THE PORT DELIVERS

FINANCIAL REVIEW

Port Commission, Port of Houston Authority of Harris County, Texas

We have audited the accompanying balance sheets of the Port of Houston Authority of Harris County, Texas (the "Authority"), as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, such financial statements present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, in 2001 the Authority changed its method of accounting for contributed capital to conform to the Statement of Governmental Accounting Standards No. 33 and, retroactively, restated the 2000 financial statements for the change.

The statistical tables and other information, listed in the foregoing table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

June 6, 2002

December 31, 2001 and 2000
(in thousands)

Assets	2001	2000
Current Assets		
Cash and Cash Equivalents	$ 50,174	$ 56,810
Investments	98,795	84,126
Receivables		
Trade (net of allowances for doubtful accounts of $1,389 in 2001 and $1,100 in 2000)	21,587	25,877
Receivables due from Government Grant	0	443
Accrued Interest Receivable	1,168	1,354
Prepaid Expenses	1,642	1,628
Inventory	256	226
Total Current Assets	**173,622**	**170,464**
Restricted Assets		
Cash and Cash Equivalents	26,415	12,844
Investments	154,175	101,664
Property Taxes Receivable (net of allowance for uncollected taxes of $4,870 in 2001 and $4,644 in 2000)	25,124	25,844
Accrued Interest Receivable	500	686
Total Restricted Assets	**206,214**	**141,038**
Property		
Land	56,991	56,991
Channel Land and Improvements	92,026	55,720
Railroads	32,249	31,189
Buildings	64,699	62,581
Improvements other than Buildings	328,058	288,248
Machinery and Equipment	117,042	108,595
Construction in Progress	128,541	167,861
	819,606	771,185
Less Accumulated Depreciation and Amortization	277,919	257,586
Property, net	541,687	513,599
Long – Term Investments	31,099	14,927
Other Assets		
Installment Sale Receivable	1,990	2,262
Deferred Dredging Charges	1,077	983
Other	1,497	2,334
Total Other Assets	4,564	5,579
Total	**$ 957,186**	**$ 845,607**

See notes to financial statements.

December 31, 2001 and 2000
(in thousands)

Liabilities and Equity	2001	2000
Current Liabilities (payable from current assets)		
Accounts Payable and Accrued Liabilities	$ 11,778	$ 9,297
Obligations under Capital Lease	515	543
Total Current Liabilities (payable from current assets)	**12,293**	**9,840**
Current Liabilities (payable from restricted assets)		
Current Maturities of Long – Term Debt		
Revenue Bonds	4,710	4,225
Unlimited Tax Bonds	16,110	26,070
Accrued Interest Payable		
Revenue Bonds	236	277
Unlimited Tax Bonds	6,315	5,110
Contracts Payable and Accrued Liabilities	2,564	2,327
Total Current Liabilities (payable from restricted assets)	**29,935**	**38,009**
Long – Term Debt, net of current maturities	327,837	260,787
Other Noncurrent Liabilities		
Advances from Developer	16,328	13,896
Accrued Vacation and Sick Leave	3,644	3,339
Obligations under Capital Leases	3,802	4,317
Deferred Income	2,028	2,317
Other	328	110
Total Other Noncurrent Liabilities	26,130	23,979
Total Liabilities	**396,195**	**332,615**
Equity		
Retained Earnings		
Reserved for Debt Service		
Revenue Bonds	3,225	4,039
Unlimited Tax Bonds	27,341	27,842
Reserved for Revenue Bond Debt		
Retirement and Contingency	5,826	5,776
Unreserved	504,278	455,014
	540,670	492,671
Contributed Capital	20,321	20,321
Total Equity	560,991	512,992
Total	**$ 957,186**	**$ 845,607**

See notes to financial statements.

Statements of Revenues, Expenses and Changes in Retained Earnings

December 31, 2001 and 2000

(in thousands)

	2001	2000
Operating Revenues		
Vessel and Cargo Services	$ 86,906	$ 88,297
Rental of Equipment and Facilities	15,510	14,878
Grain Elevator	1,511	1,980
Bulk Materials	2,134	1,543
Other	2,278	1,442
Total	**108,339**	**108,140**
Operating Expenses		
Maintenance and Operation of Facilities	51,257	47,234
General and Administrative	22,504	16,385
Depreciation and Amortization	21,757	21,515
Total	**95,518**	**85,134**
Operating Income	12,821	23,006
Nonoperating Revenues (Expenses)		
Interest Income	9,481	10,560
Interest Expense on Bonds	(1,816)	(2,084)
Other, net	786	204
Total	**8,451**	**8,680**
Income before Nonoperating Revenues (Expenses) Related to Property Taxes	21,272	31,686
Nonoperating Revenues (Expenses)		
Related to Property Taxes		
Property Taxes	30,922	28,424
Interest Income on Unlimited Tax Bond Funds	1,174	1,662
Interest Expense on Unlimited Tax Bonds	(7,729)	(6,083)
Property Tax Expense	(1,030)	(919)
Other	(123)	(119)
Total	**23,214**	**22,965**
Contribution from State Agency	3,513	4,712
Net Income	47,999	59,363
Retained Earnings, January 1	492,671	433,308
Retained Earnings, December 31	$ 540,670	$ 492,671

See notes to financial statements.

