 2,030,301	\$ 2,037,242	\$ 2,046,568	\$ 2,298,277	\$ 2,275,936	\$ 2,434,203
Coverage by Net Revenues	3.02	2.12	2.69	2.46	(0.95)	1.82	1.49	(2.95)	1.45	3.51

*Fiscal year change from a March 1 year-ending to a December 31 year-ending in 2008. Fiscal year ending 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 service requirements on the District's Revenue Bonds as of December 31, 2011, excluding bonds that have been refunded and defeased.

<u>Fiscal Year Ending December 31</u>	<u>Outstanding Debt Service Requirements</u>
2012	\$ 1,668,566
2013	1,659,624
2014	1,664,107
2015	1,670,729
2016	757,239
2017	760,015
2018	767,063
2019	783,119
2020	783,424
2021	787,933
2022	496,044
2023	<u>219,838</u>
Total	\$ <u>12,017,703</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

Year	GDP (a)	National		Total U.S. Exports (c)	Total U.S. Imports (c)	U.S. Rig Count (d)	Oil Price \$/Bbl (e)	PMI (f)
		Unemployment (b)						
2011	3.0%	8.9%	\$ -	\$ -	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	
2007	1.9%	4.6%	1,148.2	1,957.0	1,768	72.34	51.1	
2006	2.7%	4.6%	1,026.0	1,853.9	1,649	66.05	53.1	
2005	3.1%	5.1%	901.1	1,673.5	1,383	56.64	54.4	
2004	3.6%	5.5%	814.9	1,469.7	1,192	41.51	59.1	
2003	2.5%	6.0%	724.8	1,257.1	1,032	31.08	51.7	
2002	1.8%	5.8%	693.1	1,161.4	830	26.18	50.8	

(a) Gross Domestic Product percent changed based on 2005 dollars. Source: Bureau of Economic Analysis

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

(c) Billions of dollars. Figures for 2011 are 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 Year	Population (a)		Per Capita Income (a)		Median Age (a)		School Enrollment (b)		Unemployment Rate (c)		Personal Income (c)	
2011	406,220		\$ 13,474		29.1		101,832		11.9%		\$	18,550
2010	406,220		13,474		29.1		101,832		11.1%			18,550
2009	387,717		13,377		29.0		100,165		9.9%			18,275
2008	387,717		12,511		28.8		99,713		7.5%			18,200
2007	387,717		13,293		29.6		93,180		5.8%			18,250
2006	385,618		17,374		29.6		92,485		6.2%			18,313
2005	374,825		16,313		28.9		90,485		6.9%			17,410
2004	371,825		16,308		28.9		87,286		8.0%			16,783
2003	362,372		16,308		28.6		86,333		9.2%			16,783
2002	353,086		16,005		29.4		81,572		8.9%			16,500

Sources: (a) U. S. Census estimates

(b) Region One

(c) U.S. Department of Labor - Bureau of Labor Statistics

**Brownsville Navigation District of Cameron County, Texas
Ten Principle Employers**

(Unaudited)

Port of Brownsville Employers

No.	Employer	Type of Activity	2011 Estimated No. of Employees	% of Total Port of Brownsville Employment	2003* Estimated No. of Employees
1	KeppelAMFELS	Manufacturer	1,695	42.99%	2,218
2	ESCO Marine, Inc.	Ship Breaking/Scrap	430	10.91%	50
3	International Shipbreaking, L.L.C.	Ship Breaking/Scrap	171	4.34%	100
4	Duro Standard Products Co. L.L.C.	Paper Products	114	2.89%	174
5	ACP Valley Ltd.	Concrete	104	2.64%	55
6	Cumberworth Investments, Inc.	Trucking	104	2.64%	100
7	Bedoli Group, Inc.	Scrap Recycling	100	2.54%	43
8	Gulf Stream Marine Inc.	Stevedoring	90	2.28%	100
9	Sea Horse Transportation, Inc.	Trucking	80	2.03%	-
10	Transmontaigne Product Services, Inc.	Bulk Liquid Storage	76	1.93%	64

