

Financial Statements and Report of  
Independent Certified Public Accountants

**Port of Houston Authority**  
**Restated Retirement Plan**

July 31, 2015 and 2014

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## 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

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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, 2015 and 2014, 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.

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, 2015 and 2014, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### 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 21-23, 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.

*Grant Thornton LLP*

Houston, Texas  
January 12, 2016

## Port of Houston Authority Restated Retirement Plan

### Management's Discussion and Analysis July 31, 2015 and 2014 (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, 2015 and 2014.

#### Financial highlights

The net position restricted for pensions (the "net position") of the Plan at July 31, 2015, 2014 and 2013 was \$166,856,925, \$164,816,227, and \$151,454,771, 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, 2015.

The Plan's net position increased by \$2,040,698, \$13,361,456, and \$21,932,228 for the fiscal years ended July 31, 2015, 2014, and 2013, 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 \$4,167,733, \$11,898,448, and \$18,172,176 for the fiscal years ended July 31, 2015, 2014, and 2013, respectively. The net increase in fair values across all periods results largely from unrealized gains on equity investments.

Additions to the Plan are made primarily through contributions from the Authority. These contributions totaled \$4,093,996, \$8,281,695, and \$9,870,470 for the years ended July 31, 2015, 2014, and 2013, respectively. The decrease in contributions across all periods relates primarily to the appreciation in the fair value of investments which improved the funded ratio.

Investment returns consist of interest earnings, dividend income, and net appreciation in fair value of investments. The following is a detail of the asset allocation for the years ended July 31, 2015, 2014, and 2013:

	2015	2014	2013
Asset allocation:			
Domestic and foreign equities	60%	56%	56%
Fixed income investments	31	35	35
Master Limited Partnerships	4	5	5
Cash and cash equivalents	5	4	4

# **Port of Houston Authority Restated Retirement Plan**

Management's Discussion and Analysis - Continued  
July 31, 2015 and 2014  
(Unaudited)

Benefit payments are the primary expense of the Plan. Such payments totaled \$9,590,546, \$9,508,901, and \$8,683,315 for the years ended July 31, 2015, 2014, and 2013, respectively. The increases in benefit payments across all periods are due primarily to the increase in the number of retirees and beneficiaries receiving benefits. Other expenses of the Plan include administrative expenses, which totaled \$248,932, \$236,560, and \$258,920 for the years ended July 31, 2015, 2014, and 2013, 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.

## Statements of Fiduciary Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Cash and cash equivalents	\$ 8,529,330	\$ 6,678,171	\$ 6,225,886
Investments	157,882,078	157,646,696	145,109,812
Accrued investment income	<u>520,791</u>	<u>581,537</u>	<u>367,884</u>
Total assets	166,932,199	164,906,404	151,703,582
Liabilities:			
Accrued administrative and investment expenses	<u>75,274</u>	<u>90,177</u>	<u>248,811</u>
Total liabilities	75,274	90,177	248,811
Net position restricted for pensions	<u><u>\$ 166,856,925</u></u>	<u><u>\$ 164,816,227</u></u>	<u><u>\$ 151,454,771</u></u>

# **Port of Houston Authority Restated Retirement Plan**

Management's Discussion and Analysis - Continued  
July 31, 2015 and 2014  
(Unaudited)

## **Condensed Statements of Changes in Fiduciary Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Additions:			
Contributions	\$ 4,093,996	\$ 8,281,695	\$ 9,870,470
Net investment income	<u>7,786,180</u>	<u>14,825,222</u>	<u>21,003,993</u>
Total additions	11,880,176	23,106,917	30,874,463
Deductions:			
Benefit payments	9,590,546	9,508,901	8,683,315
Administrative expenses	<u>248,932</u>	<u>236,560</u>	<u>258,920</u>
Total deductions	<u>9,839,478</u>	<u>9,745,461</u>	<u>8,942,235</u>
Net increase in net position	2,040,698	13,361,456	21,932,228
Net position restricted for pensions			
Beginning of year	<u>164,816,227</u>	<u>151,454,771</u>	<u>129,522,543</u>
End of year	<u><u>\$ 166,856,925</u></u>	<u><u>\$ 164,816,227</u></u>	<u><u>\$ 151,454,771</u></u>