December 31, 2001 and 2000
(in thousands)

	2001	2000
Cash Flows from Operating Activities		
Cash Received from Customers	$ 109,875	$ 95,184
Cash Paid to Suppliers for Goods and Services	(32,228)	(28,356)
Cash Paid to Employees for Services	(24,935)	(24,050)
Cash Paid for Employee Benefits	(10,950)	(9,735)
Cash from Other Services	1,350	1,909
Cash Paid for Other Purposes	(113)	(1,346)
Net Cash Provided by Operating Activities	**42,999**	**33,606**
Cash Flows from Noncapital Financing Activities		
Repayment of Advances from Developer	2,432	(1,539)
Property Taxes Received	31,380	28,137
Property Tax Collection Expenses Paid	(907)	(1,030)
Net Cash Provided by Noncapital Financing Activities	**32,905**	**25,568**
Cash Flows from Capital Financing Activities		
Contributed Capital from Governmental Grant	0	3,527
Proceeds from Issuance of Long – Term Debt	87,300	20,700
Issuance Costs of Long – Term Debt	(331)	(97)
Repayment of Long – Term Debt and Funding of Escrow	(30,838)	(21,145)
Interest on Long – Term Debt	(14,045)	(15,645)
Acquisition and Construction of Capital Assets	(43,049)	(52,073)
Proceeds from Retirement of Assets	258	123
Net Cash Used in Capital Financing Activities	**(705)**	**(64,610)**
Cash Flows From Investing Activities		
Purchase of Investments	(343,229)	(227,222)
Proceeds from Maturities of Investments	264,392	233,713
Interest on Investments	10,573	16,790
Net Cash Provided by (Used in) Investing Activities	**(68,264)**	**23,281**
Net Increase in Cash and Cash Equivalents	6,935	17,845
Cash and Cash Equivalents, January 1	69,654	51,809
Cash and Cash Equivalents, December 31	$ 76,589	$ 69,654
Current Cash and Cash Equivalents	$ 50,174	$ 56,810
Restricted Cash and Cash Equivalents	$ 26,415	$ 12,844

See notes to financial statements.

December 31, 2001 and 2000

(in thousands)

	2001	2000
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	$ 12,821	$ 23,006
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	21,757	21,448
Provision for Doubtful Accounts	390	442
Miscellaneous Nonoperating Income (Expense)	1,237	563
Change in Assets and Liabilities		
Decrease (Increase) in Trade and Other Receivables	5,659	(12,646)
Decrease (Increase) in Deferred Dredging	(1,184)	(1,062)
(Increase) Decrease in Prepaid Expense	(347)	327
(Increase) Decrease in Inventory	(30)	24
Increase (Decrease) in Accounts Payable		1,347
and Accrued Liabilities	3,225	
(Decrease) Increase in Payable to Port Development	(544)	491
Increase (Decrease) in Accrued Vacation and Sick Leave	305	(44)
(Decrease) Increase in Deferred Gain	(290)	(290)
Net Cash Provided by Operating Activities	$ 42,999	$ 33,606
Noncash Investing, capital, and financing activities:		
Contributions of capital assets from government	3,513	3,980
Increase (Decrease) in fair value of investments	507	(187)

See notes to financial statements.

December 31, 2001 and 2000

1. Summary Of Significant Accounting Policies

Reporting Entity

The Port of Houston Authority of Harris County, Texas ("Authority") is an independent political subdivision created under the Constitution of the State of Texas. The Port Commission, composed of seven commissioners, governs the Authority. Harris County, Texas ("County") and the City of Houston, Texas ("City of Houston") each appoint two commissioners to the Port Commission and jointly appoint the Chairman. The City of Pasadena, Texas ("City of Pasadena") and the Harris County Mayors and Councils Association ("Association"), representing 26 cities, each appoint one commissioner. Under state law, the County Auditor serves as the Auditor of the Authority and the County Treasurer serves as the Treasurer of the Authority. The Authority is not a component unit of the County, the City of Houston, the City of Pasadena or the Association since none of these entities exercise financial accountability over the Authority. The Authority is considered a primary governmental entity since it satisfies all of the following criteria: (a) no entity appoints a voting majority of its governing body; (b) it is legally separate from other entities; and (c) it is fiscally independent of other state and local governments.

The financial statements of the Authority include all operations and activities of the Authority for which the Port Commission has financial accountability as defined above.

