

Financial Statements and Report of
Independent Certified Public Accountants

Port of Houston Authority
Restated Retirement Plan

July 31, 2014 and 2013

Contents

	Page
Report of Independent Certified Public Accountants	3
Management's Discussion and Analysis – Unaudited	5
Financial Statements as of and for the Years Ended July 31, 2014 and 2013:	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position	9
Notes to the Financial Statements	10
Required Supplementary Information as of and for the Year Ended July 31, 2014 (unaudited):	
Schedule of Changes in Net Pension Liability	22
Schedule of Contributions	23
Schedule of Investment Returns	24



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Pension and Benefits Committee
Port of Houston Authority Restated Retirement Plan
Port Commission of the Port of Houston Authority of
Harris County, Texas

We have audited the accompanying financial statements of the Port of Houston Authority Restated Retirement Plan (the "Plan") which comprise the statements of fiduciary net position as of July 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

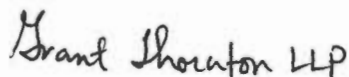
In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Port of Houston Authority Restated Retirement Plan fiduciary net position as of July 31, 2014 and 2013, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of matter

As described in Note 1 to the financial statements, in 2014 the Fund adopted new accounting guidance, Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* (“GASB 67”). Our opinion is not modified with respect to this matter.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedule of changes in net position liability, schedule of contributions and schedule of investment returns on pages 5-7 and 22-24, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.



Houston, Texas
January 14, 2015

Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis July 31, 2014 and 2013 (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, 2014 and 2013.

Financial highlights

The net position restricted for pensions (the "net position") of the Plan at July 31, 2014, 2013 and 2012 was \$164,816,227, \$151,454,771, and \$129,522,543, respectively. This net position is 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, 2014.

The Plan's net position increased by \$13,361,456, \$21,932,228, and \$5,759,086 for the fiscal years ended July 31, 2014, 2013, and 2012, respectively. The increase in net position results primarily from a net appreciation in Plan investments providing a net unrealized gain for the periods, combined with contributions to the Plan from the Authority.

The Plan investments had a net appreciation in fair value of \$11,898,448, \$18,172,176, and \$2,452,941 for the fiscal years ended July 31, 2014, 2013, and 2012, respectively. The net increase in fair value from 2013 to 2014 resulted largely from realized gains in equity investments while the increase from 2012 to 2013 consisted primarily of unrealized gains in equity investments.

Additions to the Plan are made primarily through contributions from the Authority. These contributions totaled \$8,281,695, \$9,870,470, and \$8,132,756 for the years ended July 31, 2014, 2013, and 2012, respectively. The decrease in contributions from 2013 to 2014 relates primarily to the above referenced appreciation in the fair value of investments in 2013 while the increase from 2012 to 2013 results largely from the effect of the actuarial loss incurred in 2012 which raised the 2013 required contributions.

Investment returns consist of interest earnings, dividend income, and net appreciation (depreciation) in fair value of investments. The following is a detail of the asset allocation for the years ended July 31, 2014, 2013, and 2012:

	2014	2013	2012
Asset allocation:			
Domestic and foreign equities	56%	56%	57%
Fixed income investments	35	35	36
Master Limited Partnerships	5	5	3
Cash and cash equivalents	4	4	4

Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis - Continued
 July 31, 2014 and 2013
 (Unaudited)

Benefit payments are the primary expense of the Plan. Such payments totaled \$9,508,901, \$8,683,315, and \$7,380,312 for the years ended July 31, 2014, 2013, and 2012, respectively. The increases in benefit payments from 2013 to 2014 and 2012 to 2013 related to the increase in the number of retirees and beneficiaries receiving benefits. Other expenses of the Plan include administrative expenses, which totaled \$236,560, \$258,920, and \$263,159 for the years ended July 31, 2014, 2013, and 2012, respectively. The fluctuations in administrative expenses across the time periods presented result from the use of various service providers for legal, actuarial and other services on an as-needed basis.