**Port of Houston Authority Restated Retirement Plan**

Statements of Fiduciary Net Position  
As of July 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 8,529,330	\$ 6,678,171
Investments	157,882,078	157,646,696
Accrued investment income	<u>520,791</u>	<u>581,537</u>
Total assets	166,932,199	164,906,404
Liabilities:		
Accrued administrative and investment expenses	<u>75,274</u>	<u>90,177</u>
Total liabilities	75,274	90,177
Net position restricted for pensions	<u>\$ 166,856,925</u>	<u>\$ 164,816,227</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, 2015 and 2014

	2015	2014
Additions:		
Employer contributions	\$ 4,093,996	\$ 8,281,695
Investment income:		
Net appreciation in fair value	4,167,733	11,898,448
Interest	2,252,898	1,970,726
Dividends	2,025,297	1,637,135
Other	36	84
Total investment income	8,445,964	15,506,393
Investment expenses	(659,784)	(681,171)
Net investment income	7,786,180	14,825,222
Total additions	11,880,176	23,106,917
Deductions:		
Retirement benefits	9,590,546	9,508,901
Administrative expenses	248,932	236,560
Total deductions	9,839,478	9,745,461
Net increase in net position	2,040,698	13,361,456
Net position restricted for pensions		
Beginning of year	164,816,227	151,454,771
End of year	\$ 166,856,925	\$ 164,816,227

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, 2015 and 2014

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 seven-member Commission, appointed by the Harris County Commissioners Court, City of Houston, Texas, City of Pasadena, Texas and the Harris County Mayors’ and Councils’ Association, 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. 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.

##### **3. 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, including 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.

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

For the Years Ended July 31, 2015 and 2014

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**4. Cash and Cash Equivalents**

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

**5. 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.

**6. Administrative and Investment Expenses**

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

**7. 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 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 policy was amended by the Commission on July 28, 2015 to allow flexibility for funding throughout the year, provided the aggregate contributions in a fiscal year do not exceed 105% of the annual required contribution as calculated by the Authority's actuary. The Authority made contributions of \$4,093,996 and \$8,281,695 for the fiscal years ended July 31, 2015 and 2014, respectively.

**2. Eligibility**

All permanent, full-time employees hired prior to August 1, 2012 are eligible for the Plan. On December 16, 2014, the Port Commission approved a Third Amendment to the Plan which, among other things, modified the definition of eligible employee. Employees become vested after five continuous years of service, as defined by the Plan. Fully vested employees are entitled to Plan benefits upon retirement. There is no partial vesting of benefits.

Employees hired on or after August 1, 2012 are not eligible for the Plan. They participate in a defined contribution retirement benefit plan sponsored by the Authority, which is operated and administered separately from this Plan.

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

For the Years Ended July 31, 2015 and 2014

**NOTE B – PLAN DESCRIPTION – Continued**

**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, 2015 and 2014, the date of the two latest actuarial valuations:

	<u>2015</u>	<u>2014</u>
Retirees and beneficiaries receiving payments	493	491
Terminated vested participants not yet receiving benefits	228	223
Disabled participants	8	8
Active participants	<u>403</u>	<u>437</u>
Total	<u>1,132</u>	<u>1,159</u>

**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 on February 24, 2015 to clarify fiduciary and other responsibilities, and modify several definitions, including Fixed Income, and Large Cap, Mid Cap and Small Cap Equity portfolios.

The policy was further amended on July 28, 2015 after an asset allocation review. The Commission is responsible for controlling the total asset allocation among stocks, bonds and cash. The Commission adopted the following revised asset allocation parameters as a general guideline in investing the Plan's assets:

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
For the Years Ended July 31, 2015 and 2014

**NOTE C – INVESTMENTS – Continued**

Asset Class	Minimum	Target	Maximum
Large Cap Domestic Equity	10.0%	15.0%	20.0%
Mid Cap Domestic Equity	2.5%	7.5%	12.5%
Small Cap Domestic Equity	5.0%	10.0%	15.0%
International Equity	2.5%	7.5%	12.5%
Core Fixed Income	35.0%	40.0%	45.0%
High Yield Fixed Income	0.0%	5.0%	10.0%
Real Estate	0.0%	5.0%	10.0%
Master Limited Partnerships	5.0%	10.0%	15.0%
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 fixed income assets may be held in cash and cash equivalents (e.g., commercial paper, money market mutual funds, etc.), U.S. Treasuries, U.S. government agency bonds, and other short-term and long-term debt securities, provided such instruments comply with investment policy guidelines, especially those relating to credit quality and diversification.