Basis of Accounting

The Authority follows enterprise fund accounting and reporting requirements, including the accrual basis of accounting and application of all Governmental Accounting Standards Board "GASB" pronouncements as well as the Financial Accounting Standards Board "FASB" pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Port of Houston Authority is a Phase 1 Government (total annual revenues of $100 million or more) and will be adopting the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, for the fiscal year beginning January 1, 2002 and ending December 31, 2002.

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

Statement of Cash Flows

All highly liquid time deposits and investments with maturity of three months or less when purchased are considered to be cash equivalents. Certificates of deposit with maturities over three months are considered time deposits. Cash flows of the Authority are reported using the direct method.

Inventory

Inventory consists of materials and supplies and is stated at cost, determined on an average cost method.

Property Taxes

Property taxes (net of collection expenses) are used to pay debt service of the unlimited tax bonds. Property is appraised, and a lien on such property becomes enforceable, as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Property taxes are levied September 1 for the year in which assessed. Taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. The County bills and collects property taxes of the Authority for a fee and remits collections to the Authority. Property tax collection expenses incurred by the Authority for the years ended December 31, 2001 and 2000 were $769,000 and $919,000, respectively.

The tax rates for the years ended December 31, 2001 and 2000 were $.01826 and $.01830 per $100 assessed valuation, respectively.

Investments

All investments are recorded at fair value based upon quoted market prices with the difference between the purchase price and market price being recorded as interest income. For disclosure of custodial risk for all investments see Note 2 on Investments.

Property and Depreciation

Property constructed or acquired by purchase is stated at cost. Property received as a contribution is stated at estimated fair value on the date received. The Authority capitalizes, as a cost of its constructed assets, the interest expense of related borrowings less the interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing. Capitalization increased the cost of assets constructed by the Authority by approximately $1,800,000 and $3,580,000 in 2001 and 2000, respectively.

Depreciation is computed using the straight-line method over the following useful lives:

Railroads	25 – 40 years
Buildings	20 – 40 years
Improvements other than Buildings	20 – 50 years
Machinery and Equipment	3 – 20 years

Deferred Dredging Charges

The cost of periodic maintenance dredging of berthing areas adjacent to the Authority's wharves and of certain ship channels not maintained by the federal government is capitalized in deferred charges and amortized over three to four years.

Premiums (Discounts) on Bonds Payable and Issuance Costs

Premiums (discounts) on bonds payable are amortized on a straight-line basis over the term of the bonds. Bond issuance costs are expensed when incurred except for issuance costs of refunding bonds, incurred before December 1996, which are amortized on a straight-line basis over the term of the new debt. Effective January 1, 1997, issuance costs and premiums and discounts are amortized using the interest cost basis.

Vacation and Sick Leave

Employees earn vacation at rates of 10 to 25 days per year and may accumulate a maximum of 20 to 50 days, depending on their length of employments. Upon termination, employees are paid for any unused accumulated vacation days at their current pay rate. Employees earn sick leave at the rate of 12 days per year. Upon termination or retirement, employees are paid for any unused sick leave days at their current pay rate up to a maximum of 60 days. With sufficient accruals, employees are allowed to receive payments at year end of up to a maximum of 12 days of their unused sick leave, limited to $167 per day.

Reclassifications

Certain amounts for 2000 have been reclassified to conform with the 2001 Presentation.

New Pronouncements

In December 1998, The Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." This statement requires governments to recognize contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenues, not contributed capital. This statement became effective for financial statements for periods beginning after June 15, 2000. The implementation of GASB No. 33 resulted in contributed capital being recognized as revenue in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements Management Discussion and Analysis – for State and Local Governments." The objective of this Statement is to enhance the clarity and usefulness of the general-purpose external financial reports of the state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The Authority must implement GASB 34 for its fiscal year beginning January 1, 2002. Although Authority management believes that there will be no material adverse impact to the Authority's financial position, results of operations or cash flows as a result of GASB 34, adoption of the Statement will significantly alter the presentation of financial information.

In April of 2000, the GASB issued Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues." This is an amendment to Statement No. 33 in which recipient governments of derived tax revenues or imposed nonexchange revenues should recognize revenues for a period equal to cash received during the period and cash received after the end of a period should be recognized as revenues of the period.

In June of 2001, the GASB issued Statement No. 37, "Basic Financial Statements-and-Management's Discussion and Analysis-for State and Local Governments: Omnibus." This is an amendment of GASB Statements No. 21 and No. 34 and is to be implemented in conjunction with Statement No. 34 in fiscal year beginning January 1, 2002.

In June of 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures." This Statement establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violation of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers. This Statement is to be implemented in conjunction with Statement No. 34 in fiscal year beginning January 1, 2002.