Net position restricted for pensions, the excess of contributions and investment income over benefit payments and administrative and investment expenses, is accumulated by the Plan in order to meet future pension benefit obligations.

Table 1
 Statements of Fiduciary Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Cash and cash equivalents	\$ 6,678,171	\$ 6,225,886	\$ 5,658,207
Investments	157,646,696	145,109,812	123,610,431
Accounts receivable	-	-	53,641
Accrued investment income	<u>581,537</u>	<u>367,884</u>	<u>308,548</u>
Total assets	164,906,404	151,703,582	129,630,827
Liabilities:			
Accrued administrative and investment expenses	<u>90,177</u>	<u>248,811</u>	<u>108,284</u>
Total liabilities	90,177	248,811	108,284
Net assets restricted for pensions	<u><u>\$ 164,816,227</u></u>	<u><u>\$ 151,454,771</u></u>	<u><u>\$ 129,522,543</u></u>

Port of Houston Authority Restated Retirement Plan

Management's Discussion and Analysis - Continued
 July 31, 2014 and 2013
 (Unaudited)

Table 2
 Condensed Statements of Changes in Fiduciary Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions:			
Contributions	\$ 8,281,695	\$ 9,870,470	\$ 8,132,756
Net investment income	14,825,222	21,003,993	5,269,801
Total additions	<u>23,106,917</u>	<u>30,874,463</u>	<u>13,402,557</u>
Deductions:			
Benefit payments	9,508,901	8,683,315	7,380,312
Administrative expenses	236,560	258,920	263,159
Total deductions	<u>9,745,461</u>	<u>8,942,235</u>	<u>7,643,471</u>
Net increase in net position	13,361,456	21,932,228	5,759,086
Net position restricted for pensions			
Beginning of year	<u>151,454,771</u>	<u>129,522,543</u>	<u>123,763,457</u>
End of year	<u>\$ 164,816,227</u>	<u>\$ 151,454,771</u>	<u>\$ 129,522,543</u>

Port of Houston Authority Restated Retirement Plan

Statements of Fiduciary Net Position
As of July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$ 6,678,171	\$ 6,225,886
Investments	157,646,696	145,109,812
Accrued investment income	581,537	367,884
Total assets	<u>164,906,404</u>	<u>151,703,582</u>
Liabilities:		
Accrued administrative and investment expenses	90,177	248,811
Total liabilities	<u>90,177</u>	<u>248,811</u>
Net position restricted for pensions	<u>\$ 164,816,227</u>	<u>\$ 151,454,771</u>

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

Port of Houston Authority Restated Retirement Plan

Statements of Changes in Fiduciary Net Position
As of July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Additions:		
Employer contributions	\$ 8,281,695	\$ 9,870,470
Investment income:		
Net appreciation in fair value	11,898,448	18,172,176
Interest	1,970,726	1,593,225
Dividends	1,637,135	1,872,404
Other	84	36,112
Total investment income	<u>15,506,393</u>	<u>21,673,917</u>
Investment expenses	<u>(681,171)</u>	<u>(669,924)</u>
Net investment income	<u>14,825,222</u>	<u>21,003,993</u>
Total additions	<u>23,106,917</u>	<u>30,874,463</u>
Deductions:		
Retirement benefits	9,508,901	8,683,315
Administrative expenses	236,560	258,920
Total deductions	<u>9,745,461</u>	<u>8,942,235</u>
Net increase in net position	13,361,456	21,932,228
Net position restricted for pensions		
Beginning of year	<u>151,454,771</u>	<u>129,522,543</u>
End of year	<u><u>\$164,816,227</u></u>	<u><u>\$151,454,771</u></u>

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

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended July 31, 2014 and 2013

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”) serve as the Pension and Benefits Committee (“Committee”) responsible for providing advice and recommendations to the Commission and assisting the Commission in performing its responsibilities for the Plan. The Authority controls and manages the operation and administration of the Plan. The Commission, appointed by the Harris County Commissioners Court, City of Houston and other local municipalities and related associations, 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 subject to the pronouncements of the Governmental Accounting Standards Board (“GASB”). 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.