*2003 is the first year data was collected

Source: Brownsville Navigation District Industrial Development Department

Cameron County, Texas Employers

No.	Employer	Type of Activity	2011 Estimated No. of Employees	% of Total Cameron County Employment	2006* Estimated No. of Employees
1	Brownsville ISD	Education	7,434	7.22%	8,125
2	Harlingen CISD	Education	2,848	2.77%	2,500
3	Valley Baptist Medical Center	Health Care	2,647	2.57%	3,000
4	The University of Texas at Brownsville	Education	2,386	2.32%	2,077
5	KeppelAMFELS	Manufacturer	1,695	1.65%	2,278
6	Cameron County	Government	1,636	1.61%	1,608
7	San Benito CISD	Education	1,638	1.59%	1,638
8	Homeland Security	Government	1,300	1.26%	1,300
9	City of Brownsville	Government	1,178	1.14%	2,104
10	Wal-Mart Associates, Inc.	Retail	1,174	1.14%	1,735

*2006 is the first year data was collected

Source: Cameron County, Texas CAFR

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Operating Information

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

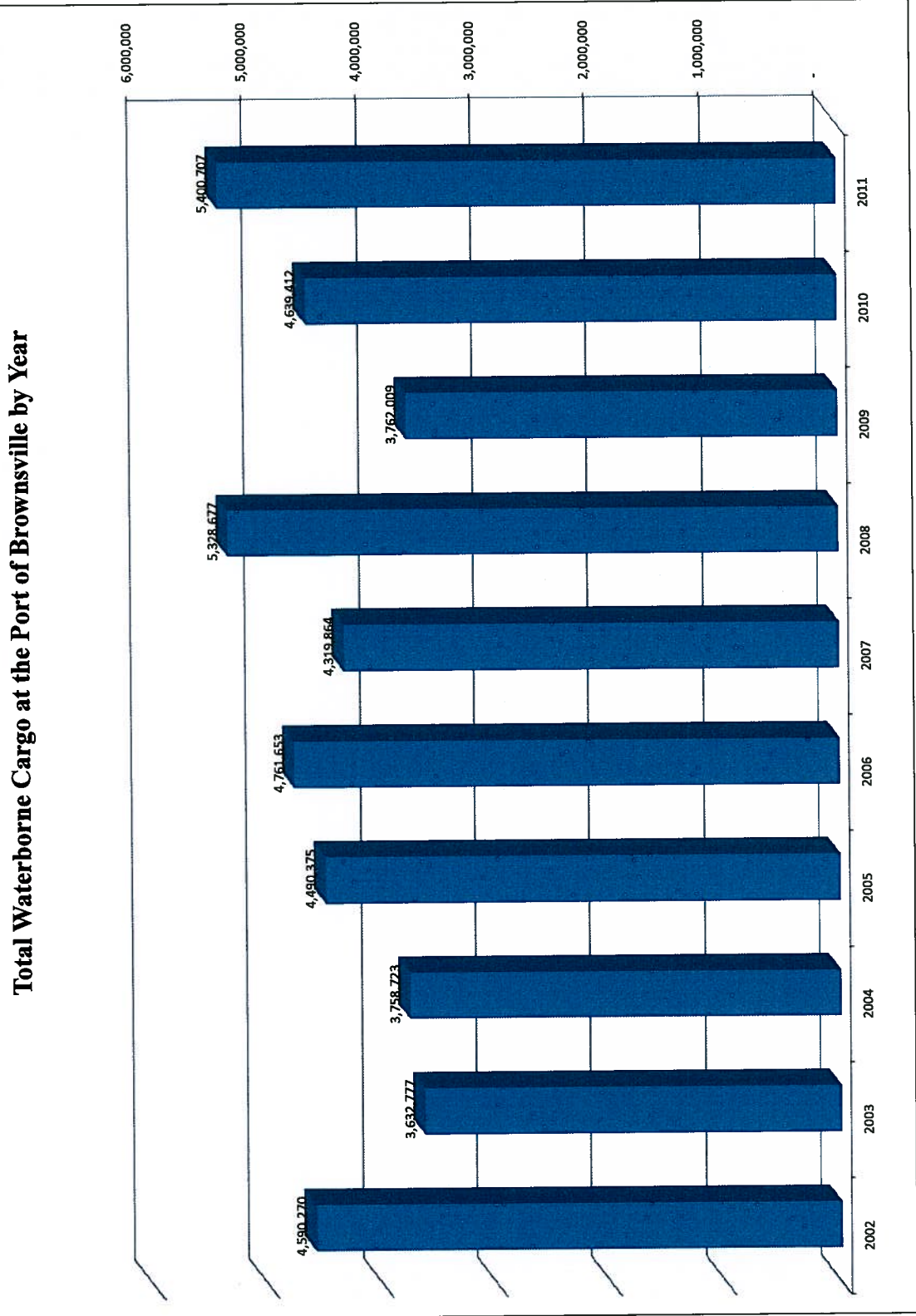
		Berth Length (Feet)	Berth Width (feet)	Height (feet)	Depth Alongside (feet)	Available Rail
General Cargo Docks						
Dock No. 1	General Cargo	420	165	14.67	32	Double depressed track
Dock No. 2	General Cargo	420	165	14.67	32	Double depressed track
Dock No. 3	General Cargo	440	165	14.67	32	Double depressed track
Dock No. 4	General Cargo	470	165	14.67	32	Double depressed track
Dock No. 7	General Cargo	500	140	12.67	27	Double depressed track
Dock No. 8	General Cargo	500	140	12.67	26	Double depressed track
Dock No. 10	Light Draft Vessels	650	280	12	16	(1) Apron Track (2) Double depressed track
Dock No. 11	Deep sea-Open Dock	626	280	12	32	Apron Track
Dock No. 12	General Cargo	550	280	12	32	Double depressed track
Dock No. 13	General Cargo	550	280	12	32	Double depressed track
Dock No. 15	Heavy Duty/Multi purpose open dock	600	145	12	42	
Liquid Cargo Docks						
Liquid Cargo Dock		30	60			
Oil Dock No. 1		420	120	14.67	33	
Oil Dock No. 2		420	120	14.67	31	
Oil Dock No. 3		420	120	14.67	30	
Oil Dock No. 5		1100	220	16.42	42	
Bulk Cargo (Grain Elevator) Dock		400	43	12	36	
Cargo Storage Facilities						
Covered Storage Areas		571,065 square feet				
Open Storage Areas		2,850,000 square feet				
Tank Storage (private terminals)		3,400,0000 barrels				
Cargo Handling Equipment						
Mobile Harbor Crane		Gottwald 300-ton mobile harbor crane located on Dock 15				