2. Cash and Investments

The Authority's cash and cash equivalents balance of $76,589,000 and $69,654,000 as of December 31, 2001 and 2000, respectively, are maintained in demand accounts and mutual funds managed by a major fund manager. The bank balance per the bank statements at December 31, 2001 and 2000 was $78,994,000 and $71,293,000, respectively, of which the amount on deposit in demand accounts is fully covered by the federal deposit insurance through the FDIC or collateralized with securities held by the Authority's depository institution in joint safekeeping at the Federal Home Loan Bank of Dallas in the Authority's name. The mutual funds are invested primarily in direct obligations of the U.S. Government or its agencies and are not subject to categorization in accordance with GASB Statement No. 3, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

In accordance with authorized state statutes, the Authority invests in fully collateralized or insured time deposits, direct debt securities of the United States or its agencies, commercial paper, money market mutual funds, collateralized mortgage obligations, the underlying security for which is guaranteed by an agency of the United States, and fully collateralized repurchase agreements. The repurchase agreements must be purchased pursuant to a master repurchase agreement which specifies the rights and obligations of both parties and requires that the securities involved in the transactions be held in a safekeeping account subject to the control and custody of the Authority. Investments in security repurchase agreements may be made only with the Authority's despository bank or with state or national banks domiciled in the State of Texas. The Authority did not invest in repurchase agreements during 2001 or 2000.

The Authority's investments are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk. Investments are included in the credit risk categories as follows:

Category 1: Investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2: Uninsured and unregistered investments, with securities held by the Authority's counterparty's trust department or agent in the Authority's name. Category 3: Uninsured and unregistered investments, with securities held by the Authority's counterparty, or by its trust department or agent, but not in the Authority's name.

Shown to the right are the Authority's investments by risk category as of December 31, 2001 and 2000 (in thousands):

2001 Categories	1	2	3	Total
U.S. Treasury Notes	$ 43,277	$ 0	$ 0	$ 43,277
U.S. Government Agencies		0	0	
Securities	210,622			210,622
Commercial Paper	18,269	0	0	18,269
Municipal Bonds	11,901	0	0	11,901
Total	**$284,069**	**$ 0**	**$ 0**	**$284,069**

2000 Categories	1	2	3	Total
U.S. Treasury Notes	$ 2,507	$ 0	$ 0	$ 2,507
U.S. Government Agencies				
Securities	169,574	0	0	169,574
Commercial Paper	17,438	0	0	17,438
Municipal Bonds	11,198	0	0	11,198
Total	**$ 200,717**	**$ 0**	**$ 0**	**$ 200,717**

3

3. Sale of World Trade Building

In January 1999, the World Trade Center was sold by the Authority to Paladio Development Ltd., a Texas limited partnership, with Paladio Management, Inc., a Texas corporation as the Sole General Partner, for the sum of $4,000,000. The Authority received a down payment of $400,000 and a promissory note for $3,600,000 payable in nine equal installments of $400,000 with the first installment due on or before one year from the date of the promissory note. The present value of this note as of December 31, 2001 totaled $2,262,000 with $272,000 classified as Current Receivables and $1,990,000 in Installment Sale Receivable. This transaction resulted in a deferred gain of $2,998,000, which was $2,027,000 as of December 31, 2001. This balance will be written off in equal installments over the life of the promissory note.

4. Long Term Debt

Outstanding Long – Term Debt

Long – Term Debt is summarized as follows (in thousands):

	Interest Rate %	Issue Date	Maturity	December 31 2001	December 31 2000
Revenue Bonds:					
Series 1977	3.50 – 7.00	02-01-77	2002	$ 2,600	$ 5,000
Series 1992, Refunding	3.80 – 6.50	02-26-92	2006	19,525	21,280
Special Purpose Revenue Bonds:					
Series 1964	2.50	07-01-64	2004	240	310
Total Revenue Bonds				22,365	26,590
Less Unamortized Discounts				(94)	(116)
Revenue Bonds, Net				**22,271**	**26,474**
Unlimited Tax Refunding Bonds:					
Series 1993	3.20 – 4.55	07-01-93	2001	0	1,445
Series 1997 *	4.75 – 5.00	10-23-97	2013	25,525	28,525
Series 1999B	5.00 – 5.25	09-28-99	2009	5,045	5,735
Series 2000B	4.55 – 5.50	10-15-00	2011	7,565	8,700
Total Unlimited Tax Refunding Bonds				38,135	44,405
Add (Subtract) Unamortized Premiums/(Discounts) and Deferred Loss				945	1,055
Unlimited Tax Refunding Bonds, Net				**39,080**	**45,460**
Unlimited Tax Port Improvement Bonds:					
Series 1990	6.50 – 8.50	07-15-90	2011	0	8,700
Series 1992A	5.50 – 7.50	01-07-92	2013	6,315	6,845
Series 1992B	5.60 – 7.60	12-01-92	2013	1,800	2,325
Series 1994	6.50 – 8.50	12-01-94	2016	11,250	12,000
Series 1995	4.90 – 6.90	11-01-95	2017	9,600	10,200
Series 1996	5.50 – 7.50	04-01-96	2017	41,600	44,200
Series 1997	4.80 – 5.375	07-09-97	2018	23,800	25,200
Series 1998A	3.80 – 5.00	11-17-98	2019	72,900	76,950
Series 1998B	3.40 – 5.40	11-17-98	2019	6,300	6,650
Series 1999A	5.5	09-28-99	2024	13,705	14,000
Series 2000A	4.25 – 5.10	10-15-00	2024	12,000	12,000
Series 2001A	5.0	11-01-01	2026	17,300	0
Series 2001B	4.00 – 5.00	11-01-01	2026	70,000	0
				286,570	219,070
Add Unamortized Premiums/(Discounts)				736	78
				287,306	219,148
Total Long – Term Debt				348,657	291,082
Less Current Maturities				(20,820)	(30,295)
Long – Term Debt (net of unamortized premium/(discount)				$ 327,837	$ 260,787