2. New accounting Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (an amendment of GASB Statement No. 25). The objective of this Statement is to improve financial reporting by state and local governmental pension plans. By requiring defined benefit pension plans to present two financial statements, a statement of fiduciary net position and a statement of changes in fiduciary net position, this Statement establishes financial reporting standards for separately issued financial reports and sets criteria to measure the net pension liability of employers and nonemployer contributions for benefits provided through the pension plan.

The provisions of Statement 67 are effective for financial statements with fiscal years beginning after June 15, 2013. As of July 31, 2014, the Authority has implemented the provisions of Statement 67 as represented in these Plan financial statements and the disclosures which follow.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. 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 these estimates.

4. Risks and Uncertainties

The Plan utilizes various investment securities, including U.S. government securities, corporate debt instruments, money market funds and corporate stock. 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.

5. Cash and Cash Equivalents

Cash and short-term investments with original maturities of three months or less when purchased are considered cash equivalents.

6. Investment Valuation and Income Recognition

Investments are stated at fair value. Quoted market prices are used in determining fair value of Plan assets. 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.

7. Administrative and Investment Expenses

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

8. Payment of Benefits

Cash payments to participants for benefits are recorded upon distribution.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended July 31, 2014 and 2013

NOTE B – PLAN DESCRIPTION

1. Contributions

Contributions to provide benefits under the Plan are made solely by the Authority. The Authority's funding policy adopted on September 14, 1997 prescribes a contribution equal to 100% of the cost of benefits earned by Plan members plus an additional amount to finance any unfunded accrued liability and may be amended by the Commission at its discretion. This method and the actuarial assumptions have been designed to provide sufficient funds to pay benefits as they become payable under the Plan. The Authority made contributions of \$8,281,695 and \$9,870,470 for the fiscal years ended July 31, 2014 and 2013, respectively.

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.

On July 24, 2012, the Commission took action to maintain the Plan for eligible Authority employees hired through July 31, 2012, closing the Plan to employees hired after that date. Employees hired on or after August 1, 2012 will participate in a defined contribution retirement benefit plan, which will be operated and administered separately from this Plan.

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.

4. Plan Membership

The number of plan members consisted of the following at August 1, 2014 and 2013, the date of the two latest actuarial valuations:

	<u>2014</u>	<u>2013</u>
Retirees and beneficiaries receiving payments	491	481
Terminated vested participants not yet receiving benefits	223	196
Disabled participants	8	8
Active participants	<u>437</u>	<u>494</u>
Total	<u>1,159</u>	<u>1,179</u>

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED For the Years Ended July 31, 2014 and 2013

NOTE C – INVESTMENTS

The investment strategy of the Plan as administered by the Commission 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 investment policy may be amended by the Commission by a majority vote of its members. The investment policy was revised January 31, 2014 and included several clerical revisions, including a correction of the name of the Pension and Benefits Committee and recognition that regular communications should be maintained among Authority staff, the pension consultant and investment managers. It also removed the provision for an actuarial return assumption of 7.25%, as the Commission had previously approved a reduction of this return assumption to 7.00%.

The Commission is responsible for controlling the total asset allocation among stocks, bonds and cash. The Plan's amended investment policy revised January 31, 2014 and described above remained unchanged with regards to the following asset allocation parameters as a general guideline in investing the Plan's assets:

Asset Class	Minimum	Target	Maximum
Large Cap Domestic Equity	10.0%	15.0%	20.0%
Mid Cap Domestic Equity	7.5%	12.5%	17.5%
Small Cap Domestic Equity	5.0%	10.0%	15.0%
International Equity	7.5%	12.5%	17.5%
Core Fixed Income	30.0%	35.0%	40.0%
High Yield Fixed Income	0.0%	5.0%	10.0%
Real Estate	0.0%	5.0%	10.0%
Master Limited Partnerships	0.0%	5.0%	10.0%
Total Asset Allocation		100.0%	

