Financial Statements and Report of Independent Certified Public Accountants

Port of Houston Authority Restated Retirement Plan

July 31, 2011 and 2010

Contents

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Report of Independent Certified Public Accountants

To the Pension Task Force of the
Port of Houston Authority Restated Retirement Plan

We have audited the accompanying statements of plan net assets of the Port of Houston Authority Restated Retirement Plan (the "Plan") as of July 31, 2011 and 2010, and the related statements of changes in plan net assets for the years ended July 31, 2011 and 2010. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Port of Houston Authority Restated Retirement Plan as of July 31, 2011 and 2010, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedule of funding progress and contributions on pages 1 – 6 and 17 – 18, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

Houston, Texas
January 13, 2012

Port of Houston Authority Restated Retirement Plan

MANAGEMENT'S DISCUSSION AND ANALYSIS
July 31, 2011 and 2010
(Unaudited)

As management of the Port of Houston Authority of Harris County, Texas (the "Authority"), we offer readers of the Port of Houston Authority Restated Retirement Plan's (the "Plan") financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended July 31, 2011 and 2010.

FINANCIAL HIGHLIGHTS

Net assets of the Plan at July 31, 2011, 2010 and 2009, were $123,793,457, $105,757,292, and $93,079,299, respectively. These net assets are restricted for the payment of future employee pension benefits. Overall, the financial position of the plan has improved for the fiscal year ended July 31, 2011.

The Plan's net assets increased $18,036,165 and $12,677,993 for the fiscal years ended July 31, 2011 and 2010 respectively, and decreased $7,580,149 for the fiscal year ended July 31, 2009. The increase in net assets from 2010 to 2011 is a combination of contributions from the Authority and net appreciation in plan net assets providing a net unrealized gain for the period. The primary reason for the decrease in net assets from 2009 to 2010 is the depreciation in fair value of plan net assets providing a net unrealized loss for the period.

The Plan assets had a net appreciation in fair value of $12,130,548 and $7,148,449 for the fiscal years ended July 31, 2011 and 2010, respectively, and a net depreciation in fair value of ($7,703,256) for the fiscal year ended July 31, 2009. The net increase in fair value for the fiscal years ended July 31, 2011 and 2010 consisted primarily of unrealized gains in equity investments. The net decrease in fair value in 2009 consisted primarily of realized losses in equity investments.

Additions to the Plan are made primarily through contributions from the Authority. These contributions totaled $10,808,796, $7,857,808, and $7,357,368, for the years ended July 31, 2011, 2010, and 2009, respectively. The change in contributions from 2010 to 2011 relates primarily to an increase in the present value of future Plan benefit costs while the increase from 2009 to 2010 was primarily attributable to low market yields on Plan investments during 2009.

Investment returns consist of interest, dividend income, and net appreciation (depreciation) in fair value of investments. The following is a detail of the asset allocation and rate of return for the years ended July 31, 2011, 2010 and 2009:

	2011	2010	2009
Asset allocation:			
Stocks	59 %	56 %	48 %
Fixed income investments	38	35	15
Cash and cash equivalents	3	9	[illegible]
Rate of return	13.65	10.57	(11.67)

Benefit payments are the primary expense of the Plan. Such payments totaled $6,714,219, $6,217,251, and $5,861,770 for the years ended July 31, 2011, 2010, and 2009, respectively. The increases in benefit payments from 2010 to 2011 and 2009 to 2010 relate to the increase in the number of retirees and beneficiaries receiving benefits. Other expenses of the Plan include administrative expenses, which totaled $210,579, $273,406, and $127,712 for the years ended July 31, 2011, 2010, and 2009, respectively. The increase in administrative expenses from 2009 to 2010 and the decrease from 2010 to 2011 was a result of one time services provided by various service providers in 2010 that were not provided in 2009 and 2011.