** The Refunding Bonds, Series 1997A, consist of $23,040,000 Current Interest Bonds at 4.75 – 5.00 to mature 2000 – 2013 and $2,485,000 Capital Appreciation Bond at 4.80 – 4.85 to mature 2006 – 2007.*

All of the net revenues of the Authority are pledged for the payment of debt service of the revenue bonds ("first-lien bonds"). Net revenues, as defined by the various bond resolutions include substantially all of the Authority's revenues and expenses other than those related to (a) the Bayport operations, (b) interest earned on certain bond funds, (c) revenues from property taxes levied by the Authority, (d) interest expense on revenue and unlimited tax bonds, and (e) depreciation and amortization. The revenue bond resolutions further require that the net revenues, as defined, equal at least 150% of the average annual debt service on the first-lien bonds before additional first-lien bonds can be sold. Net revenues for 2001 and 2000 were 900% and 1,008% of the respective year's average annual debt service.

All of the net revenues, as defined, from the Bayport operations (see Note 8) are pledged for the payment of debt service of the Special Purpose Revenue Bonds, Series 1964.

There is no legal debt margin as to the issuance of the unlimited tax bonds.

Debt Service Requirements

Total debt service requirements as of December 31, 2001 are as follows (in thousands):

Bond Principal			Bond Interest		
Year Ending December 31	Revenue	Unlimited Tax	Revenue	Unlimited Tax	Total
2002	$ 4,710	$ 16,110	$ 1,264	$ 16,394	$ 38,478
2003	4,280	18,250	992	15,905	39,427
2004	4,440	18,305	720	14,971	38,436
2005	4,380	18,350	438	14,022	37,190
2006	4,555	16,190	148	15,321	36,214
2007-2011		84,350	–	55,376	139,726
2012-2016	–	72,880	–	32,508	105,388
2017-2021	–	47,495	–	14,825	62,320
2022-2026	–	32,775	–	4,941	37,716
Total	**$ 22,365**	**$ 324,705**	**$ 3,562**	**$ 184,263**	**$ 534,895**

All bonds generally mature serially based on stated maturity dates. However, all bonds may be redeemed prior to their maturities in accordance with provisions of the various bond resolutions at par except Revenue Bond Series 1977, which is currently at 100%.

At December 31, 2001, the Authority had $41,700,000 remaining of the $130,000,000 in authorized but not issued unlimited tax bonds for improvement to the Houston Ship Channel, which were approved by voters in an election in November 1989.

At December 31, 2001, the Authority also had $317,000,000 remaining of the $387,000,000 in authorized but not issued unlimited tax bonds for construction of Bayport which was approved by the voters in an election in November 1999.

Bond Refundings

At various times the Authority defeased certain bonds by placing the proceeds of new bonds, together with other available funds, in an irrevocable escrow with a trustee to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the liabilities for the bonds to be defeased are not included in the Authority's financial statements. At December 31, 2001, the outstanding balance of the defeased unlimited tax bond was $39,500,000.

During 2000, the Authority issued $8,700,000 unlimited tax refunding bonds and used the proceeds, net of issuance cost, to establish an irrevocable escrow fund to provide for all future debt service requirements on the outstanding tax bond, series 1990, that was refunded in January, 2001. As a result, the series 1990 bonds are considered to be defeased and the liability for such bonds have been removed from the financial statements of the Authority in 2001. At December 31, 2001, there was no balance of these defeased tax refunding bonds. The gain of $47,841 was realized on the refunding and is being amortized on an interest cost basis over the life of the bond issue which runs through October 1, 2011. The gain was determined as follows (in thousands):

Principal balance of refunded bonds		$ 8,700
Less:		
Total payments to trustee:		
Face amount of refunding issue	$ 8,700	
Premium received	101	
Issuance Costs	(51)	
Total	**8,750**	
Accrued interest payable	(98)	(8,652)
Deferred gain on refunding		$ 48

The Authority reduced its aggregate debt service payments by approximately $781,000 over the next 10 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately $553,000.