As outlined above, the Plan invests in fixed income securities, equity securities, real estate and master limited partnerships. In addition, the Plan's assets may be held in cash and cash equivalents (e.g., commercial paper, money market mutual funds, etc.), Treasury bills, U.S. government agency bonds, and other short-term investment funds, provided such instruments comply with investment policy guidelines, especially those relating to credit quality and diversification.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE C – INVESTMENTS – Continued

The Plan's cash and cash equivalents and investments are held by a bank-administered trust fund. Fair values of these assets at July 31, 2014 and 2013 are as follows:

	2014	2013
Fixed income investments	\$ 57,439,437	\$ 52,334,191
Money market funds	6,678,171	6,225,886
Equity investments:		
Domestic	86,761,874	61,557,516
Foreign	5,765,549	24,035,658
Total equity investments	92,527,423	85,593,174
Other (Foreign convertible securities and domestic LLPs and LLCs)	7,679,836	7,182,447
Total	\$ 164,324,867	\$ 151,335,698

For purposes of the Plan's financial statements, fair value is generally defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the Plan, such fair values are provided by third-party market pricing sources utilized by Compass Bank as trustee and custodian of the Plan's assets, and reflected on the monthly and annual custody statements provided to the Authority.

The Plan's investments during the year ended July 31, 2014 and 2013 (including realized gains and losses on investments) appreciated in total value as follows:

	2014	2013
Fixed income investments	\$ 329,716	\$ (1,705,261)
Equity investments	11,568,732	19,877,437
Total	\$ 11,898,448	\$ 18,172,176

During the year ended July 31, 2014 and 2013, interest and dividends earned and other income on the Plan's investments amounted to \$3,607,945 and \$3,501,741, respectively.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE C – INVESTMENTS – Continued

As of July 31, 2014 and 2013, the Plan had the following investments in its fixed income accounts:

Investment Type	2014		2013	
	Fair value	Percentage of total	Fair value	Percentage of total
U.S. treasuries	\$ 10,999,940	19.15 %	\$ 8,787,406	16.79 %
U.S. government agencies	10,273,872	17.89	16,755,363	32.02
Corporate obligations	27,542,181	47.95	18,961,701	36.23
Mutual fund	8,623,444	15.01	7,558,572	14.44
Municipal obligations	-	-	271,149	0.52
	<u>\$ 57,439,437</u>	<u>100.00 %</u>	<u>\$ 52,334,191</u>	<u>100.00 %</u>

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 investment policy does not allow any fixed income securities below the rating of B, and no more than 20% in bonds rated below investment grade. Securities are considered investment grade if they are rated Baa3 or higher by Moody's Investor Service, or BBB- or higher by Standard and Poor's or Fitch Ratings. U.S. Treasuries and U.S. government agency bonds are rated Aaa/AA+/AAA by Moody's, Standard and Poor's and Fitch, respectively. The Plan's investments in corporate obligations have credit ratings that range from B1/B+/B+ up to Aaa/AAA/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.

As of July 31, 2014 and 2013, the Plan had the following investments in excess of 5% of investments:

	2014	2013
Causeway International Value-Ins (Cusip 14949P208)	\$ 20,591,096	\$ -
Cohen & Steers Institutional Realty Shares (Cusip 19247U106)	9,269,614	7,646,908
Loomis Sayles Institutional High Inc (Cusip 543495600)	8,623,444	7,558,572
Total	<u>\$ 38,484,154</u>	<u>\$ 15,205,480</u>

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE C – INVESTMENTS – Continued

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 bond holdings and their duration by fund manager as of July 31, 2014 and 2013:

	Smith Affiliated		Smith Graham		MacKay Shields, LLC		Total fair value
	Fair value	Duration in years	Fair value	Duration in years	Fair value	Duration in years	
<u>2014</u>							
U.S. treasuries	\$ -	-	\$ 9,540,362	5.79	\$ 1,459,578	10.92	\$ 10,999,940
U.S. government agencies	-	-	4,438,574	4.41	5,835,298	4.10	10,273,872
Corporate obligations	-	-	9,888,193	5.54	17,653,988	5.31	27,542,181
Municipal obligations	-	-	-	-	-	-	-
Total fair value	<u>\$ -</u>		<u>\$ 23,867,129</u>		<u>\$ 24,948,864</u>		<u>\$ 48,815,993</u>
Portfolio average duration		-		5.43		5.35	
<u>2013</u>							
U.S. treasuries	\$ 4,582,288	9.81	\$ 4,205,118	6.93	\$ -	-	\$ 8,787,406
U.S. government agencies	10,745,108	3.93	6,010,255	3.44	-	-	16,755,363
Corporate obligations	7,458,331	7.06	11,503,370	5.65	-	-	18,961,701
Municipal obligations	271,149	10.45	-	-	-	-	271,149
Total fair value	<u>\$ 23,056,876</u>		<u>\$ 21,718,743</u>		<u>\$ -</u>		<u>\$ 44,775,619</u>
Portfolio average duration		6.18		5.29		-	

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 Depositary 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 \$28,225,801 and \$26,136,565, through its investments in international mutual funds, foreign stock and convertible securities as of July 31, 2014 and 2013, respectively.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended July 31, 2014 and 2013

NOTE C – INVESTMENTS – Continued

Annual Money-Weighted Rate of Return

For the year ended July 31, 2014, the annual money-weighted rate of return on Plan investments, net of investment expense, was 9.51%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

NOTE D – NET PENSION LIABILITY

<u>Net pension liability</u>	<u>July 31, 2014</u>	<u>July 31, 2013</u>
Total pension liability	\$ 159,091,563	\$ 154,450,530
Fiduciary net position	164,816,227	151,454,771
Net pension liability (asset)	(5,724,664)	2,995,759
Fiduciary net position as a % of total pension liability	103.60%	98.06%
Covered payroll	33,689,999	35,081,902
Net pension liability (asset) as a % of covered payroll	(16.99%)	8.54%

1. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of August 1, 2013 and rolled forward to the measurement date of July 31, 2014, the Plan's fiscal year end, using the following actuarial assumptions applied to all periods included in the measurement. These actuarial assumptions were based on the results of an actuarial experience study for the period August 1, 2005 through August 1, 2009.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE D – NET PENSION LIABILITY – Continued

	2014	2013
Valuation date	August 1, 2013	August 1, 2012
Measurement date	July 31, 2014	July 31, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar method	Level dollar method
Equivalent single amortization period of the unfunded liabilities	0 years	4 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	3.0% to 7.5%	3.0% to 7.5%
Inflation	2.50%	2.75%
Cost-of-living adjustment	None	None
Mortality	RP-2000 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per Scale AA	RP-2000 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per Scale AA

2. Long-Term Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future rates of return (expected returns, net of pension plan investment expense) are developed for each major asset class.

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE D – NET PENSION LIABILITY – Continued

These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of arithmetic rates of return for each major asset class included in the Plan's target asset allocation as of July 31, 2014 are summarized in the following table:

Asset class	Index	Target allocation	Long-term expected rate of return*
Large Cap Domestic Equity	S&P 500	15.0%	9.5%
Mid Cap Domestic Equity	Russell Mid Caps	12.5%	11.0%
Small Cap Domestic Equity	Russell 2000	10.0%	13.5%
International Equity	MSCI EAFE	12.5%	11.0%
Core Fixed Income	Barclays Aggregate	35.0%	3.8%
High Yield Fixed Income	Barclays High Yield	5.0%	8.5%
Real Estate	FTSE NAREIT Equity REIT	5.0%	8.0%
Masters Limited Partnerships	Alerian MLP	5.0%	11.5%
	Long-term expected (weighted) rate of return:		8.25%
	Actuarial assumed long-term investment rate of return or Discount rate:		7.00%

*Assumed rates of return utilized by the Plan's investment consultant for the current fiscal period's allocation.

3. Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that the Authority contributions will be made at rates equal to the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00% on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	July 31, 2014	July 31, 2013
Discount rate	7.0%	7.0%
Long-term expected rate of return, net of investment expense	7.0%	7.0%
Municipal bond rate	N/A	N/A

Port of Houston Authority Restated Retirement Plan

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended July 31, 2014 and 2013

NOTE D – NET PENSION LIABILITY – Continued

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

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.0 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate:

	1% decrease 6.00%	Current discount rate 7.00%	1% increase 8.00%
Total pension liability	\$ 176,910,037	\$ 159,091,563	\$ 142,993,192
Fiduciary net position	164,816,227	164,816,227	164,816,227
Net pension liability (asset)	12,093,810	(5,724,664)	(21,823,035)

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 position 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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Fiscal Year Ending July 31, 2014

Total pension liability:	
Service cost	\$ 3,425,775
Interest on total pension liability	10,724,158
Effect of plan changes	-
Effect of economic/demographic gains / (losses)	-
Effect of assumption changes or inputs	-
Benefit payments	(9,508,901)
Net change in total pension liability	4,641,033
Total pension liability, beginning	154,450,530
Total pension liability, ending (a)	159,091,563
Fiduciary net position:	
Employer contributions	8,281,695
Investment income net of investment expenses	14,825,222
Benefit payments	(9,508,901)
Administrative expenses	(236,560)
Net change in fiduciary net position	13,361,456
Fiduciary net position, beginning	151,454,771
Fiduciary net position, ending (b)	164,816,227
Net pension liability (asset), ending = (a) - (b)	(5,724,664)
Fiduciary net position as a % of total pension liability	103.60%
Covered payroll	33,689,999
Net pension liability (asset) as a % of covered payroll	(16.99%)

Per GASB 67, until a 10-year trend is compiled, pension plans may present information for those years for which information is available; information is not available under the GASB 67 methodologies for the fiscal years prior to 2014.

Port of Houston Authority Restated Retirement Plan

SCHEDULE OF PORT AUTHORITY CONTRIBUTIONS
Last 10 Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 5,278,440	\$ 9,870,470	\$ 8,132,756	\$ 10,808,796	\$ 9,857,308	\$ 7,357,368	\$ 3,929,348	\$ 6,509,928	\$ 5,813,248	\$ 7,131,380
Contributions in relation to the actuarially	8,281,695	9,870,470	8,132,756	10,808,796	9,857,308	7,357,368	3,929,348	6,509,928	5,813,248	7,131,380
Contribution deficiency (excess)	\$ (3,003,255)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 33,689,999	\$ 35,081,902	\$ 35,570,719	\$ 34,938,502	\$ 32,695,393	\$ 32,270,226	\$ 28,620,863	\$ 26,285,989	\$ 24,113,184	\$ 23,170,058
Contributions as a percentage of covered employee payroll	24.58%	28.14%	22.86%	30.94%	30.15%	22.80%	13.73%	24.77%	24.11%	30.78%

Notes to Schedule

Valuation timing	Actuarially determined contribution rates are calculated as of July 31 of the fiscal year in which the contributions are reported.
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar
Remaining amortization period	0 years at July 31, 2014, resulting from a net pension liability (asset) of (\$5,724,664)
Asset valuation method	Market value
Inflation	2.50%
Salary increases	Graded from 7.5% at age 20 to 3.0% at age 60
Investment rate of return	7.00%
Cost of living adjustments	None
Retirement age	Ranging from 5% at age 55 to 100% at age 70
Turnover	Rates from most recent assumption study performed August 1, 2009
Mortality	RP-2000 Mortality for Employees, Healthy Annuitants and Disabled Annuitants with generational projection per Scale AA

Port of Houston Authority Restated Retirement Plan

SCHEDULE OF INVESTMENT RETURNS

Fiscal Year Ending July 31, 2014

Annual money-weighted rate of return net of investment expenses	9.51%
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Per GASB 67, until a 10-year trend is compiled, pension plans may present information for those years for which information is available; information is not available under the GASB 67 methodologies for the fiscal years prior to 2014.