The Plan's assets were rebalanced in line with the above revised asset allocation parameters on August 17, 2015.

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, 2015 and 2014 are as follows:

	2015	2014
Fixed income investments	\$ 51,831,033	\$ 57,439,437
Money market funds	8,529,330	6,678,171
Equity investments:		
Domestic	92,959,368	86,761,874
Foreign	5,997,471	5,765,549
Total equity investments	98,956,839	92,527,423
Other (Foreign convertible securities and domestic LLPs and LLCs)	7,094,206	7,679,836
Total	\$ 166,411,408	\$ 164,324,867

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

For the Years Ended July 31, 2015 and 2014

**NOTE C – INVESTMENTS – Continued**

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, 2015 and 2014 (including realized gains and losses on investments) appreciated in total value as follows:

	2015	2014
Fixed income investments	\$ (1,345,459)	\$ 329,716
Equity investments	5,513,192	11,568,732
Total	<u>\$ 4,167,733</u>	<u>\$ 11,898,448</u>

During the year ended July 31, 2015 and 2014, interest and dividends earned and other income on the Plan's investments amounted to \$4,278,231 and \$3,607,945, respectively.

As of July 31, 2015 and 2014, the Plan had the following investments in its fixed income accounts:

Investment Type	2015		2014	
	Fair value	Percentage of total	Fair value	Percentage of total
U.S. treasuries	\$ 8,758,528	16.90 %	\$ 10,999,940	19.15 %
U.S. government agencies	6,429,092	12.40	10,273,872	17.89
Corporate obligations	28,398,478	54.79	27,542,181	47.95
Mutual fund	8,244,935	15.91	8,623,444	15.01
	<u>\$ 51,831,033</u>	<u>100.00 %</u>	<u>\$ 57,439,437</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.

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

For the Years Ended July 31, 2015 and 2014

**NOTE C – INVESTMENTS – Continued**

**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 B3/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, 2015 and 2014, the Plan had the following investments in excess of 5% of the net position restricted for pensions:

	2015	2014
Causeway International Value-Institutional (Cusip 14949P208)	\$ 20,660,447	\$ 20,591,096
Cohen & Steers Institutional Realty Shares (Cusip 19247U106)	10,380,860	9,269,614
Loomis Sayles Institutional High Income (Cusip 543495600)		8,623,444
Total	<u>\$ 31,041,307</u>	<u>\$ 38,484,154</u>

**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%.

**Port of Houston Authority Restated Retirement Plan**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
For the Years Ended July 31, 2015 and 2014

**NOTE C – INVESTMENTS – Continued**

The following table details the U.S. dollar bond holdings and their duration by fund manager as of July 31, 2015 and 2014:

	<u>Smith Graham</u>		<u>MacKay Shields, LLC</u>		<u>Total fair value</u>
	<u>Fair value</u>	<u>Duration in years</u>	<u>Fair value</u>	<u>Duration in years</u>	
<u>2015</u>					
U.S. treasuries	\$ 6,391,507	6.13	\$ 2,367,021	16.26	\$ 8,758,528
U.S. government agencies	2,853,349	3.35	3,575,743	3.78	6,429,092
Corporate obligations	<u>10,504,703</u>	6.16	<u>17,893,775</u>	4.89	<u>28,398,478</u>
Total fair value	<u>\$ 19,749,559</u>		<u>\$ 23,836,539</u>		<u>\$ 43,586,098</u>
Portfolio average duration		5.75		5.85	
<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	<u>9,888,193</u>	5.54	<u>17,653,988</u>	5.31	<u>27,542,181</u>
Total fair value	<u>\$ 23,867,129</u>		<u>\$ 24,948,864</u>		<u>\$ 48,815,993</u>
Portfolio average duration		5.43		5.35	

**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 \$27,895,360 and \$28,225,801, through its investments in international mutual funds, foreign stock and convertible securities as of July 31, 2015 and 2014, respectively.

**Annual Money-Weighted Rate of Return**

For the year ended July 31, 2015, the annual money-weighted rate of return on Plan investments, net of investment expense, was 3.04%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.