Subsequent to December 31, 2001 the Authority sold Revenue Refunding bonds in the amount of $22,285,000 which will be used to defease the remaining principal of the Series 1977 and Series 1992 Refunding Revenue bonds in May, 2002. The Revenue Refunding Bonds, Series 2002 will be paid over five (5) years with the final payment due May, 2006.

5. Bond Restrictions

The bond resolutions require that during the period in which the bonds are outstanding, the Authority must create and maintain certain accounts ("funds") to receive the proceeds from the sale of the bonds, property taxes levied and the net revenues, as defined, derived from the operation of the Authority's facilities. These assets can be used only in accordance with the terms of the bond resolutions to pay the capital costs of enlarging, extending or improving the Authority's facilities or to pay the debt service cost of the related bonds.

6. Capital Lease Commitments

On July 21, 1997, the Authority entered into a 20 – year lease agreement with the Board of Trustees of the Galveston Wharves for its East End Container Terminal located at Pier 10. Contained in the agreement is a provision that various fixed assets, including several container and yard cranes, tractors, trailers, and other equipment, which will become property of the Authority after 15 years. The Authority also began leasing computer equipment in July 1997 that results in the transfer of ownership to the Authority at the conclusion of the lease. Both are classified as capital leases. The total present value of lease payments as of December 31, 2001 of $4,317,000 consist of $515,000 in Current Liabilities and $3,802,000 in Non-current Liabilities. Future minimum lease payments are as follows for the years ended December 31 (in thousands):

2002	$ 739
2003	674
2004	648
2005	599
2006	543
2007 – 2012	2,394
Total Lease Payments	5,597
Less: Amount representing interest	(1,280)
Present value of minimum lease payments	$ 4,317

7. Contributed Capital

In 1998, the Governmental Accounting Standards Board issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" (Statement No. 33) which established accounting and financial reporting standards about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources and required governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenues in the statements of revenues, expenses, and changes in retained earnings, not directly to contributed capital. Requirements of Statement No. 33 were effective for financial statements for periods beginning after June 15, 2000. The Authority implemented Statement No. 33 at the beginning of January 2001. As a result of implementation, the accounting changes related to contributed capital construction projects funded by the federal government which benefit the Authority are reflected in the statements of revenues, expenses, and changes in retained earnings for 2001 and the financial statements for 2000 have been restated to conform with the adoption and presentation of the accounting change. As a result, certain amounts in the statements of revenues, expenses and changes in retained earnings and balance sheets have been restated from the amounts previously reported to adopt the new accounting principle as follows:

	As Previously Reported (000's)	As Restated (000's)
At December 31, 2000:		
Retained earnings –		
Unreserved	$ 450,302	$ 455,014
Contributed Capital	25,033	20,321
As of December 31, 2000:		
Contributions from		
State Agency		4,712
Net Income	54,651	59,363

8. Bayport Facilities

Certain land and port facilities of the Bayport Division were acquired or constructed using the proceeds from the Special Purpose Revenue bonds, Series 1964, and interest-free advances (including the interest earnings on the invested portions thereof) from the developer of an adjacent industrial park. The developer also agreed to advance to the Authority amounts necessary to cover maintenance and operating expenses of the Bayport facilities if, and to the extent that, gross revenues from the operations of the Bayport facilities were insufficient. Such construction and operating advances amounted to $16,328,000 at December 31, 2001 and $13,896,000 at December 31, 2000. All such advances will be repaid only from net revenues, if any, of the Bayport Division earned through the year 2013.

Effective October 27, 1997, the Authority, the developer, and the Bayport Operators entered into an Agreement of Compromise and Settlement (the "Agreement") that resolves various legal disputes in connection with the Authority's property at Bayport, including disputes as to reimbursement of the developer for amounts previously advanced. The Agreement provides for an increased user fee (from 22¢ per ton of liquid to 24¢) to be credited to the Bayport Reimbursement Account through July 31, 2013. All proceeds of this fee will be used for payment of amounts then due upon the Special Purpose Revenue Bonds, Series 1964, for payment of certain of the Authority's operating expenses relating to Bayport, and for the repayment of amounts advanced to the Authority by the developer. The Agreement limits repayments to the developer to the sum of $21.5 million (plus any additional advances made by the developer) and also provides that all repayment obligations of the Authority to the developer shall finally terminate on July 13, 2013. The Agreement provided for the payment of $2,232,205 by the Authority to the developer in exchange for the developer's final release of all of the developer's rights concerning the Authority's property at Bayport. The Agreement contains various other provisions, including provisions addressing allocation of maintenance costs for the Bayport Channel and Turning Basin among the Authority, the developer and Private Operators at Bayport. The Agreement supersedes all prior agreements between the Authority and developer and was contingent upon the U.S. Corps of Engineers' approval of offshore disposal of Bayport dredge material. Such approval was received in October of 1998.