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

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

Reported in Metric Tons
Last Ten Years
(Unaudited)

	Calendar Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Breakdown of Waterborne Cargo by Product Classification										
Farm Products	-	11,709	-	-	45,839	-	12,080	9,506	33,049	16,918
Metallic Ores	11,911	49,786	12,081	36,179	43,863	52,193	58,754	54,343	412,794	339,738
Coal	-	13,603	-	1,345	-	33,373	5,144	-	-	-
Nonmetallic Minerals, Except Fuels	493,777	267,319	550,864	822,158	266,114	411,309	367,677	223,103	253,575	232,028
Food and Kindred Products	5,110	2,414	3,118	1,967	12,679	-	2,323	27,053	41,030	2,304
Chemicals and Allied Products	28,311	9,996	-	8,467	55,377	55,861	78,205	21,444	29,514	44,616
Petroleum and Coal Products	2,932,034	2,784,654	2,084,578	2,268,068	1,849,832	1,521,479	1,782,067	1,833,111	1,164,939	2,149,028
Rubber and Miscellaneous Plastic Products	-	-	19	-	-	-	-	-	-	-
Stone, Clay and Concrete Products	-	-	-	2,914	-	-	4,366	-	16,187	-
Primary Metal Products	1,648,311	1,358,982	999,004	2,036,628	1,914,316	2,608,864	2,135,918	1,533,404	1,645,713	1,738,083
Fabricated Metal Products	-	1,347	-	724	2,004	514	-	-	188	-
Machinery	309	158	124	776	3,627	3,006	220	3,657	3,797	2,234
Special Items	1,954	1,677	12,581	5,350	4,060	-	-	-	88	2,031
Transportation Equipment	-	384	223	379	-	-	1,419	1,809	734	5
Miscellaneous Products of Manufacturing	-	-	254	-	-	22,306	-	-	16,596	44,077
Waste and Scrap Materials	273,209	131,334	94,092	120,676	109,330	35,254	28,743	46,603	6,744	4,489
Water	5,781	6,049	5,072	23,045	12,823	17,495	13,459	4,691	7,827	14,720
Total	5,400,707	4,639,412	3,762,009	5,328,677	4,319,864	4,761,653	4,490,375	3,758,723	3,632,777	4,590,270
Summary of Waterborne Cargo by Movement Type										
Foreign										
Imports	2,800,164	2,400,429	2,541,299	3,295,768	2,364,431	3,390,762	2,476,194	1,735,236	1,651,052	2,468,870
Exports	456,067	345,284	167,746	289,582	433,616	268,242	382,433	238,828	486,370	295,143
Total Foreign	3,256,231	2,745,713	2,709,044	3,585,350	2,798,047	3,659,005	2,858,627	1,974,065	2,137,422	2,764,013
Coastwise										
Receipts	614,069	645,230	164,403	318,599	1,672	17,550	28,275	14,487	106,858	245,493
Shipments	88,237	15,569	11,711	58,684	39,646	-	17,970	33,440	89,891	121,892
Total Coastwise	702,306	660,799	176,114	377,283	41,318	17,550	46,245	47,927	196,749	367,384
Intercoastal										
Receipts	764,584	673,247	393,227	843,941	908,007	670,483	1,083,284	1,093,321	1,241,299	1,387,623
Shipments	677,586	559,652	483,624	522,103	572,492	414,616	502,219	643,410	57,307	71,250
Total Intercoastal	1,442,170	1,232,899	876,851	1,366,044	1,480,499	1,085,099	1,585,503	1,736,731	1,298,607	1,458,873
Total Imports	2,800,164	2,400,429	2,541,299	3,295,768	2,364,431	3,390,762	2,476,194	1,735,236	1,651,052	2,468,870
Total Exports	456,067	345,284	167,746	289,582	433,616	268,242	382,433	238,828	486,370	295,143
Total Receipts	1,378,653	1,318,477	557,631	1,162,540	909,679	688,033	1,111,559	1,107,808	1,348,157	1,633,115
Total Shipments	765,823	575,221	495,334	580,787	612,138	414,616	520,189	676,850	147,198	193,142
Total	5,400,707	4,639,412	3,762,009	5,328,677	4,319,864	4,761,653	4,490,375	3,758,723	3,632,777	4,590,270