Net assets, the excess of contributions and investment income over benefit payments and administrative and investment expenses, are accumulated by the Plan in order to meet future pension benefit obligations. Soundness in the funding of the Plan is sought through maintaining suitable reserves in the retirement annuity reserve account.

The latest annual actuarial valuation of the Plan, as of August 1, 2011, reflects the actuarial value of Plan assets of $123,763,457. The actuarial valuation of the liability for future Plan benefits is $132,178,956. Any changes in the unfunded actuarial accrued liability ("UAAL") are to be amortized based on the Internal Revenue Service ("IRS") rules over a period of not more than 30 years from the date of the valuation. Based on the current annual amortization of the UAAL and related interest, the equivalent single amortization period is four years.

Table 1
Condensed Statements of Plan Net Assets

	2011	2010	2009
ASSETS			
Cash and cash equivalents	$ 3,513,421	$ 9,589,867	$ 6,962,697
Investments	120,201,535	96,275,539	85,839,480
Accrued investment income	116,146	413,193	377,454
Total assets	123,831,102	106,278,599	93,179,631
LIABILITIES			
Administrative and investment expenses	67,645	113,437	100,367
Total liabilities	67,645	113,437	100,367
Net assets	$ 123,763,457	$ 106,165,162	$ 93,079,264

Table 2
Condensed Statements of Changes in Plan Net Assets

	2011	2010	2009
ADDITIONS:			
Contributions	$ 10,808,796	$ 9,857,309	$ 7,337,368
Net investment income (loss)	14,182,588	9,341,374	(5,331,535)
Total additions	24,991,384	19,198,683	2,005,833
DEDUCTIONS:			
Benefit payments	6,744,219	6,247,261	5,864,370
Administrative expenses	240,970	273,408	127,512
Total deductions	6,985,189	6,520,669	5,991,882
Net increase (decrease) in net assets	$ 18,006,195	$ 12,678,014	$ (3,986,049)

Port of Houston Authority Restated Retirement Plan

STATEMENTS OF PLAN NET ASSETS
As of July 31, 2011 and 2010

	2011	2010
ASSETS:		
Cash and cash equivalents	$ 3,513,424	$ 9,280,867
Investments	119,901,532	96,276,339
Accrued investment income	416,146	313,493
Total assets	123,831,102	105,870,699
LIABILITIES:		
Accrued administrative and investment expenses	67,645	113,437
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 123,763,457	$ 105,757,262

The accompanying notes are an integral part of these financial statements.

Port of Houston Authority Restated Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS
As of July 31, 2011 and 2010

	2011	2010
ADDITIONS:		
Employer contributions	$ 10,808,796	$ 9,857,318
Investment income:		
Net appreciation in fair value	12,130,548	7,198,149
Interest	1,150,401	1,371,151
Dividends	1,311,371	1,153,589
Other	194,209	187,620
Total investment income	14,786,529	9,911,219
Investment expenses	(603,941)	(599,848)
Net investment income	14,182,588	9,311,371
Total additions	24,991,384	19,168,689
DEDUCTIONS:		
Retirement benefits	6,744,219	6,217,281
Administrative expenses	240,970	273,415
Total deductions	6,985,189	6,490,696
NET INCREASE	18,006,195	12,677,993
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	105,757,262	93,079,269
End of year	$ 123,763,457	$ 105,757,262

The accompanying notes are an integral part of these financial statements.

Port of Houston Authority Restated Retirement Plan

NOTES TO FINANCIAL STATEMENTS
As of and for the years ended July 31, 2011 and 2010

The following brief description of the Port of Houston Authority Restated Retirement Plan (the "Plan") is provided for general informational purposes only. Reference should be made to the Plan document for more complete information.

General - The Plan is a single-employer noncontributory defined benefit pension plan sponsored and administered by the Port of Houston Authority of Harris County, Texas (the "Authority" or the "Plan Sponsor"). Three members of the Port Commission of the Authority ("the Commission") represent the Pension Task Force ("Task Force") for the Plan. The Authority controls and manages the operation and administration of the Plan. The Commission maintains the authority to amend the Plan provisions and the investment policy as necessary. Compass Bank serves as the trustee of the Plan.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Measurement focus refers to the definition of the resource flows measured.