The Authority had recorded approximately $19,900,000 in advances from the developer at the time the new agreement was signed and has not recorded the additional $1,600,000 in possible repayments since management does not, at this time, believe that such future net revenues will be sufficient to pay all of the currently existing advances. The repayments during the twelve months ending December 31, 2001 and 2000 were approximately $1,211,000 and $1,539,000 respectively.

9. Retirement Plan

Plan Description

The Port of Houston Authority Restated Retirement Plan ("the Plan") is a single employer noncontributory defined benefit retirement plan covering all permanent, full-time employees after the completion of one year of employment. The Authority's Port Commission, the Pension Committee and Melanie Sherman, the Plan Administrator, control and manage the operation and administration of the Plan. Compass Bank (the "Trustee") serves as the trustee of the Plan. The Plan issues a stand-alone financial report that may be obtained by requesting such report from the Port of Houston Authority of Harris County, P.O. Box 2562, Houston, TX 77252, Attention: Controller. Employees vest in the plan after five years of continuous service with the Authority. The Authority's payroll for employees covered by the Plan for the plan years ended July 31, 2001 and 2000 was $18,779,000 (82% of the total payroll of $22,825,000) and $17,550,000 (81% of total payroll of $21,784,000) respectively.

Vested employees who retire at age 65 are entitled to an annual retirement benefit, payable monthly, for five years certain and for life thereafter, in an amount equal to the lesser of 2.3% of their average monthly base earnings, multiplied by their number of years of credited service, or 70% of the average monthly base earnings. Monthly base earnings are those of the highest consecutive five years out of the ten years immediately preceding retirement. The Plan also provides early and late retirement options with benefits adjusted accordingly, as well as death and disability benefits. These benefit provisions and all other plan requirements are established and approved by the Port Commission.

Actuarially Determined Contribution Requirements and Contributions Made

The Authority's funding policy provides for actuarially determined annual contributions, which include the normal cost and amortization of the unfounded frozen actuarial accrued liability.

Actuarial Valuation Method

Actuarial Valuation Date	08/01/01	08/01/00	08/01/99
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Dollar, (closed)	Level Dollar, (closed)	Level Dollar, (closed)
Amortization Period in Years	30	30	30
Asset Valuation Method	Market Value	Market Value	Market Value
Actuarial Assumptions:			
Investment Return	7.5%	7.5%	7.5%
Projected Salary Increases	3.0% – 8.0%	3.0% – 8.0%	3.0% – 8.0%
Inflation	3.5%	3.5%	3.5%
Cost of Living Adjustment	None	None	None

The required contributions to the Plan, including payments of the unfunded actuarial accrued liability, are actuarially determined as if the Authority were subject to Section 412 and 404 of the Internal Revenue Code, even though the Authority is not subject to these rules.

Plan Statistics

For Plan Years July 31, 2001, 2000 and 1999

Actuarial Valuation Report as of August 1, 2001, 2000 and 1999

	2001	% Covered Payroll	2000	% Covered Payroll	1999	% Covered Payroll
Actuarial Determined Employer Contribution						
Normal Cost	$ 1,258,538	6.7%	$ 1,169,320	6.4%	$ 1,011,261	6.2%
Annual Pension Cost	$ 2,136,112		$ 1,126,800		$ 1,011,261	
% of APC Contributed	100%		100%		100%	
NPO	None		None		None	

Schedule of Funding

Actuarial Valuation Date	08/01/01	08/01/00	08/01/99
Actuarial Valuation Assets	$ 64,677,712	$ 70,309,053	$ 70,935,582
Actuarial Accrued Liability (AAL)	$ 77,033,505	$ 73,452,556	$ 70,939,814
Unfunded (Overfunded)			
Actuarial Accrued Liability (UAAL)	$ 12,355,793	$ 3,143,503	$ 4,232
Funded Ratio	84.0%	95.7%	100.0%
Annual Covered Payroll (Actuarial)	$ 18,778,969	$ 17,550,162	$ 16,388,149
UAAL as a % of Covered Payroll	65.8%	17.9%	0.0%

10. Postretirement Benefits

In addition to providing pension benefits, the Authority provides certain postretirement health care and life insurance benefits for the retired employees and their spouses through provisions enacted by the authority of the Port Commission. At December 31, 2001, 241 former employees were eligible for these benefits. The Authority funds all of the premiums for retiree life insurance and a portion of the health insurance premiums. Continuation of these benefits and the Authority's contributions are dependent on periodic authorization by the Port Commission.

The health insurance benefits provided to retirees are the same as those offered to active employees though retirees have the option of securing their own insurance and receiving a monthly reimbursement from the Authority for a portion of the costs. The supplied benefits include hospital, doctor and prescription drug charges.