**Port of Houston Authority Restated Retirement Plan**

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the Years Ended July 31, 2015 and 2014

**NOTE D – NET PENSION LIABILITY**

Net pension liability	July 31, 2015	July 31, 2014
Total pension liability	\$ 171,918,210	\$ 159,091,563
Fiduciary net position	166,856,925	164,816,227
Net pension liability (asset)	5,061,285	(5,724,664)
Fiduciary net position as a % of total pension liability	97.06%	103.60%
Covered payroll	31,376,937	33,689,999
Net pension liability (asset) as a % of covered payroll	16.13%	(16.99%)

**1. Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of August 1, 2014 and rolled forward to the measurement date of July 31, 2015, 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, 2009 through August 1, 2014.

	2015	2014
Valuation date	August 1, 2014	August 1, 2013
Measurement date	July 31, 2015	July 31, 2014
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	0 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases	2.5% to 10.0%	3.0% to 7.5%
Inflation	2.50%	2.50%
Cost-of-living adjustment	None	None
Mortality	RP-2014 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per MP-2015	RP-2000 Mortality for Employees, Healthy Annuitants, and Disable Annuitants with generational projection per Scale AA

## Port of Houston Authority Restated Retirement Plan

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED For the Years Ended July 31, 2015 and 2014

#### NOTE D – NET PENSION LIABILITY – Continued

##### 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.

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, 2015 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 Midcap	7.5%	11.0%
Small Cap Domestic Equity	Russell 2000	10.0%	13.5%
International Equity	MSCI EAFE	7.5%	11.0%
Core Fixed Income	Barclays Aggregate	40.0%	3.8%
High Yield Fixed Income	ML High Yield Master II Const.	5.0%	8.5%
Real Estate	FTSE NAREIT All Equity REIT	5.0%	8.0%
Masters Limited Partnerships	Alerian MLP	10.0%	11.5%
Long-term expected (weighted) rate of return:			7.90%
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.

**Port of Houston Authority Restated Retirement Plan**

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
For the Years Ended July 31, 2015 and 2014

**NOTE D – NET PENSION LIABILITY – Continued**

	<u>July 31, 2015</u>	<u>July 31, 2014</u>
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

**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:

	<u>1% decrease 6.00%</u>	<u>Current discount rate 7.00%</u>	<u>1% increase 8.00%</u>
Total pension liability	\$ 192,630,086	\$ 171,918,210	\$ 154,546,214
Fiduciary net position	166,856,925	166,856,925	166,856,925
Net pension liability (asset)	25,773,161	5,061,285	(12,310,711)

**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 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, 2015 and 2014

	<u>July 31, 2015</u>	<u>July 31, 2014</u>
<b>Total pension liability:</b>		
Service cost	\$ 3,186,015	\$ 3,425,775
Interest on total pension liability	10,939,999	10,724,158
Effect of economic/demographic gains/(losses)	(1,277,703)	-
Effect of assumption changes or inputs	9,568,882	-
Benefit payments	(9,590,546)	(9,508,901)
Net change in total pension liability	12,826,647	4,641,033
 Total pension liability, beginning	 159,091,563	 154,450,530
Total pension liability, ending (a)	171,918,210	159,091,563
 <b>Fiduciary net position:</b>		
Employer contributions	4,093,996	8,281,695
Investment income net of investment expenses	7,886,180	14,825,222
Benefit payments	(9,590,546)	(9,508,901)
Administrative expenses	(248,932)	(236,560)
Net change in fiduciary net position	2,140,698	13,361,456
 Fiduciary net position, beginning	 164,816,227	 151,454,771
Fiduciary net position, ending (b)	166,856,925	164,816,227
 Net pension liability (asset), ending = (a) - (b)	 5,061,285	 (5,724,664)
 Fiduciary net position as a % of total pension liability	 97.06%	 103.60%
 Covered payroll	 31,376,937	 33,689,999
 Net pension liability (asset) as a % of covered payroll	 16.13%	 (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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 4,093,966	\$ 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
Contributions in relation to the actuarially determined contribution	4,093,966	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
Contribution deficiency (excess)	\$ -	\$ (3,003,255)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 31,376,937	\$ 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
Contributions as a percentage of covered employee payroll	13.05%	24.58%	28.14%	22.86%	30.94%	30.15%	22.80%	13.73%	24.77%	24.11%

### **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, 2015, resulting from a net pension liability of \$5,061,285
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-2014 Mortality for Employees, Healthy Annuitants and Disabled Annuitants with generational projection per MP-2015

**Port of Houston Authority Restated Retirement Plan**

**SCHEDULE OF INVESTMENT RETURNS**

Fiscal Year Ending July 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return net of investment expenses	3.04%	9.51%

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.