The Plan is maintained on the full accrual basis of accounting and the economic resources measurement focus. All economic resources, including financial assets and related liabilities, both current and long term, and the changes therein are reported in the Plan's financial statements. Revenues, including contributions, are recognized when earned, and expenses are recognized when the underlying transaction or event occurs, regardless of the timing of related cash flows. The Plan applies all Governmental Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

2. 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 changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated Plan benefits and changes therein at the date of the financial statements. Actual results could differ from those estimates.

3. Risks and Uncertainties

The Plan utilizes various investment securities, including U.S. government securities, corporate debt instruments, money market funds and corporate stocks. Investment securities, in general, are exposed to various risks such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. **Investment Valuation and Income Recognition**

Investments are stated at fair value. If available, quoted market prices are used to value investments. In the case of any unlisted asset, the Trustee will determine the market value utilizing pricing obtained from independent pricing services. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

5. **Administrative and Investment Expenses**

The Plan's expenses are paid by the Plan as provided in the Plan document.

6. **Payment of Benefits**

Cash payments to participants for benefits are recorded upon distribution.

NOTE B – PLAN DESCRIPTION

1. **Contributions**

Contributions to provide benefits under the Plan are made solely by the Authority. The Authority's funding policy is to make cash contributions to the Plan in amounts computed by the Plan's independent actuary using the entry age normal cost method and includes amortization of the unfunded accrued liability over an equivalent single amortization period. This method and the actuarial assumptions referred to in the note to the required supplementary information have been designed to provide sufficient funds to pay benefits as they become payable under the Plan.

2. **Eligibility**

All permanent, full-time employees with one year of service are eligible for the Plan. Employees become vested after five continuous years of service, as defined by the Plan. Fully vested employees are entitled to pension benefits upon retirement. There is no partial vesting of benefits.

3. **Benefit Payments**

The Plan provides for normal retirement benefits upon reaching the age of 65 and has provisions for early retirement, death, and disability benefits. Benefits under the Plan are determined based on a final pay formula. Generally, the final pay formula is calculated as a percentage of earnings multiplied by years of credited service with certain adjustments, as provided in the Plan. Participants may elect to receive their pension benefits from various forms of single life or joint and survivor annuities. Certain participants may receive a lump sum payment. Cost-of-living adjustments are provided at the discretion of the Commission.

NOTE B – PLAN DESCRIPTION – Continued

4. Participant Data

The number of participants consisted of the following at August 1, 2011 and 2010, the date of the two latest actuarial valuations:

	2011	2010
Retirees and beneficiaries receiving payments	433	421
Terminated vested participants not yet receiving benefits	183	191
Disabled participants	6	
Active participants	546	[illegible]
Total	1,158	1,164

NOTE C – INVESTMENTS

In accordance with the Plan's amended investment policy adopted on December 14, 2010, the Plan is allowed to invest in cash equivalents, fixed income securities, equity securities, and guaranteed investment contracts. The Plan's cash equivalents may be invested in investment grade commercial paper, money market mutual funds, Treasury bills, U.S. government agency bonds, and short-term investment funds. The investment strategy of the Plan is to preserve principal while emphasizing relative total return versus the liability growth rate and to maintain sufficient income or liquidity in order to pay monthly benefits.