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

Last Ten Years
(Unaudited)

	Calendar Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Barges	858	657	419	733	760	463	757	825	712	694
Cargo Vessels	110	77	80	158	140	180	213	203	210	257
Deck Barges	-	1	1	1	-	-	-	-	-	-
Drilling Rig	10	4	2	5	11	6	5	-	-	-
Fishing Vessels	-	-	-	18	24	22	66	145	338	305
Miscellaneous	84	77	12	39	35	11	12	13	5	1
Ocean Barges	46	55	42	23	12	-	-	-	-	-
Scrap Vessels / Barges	37	36	20	29	11	13	51	-	-	-
Tankers	92	79	75	93	66	99	-	-	-	-
Total	1,237	986	651	1,099	1,059	794	1,104	1,186	1,265	1,257

Brownsville Navigation District of Cameron County, Texas
Annual Employment

Last Ten Calendar Years
(Unaudited)

	Calendar Year Ending									
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Hourly/Salaried Employees										
Hourly Employees (Non-Exempt)	73	73	71	67	54	56	55	54	55	52
Salaried Employees (Exempt)	16	19	18	18	19	19	21	20	23	23
	<u>89</u>	<u>92</u>	<u>89</u>	<u>85</u>	<u>73</u>	<u>75</u>	<u>76</u>	<u>74</u>	<u>78</u>	<u>75</u>
Operations Employees										
Hourly Employees (Non-Exempt)	58	60	59	56	44	45	43	42	43	41
Salaried Employees (Exempt)	3	6	6	6	7	7	7	7	8	9
	<u>61</u>	<u>66</u>	<u>65</u>	<u>62</u>	<u>51</u>	<u>52</u>	<u>50</u>	<u>49</u>	<u>51</u>	<u>50</u>
Administrative Employees										
Hourly Employees (Non-Exempt)	15	13	12	11	10	11	12	12	12	11
Salaried Employees (Exempt)	13	13	12	12	12	12	14	13	15	14
	<u>28</u>	<u>26</u>	<u>24</u>	<u>23</u>	<u>22</u>	<u>23</u>	<u>26</u>	<u>25</u>	<u>27</u>	<u>25</u>

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

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

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the Brownsville Navigation District (District) of Cameron County, Texas, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Long Chilton LLP".

LONG CHILTON, LLP
Certified Public Accountants

Brownsville, Texas
March 30, 2012

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