Basic life insurance coverage provided to retirees is based upon the retirees' annual compensation at retirement. Active employees receive life insurance coverage valued at 150% of their current annual salary.

For the fiscal years ended December 31, 2001 and 2000, the cost of retiree health benefits, recorded on a pay-as-you-go basis and net of contributions from retirees, was $1,293,200 and $909,000, respectively. Retiree life benefits costs were $12,300 and $12,500, respectively.

11. Operating Leases

The Authority leases to others some of its land, buildings and improvements and cargo handling equipment. As of December 31, 2001, minimum rental payments to be received by the Authority under the operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows (in thousands):

2002	$ 11,439
2003	12,272
2004	12,316
2005	10,616
2006	9,000
Thereafter	80,626
Total	**$ 136,269**

In addition, the Port Terminal Railroad Association ("PTRA") leases certain railroad facilities from the Authority under a ten-year renewable agreement. The agreement provides for a yearly adjustment in rent on August 1, based on the percentage change in the Producer Price Index (all commodities) from the previous August 1. Effective August 1, 2001, the monthly rental is $110,645. The Authority invoiced PTRA approximately $1,325,000 and $1,300,000 under this agreement in 2001 and 2000, respectively.

12. Risk Management

The Authority has purchased retrospective-rated insurance policies for workers compensation, general liability and automobile liability. At December 31, 2001, the Authority was insured for the following loss limitations:

	Workers' Compensation	General Liability	Automobile Liability
Per Accident	$ 200,000	$ 100,000	$ 100,000
Bodily Injury	Not Applicable	200,000	200,000

The Authority's insurance policy also includes a maximum loss liability provision of $1.755 million for the period from March 1, 2001 through February 28, 2002. Settled claims did not exceed the insurance coverage during the last three fiscal years.

The claims liability of $714,000, reported at December 31, 2001, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in claim liability amounts in fiscal years 2001 and 2000 were as follows:

	2001	2000
Unpaid claims and claim adjustment		
Expenses at beginning of year	$ 444,000	$ 1,200,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	565,000	717,000
Increases in provision for insured events of prior years	483,000	
Total incurred claims and claim adjustment expenses	1,048,000	717,000
Payment		
Claims and claim adjustment expenses attributed		
to insured events of the current year	381,000	717,000
Claims and claim adjustment refunds attributed		
to insured events of prior years	397,000	756,000
Total Payment	778,000	1,473,000
Total unpaid claims and claim adjustment expenses at year end	**$ 714,000**	**$ 444,000**

13. Commitments and Contingencies

Commitments

At December 31, 2001 the Authority had committed approximately $66 million for supplies, services, the purchase of equipment and the expansion of facilities.

Litigation and Claims

The Authority is the defendant in various legal actions that arise in the normal course of business. No prediction as to the result of such litigation or claims can be made, but the Authority, based on consultation with outside counsel, believes the outcome of such matters will not materially affect its financial position.

There is a possible unasserted claim for remediation of contamination on the Port's property that could be brought by Federal and/or State agencies. The Authority has sustained groundwater and soil contamination of its property due to the releases of hazardous chemicals from a pesticide facility adjacent to the Authority's property. The Authority has not manufactured, generated or released such hazardous substances, nor has it contracted with the plant facility to use or manufacture any of the substances that have caused the contamination. Therefore, the Authority has taken the position that it is an innocent land owner as that term is defined by the laws of the State of Texas and that it is exempt from liability for site cleanup. Management of the Authority believes it is unlikely that any Federal or State agency will assert the Authority liability for the clean up of contaminants from the adjacent pesticide facility which has migrated on to the Port property.

The Authority was served as a defendant in United States District Court for the Southern District of Texas. The plaintiffs are pipeline companies that own pipelines crossing the Houston Ship Channel at various points. The pipeline companies allege the cost of removal or relocation of their pipelines in order to widen and deepen the Houston Ship Channel should be borne by the Authority. The federal district court entered final judgment against the Authority concluding that the Authority and not the pipeline companies, is responsible for the cost of pipeline removal or relocation. The Federal District Court's judgment was nonmonetary. The Authority and the U.S. Army Corps of Engineers are appealing the district court judgment to the United States Court of Appeals for the Fifth Circuit. The Authority cannot predict the final outcome of the appeal.

The Authority is the plaintiff in a case against GB BioSciences, et.al., alleging that for almost 50 years the GB Biosciences' facility has manufactured pesticides and disposed of chemical wastes in areas owned, operated or controlled by them. The GB Biosciences' facility and its disposal areas are directly adjacent to a number of separate tracts of land owned by the Authority. The GB Biosciences' facility has contaminated these properties. The Authority's lawsuit seeks recovery of the Authority's investigative and legal fees and other costs associated with this matter, damages (including property and punitive damages), declaratory judgment, and to have GB BioSciences, et al ordered to abate, remove and remediate all contamination. Trial is set for June 2003.