The Plan's cash and cash equivalents and investments are held in a bank administered trust fund. Fair values of these assets at July 31, 2011 and 2010 are as follows:

	2011	2010
Fixed income investments	$ 16,821,212	$ 35,367,211
Money market funds	5,515,124	9,280,497
Equity investments:		
Domestic	60,58[illegible],[illegible]08	48,2[illegible]1,114
Foreign	19,113,454	16,67[illegible],6[illegible]7
Total equity investments	79,[illegible]01,[illegible]	6[illegible],[illegible]791
Other	3,078,938	32,637
Total	$ [illegible]	$ 105,557,216

Port of Houston Authority Restated Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2011 and 2010

NOTE C – INVESTMENTS – Continued

The Plan's investments during the year ended July 31, 2011 and 2010 (including realized gains and losses on investments) appreciated in total value as follows:

	2011	2010
Fixed income investments	$ 551,554	$ 1,428,170
Equity investments	11,578,994	5,719,979
Total	$ 12,130,548	$ 7,148,149

During the year ended July 31, 2011 and 2010, interest and dividends earned and other income on the Plan's investments amounted to $2,653,981 and $2,602,770, respectively.

As of July 31, 2011 and 2010, the Plan had the following investments in its fixed income accounts:

	2011		2010	
Investment Type	Fair value	Percentage of total	Fair value	Percentage of total
U.S. Treasuries	$ 15,357,647	32.80 %	$ 15,190,961	42.95 %
U.S. government agencies	13,853,720	29.59	11,290,189	31.92
Corporate obligations	17,610,575	37.61	8,886,461	25.13
	$ 46,821,942	100.00 %	$ 35,367,611	100.00 %

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, financial statements are required to address credit risk, concentration of credit risk, interest rate risk, and foreign currency risk of investments.

1. **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize this risk, the Plan's Statement of Investment Policy does not allow any fixed income securities below the investment grade of B. U.S. Treasuries and U.S. government agency bonds are rated AAA. The Plan's investments in corporate obligations have credit ratings that range from B1 up to AAA.

2. **Concentration of Credit Risk**

Concentration of credit risk exists when investments are concentrated in one issuer. The Plan's investment policy limits the amount that may be invested in any one issuer.

Port of Houston Authority Restated Retirement Plan

NOTES TO FINANCIAL STATEMENTS - CONTINUED
July 31, 2011 and 2010

NOTE C – INVESTMENTS – Continued

As of July 31, 2011 and 2010, the Plan had the following investments in excess of 5% of investments:

	2011	2010
Meridian Growth Fund Inc. (Cusip 589619105)	$ 16,770,922	$ -
Goldman Sachs Financial Square Prime Obligations Fund (Cusip 38141W364)	-	9,519,178
Total	$ 16,770,922	$ 9,519,178

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Plan's investments. Duration is a measure of interest rate risk and measures a bond's price sensitivity to a 100-basis point change in interest rates. The greater the duration of a bond, or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates. A duration of 8 would mean that, given a 100-basis point change up or down in rates, a bond's price would move up or down by 8%.

The following table details the U.S. dollar holdings and their duration by fund manager as of July 31, 2011 and 2010.

	[illegible]		[illegible]		[illegible]		
	Fair value	Duration (years)	Fair value	Duration (years)	Fair value	Duration (years)	Total Fair Value
2011							
U.S. Treasuries	$ [illegible]	[illegible]	$ [illegible]	[illegible]	$ [illegible]	[illegible]	$ [illegible]
U.S. government agency bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate obligations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total fair value	$ [illegible]		$ [illegible]		$ [illegible]		$ [illegible]
Portfolio modified duration		[illegible]		[illegible]		[illegible]	
2010							
U.S. Treasuries	$ [illegible]	[illegible]	$ [illegible]	[illegible]	$ [illegible]	[illegible]	$ [illegible]
U.S. government agency bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate obligations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total fair value	$ [illegible]		$ [illegible]		$ [illegible]		$ [illegible]
Portfolio modified duration		[illegible]		[illegible]		[illegible]	

NOTE C – INVESTMENTS – Continued

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan holds investments in American Depository Receipts ("ADRs") which have currency risk, however, they are not included in foreign currency as they are denominated in U.S. dollars and accounted for at fair market value. The Plan had indirect exposure to foreign currency risk of $19,113,134 and $16,0[illegible] as of July 31, 2011 and 2010, respectively.

NOTE D – FUNDED STATUS

The funded status of the Plan as of the two most recent valuation dates, including the actuarial value of assets, the actuarial accrued liability, the total unfunded actuarial accrued liability, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial liability to annual covered payroll are as follows:

Actuarial valuation date	Actuarial value of Plan assets (a)	Actuarial accrued liability entry age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
August 1, 2011	$1[illegible]	$1[illegible]	$[illegible]	82.[illegible]%	$[illegible]	[illegible]%
August 1, 2010	123,763,[illegible]	152,[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Actuarial assumptions as of the Plan years ended July 31, 2011 and 2010 are as follows:

	2011	2010
Valuation date	August 1, 2011	August 1, 2010
Actuarial cost method	Entry age normal	Entry age normal
Equivalent single amortization period	[illegible] years	[illegible] years
Asset valuation method	Market value	Market value
Amortization method	Level dollar method (closed basis)	Level dollar method (closed basis)
Actuarial assumptions:		
Investment rate of return	[illegible]	7.25%
Projected salary increases	3.0% to [illegible]	3.0% to 7.5%
Inflation	3.5%	3.0%
Cost of living adjustment	None	None

NOTE D – FUNDED STATUS – Continued

The effect of Plan amendments on accumulated plan benefits is recognized during the year in which such amendments become effective. Effective August 1, 2010, the Plan was amended for actuarial assumption changes in the withdrawal rates, retirement rates, salary scale, expense load on normal cost, and investment rate assumption.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

NOTE E – PLAN TERMINATION

Although it has not expressed any intention to do so, the Commission and the Authority have the right under the Plan, in certain circumstances, to discontinue its contributions at any time and to terminate the Plan subject to the Plan provisions. In the event that the Plan is terminated, the net assets of the Plan will be allocated for payment of plan benefits to the participants in an order of priority determined in accordance with the Plan document and the Internal Revenue Code.

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

Port of Houston Authority Restated Retirement Plan

SCHEDULE OF FUNDING PROGRESS - UNAUDITED
As of July 31, 2011

Actuarial valuation date		Actuarial value of Plan assets (a)	Actuarial accrued liability entry age (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
August 1, 2006	*	$ 86,737,077	$ 101,321,646	$ 14,584,569	85.6 %	26,363,599	55.3 %
August 1, 2007		101,144,401	109,918,975	8,774,574	92.0	29,620,863	29.6
August 1, 2008		96,724,259	117,751,437	21,027,178	82.2	32,270,226	65.1
August 1, 2009		93,175,651	122,093,327	28,917,676	76.3	32,605,575	88.4
August 1, 2010	**	105,870,699	128,583,541	22,712,842	82.3	34,038,542	66.7
August 1, 2011		123,713,157	132,194,926	8,481,769	93.6	35,530,729	23.9

* Includes effect of April 2007 cost-of-living adjustment and August 2006 assumption changes
** Includes effect of August 2010 assumption changes

The accompanying note is an integral part of this required supplementary information.

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SCHEDULE OF EMPLOYER CONTRIBUTIONS - UNAUDITED
For the year ended July 31, 2011

	Annual required contribution		Percentage contributed
Year Ended July 31			
2006	$	5,413,248	100 %
2007		[illegible]	100
2008		[illegible]	100
2009		[illegible]	100
2010		9,857,205	100
2011		[illegible]	100

The accompanying note is an integral part of this required supplementary information.

Port of Houston Authority Restated Retirement Plan

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
For the year ended July 31, 2011

SCHEDULE INFORMATION

The information on the required schedules was computed as part of the actuarial valuations for the dates as indicated. Additional information as of the latest actuarial valuation follows:

	2011
Valuation date	August 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar method (closed basis)
Equivalent single amortization period of the unfunded liabilities	5 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.0% to 7.5%
Inflation	3.0%
Cost of living adjustment	None