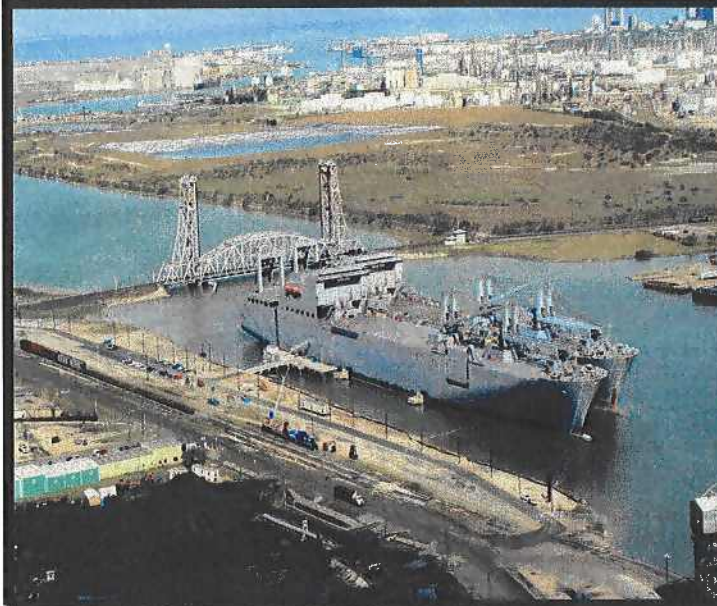


Port of Corpus Christi Authority of Nueces County, Texas



Comprehensive Annual Financial Report For The Year Ended December 31, 2006

Comprehensive Annual Financial Report

Port of Corpus Christi Authority of Nueces County, Texas

For the Year Ended December 31, 2006

Prepared by the Finance Department

Daniel R. Hodgkins
Chief Financial Officer

INTRODUCTORY SECTION



WINDMILLS



**PORT OF CORPUS CHRISTI AUTHORITY
OF NUECES COUNTY, TEXAS**

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December 31, 2006**

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PORT COMMISSIONERS

Ruben Bonilla, Jr., Chairman

Mr. Bonilla was appointed to the Port Commission by the City of Corpus Christi in 1998. He is an attorney and partner in the law firm of Bonilla & Chapa, P.C.

Bernard A. Paulson, Vice-Chairman

Mr. Paulson was appointed to the Port Commission by the City of Corpus Christi in 1997. He is retired.

L. Michael Carrell, Secretary

Mr. Carrell was appointed to the Port Commission by the City of Corpus Christi in 2002. He is President of Frost Bank

Yolanda G. Olivarez, Commissioner

Mrs. Olivarez was appointed to the Port Commission by Nueces County in 1997. She is a Senior Vice President with Wells Fargo Bank.

Robert J. Gonzalez Sr., Commissioner

Mr. Gonzalez was appointed to the Port Commission by Nueces County in 2000. He is an attorney and partner in the law firm of Gonzalez and Gonzalez L.L.P.

Judy Hawley, Commissioner

Mrs. Hawley was appointed to the Port Commission by San Patricio County in 2004. She is Texas Business Development Director for Advanced Acoustic Concepts.

Kenneth L. Berry, Commissioner

Mr. Berry was first appointed to the Port Commission by the City of Corpus Christi in 1999. He was later appointed to the Port Commission by Nueces County in 2005. He is President and Chief Executive Officer of The Berry Co.

EXECUTIVE STAFF

John P. LaRue, Executive Director
Frank C. Brogan, Director of Engineering Services
William J. Cotter, Director of Operations
Daniel R. Hodgkins, Chief Financial Officer
Michael Perez, Director of Business Development
Sandra Terrell-Davis, Director of Human Resources

PORT COMMISSION, PORT OF CORPUS CHRISTI AUTHORITY

Executive Director	John P. LaRue
Director of Human Resources	Sandra Terrell-Davis
Human Resources Generalist.....	Monica Euresti
Director of Business Development	Michael Perez
Manager of Business Development	Tom Moore
Manager of Industrial Development	J. Allen Speight
Community Relations Manager	Patricia Cardenas
Marketing Manager.....	John Valls
Director of Engineering Services	Frank C. Brogan
Deputy Director of Engineering Services	Greg Brubeck
Chief Engineer	David L. Michaelsen
Director of Operations.....	William J. Cotter
Deputy Director of Operations	Tony Alejandro
Manager of Foreign Trade Zone	Hilda B. Boyce
Manager of Risk Management.....	David Solis
Chief of Port Security	Luther Kim
Harbormaster.....	Jim Burns
Manager of Transportation	Fred Babin
Manager of Bulk Terminal.....	Joe Giannina
Manager of Cold Storage Facility.....	Paul Kaup
Manager of Dock Operations.....	Raymond Kadlecek
Maintenance Manager.....	David Throop
Chief Financial Officer.....	Daniel R. Hodgkins
Controller	Dennis J. DeVries
Chief Accountant	Audre A. Debler
Manager of Management Information Systems.....	Gustavo Espinosa
Manager of Legislative Affairs	Nelda Olivo



April 30, 2007

Port Commission
Port of Corpus Christi Authority of Nueces
County, Texas
Corpus Christi, Texas

State law requires that every navigation district or port authority publish at the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the year ended December 31, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Lovvorn & Kieschnick, LLP, Certified Public Accountants, have issued an unqualified (“clean”) opinion on the Port of Corpus Christi Authority of Nueces County, Texas (Authority)’s financial statements for the year ended December 31, 2006. The independent auditor’s report is located at the front of the financial section of this report.

Management’s discussion and analysis (MD&A) immediately follow the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A compliments this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The Authority is located along the southeastern coast of Texas on the Gulf of Mexico approximately 150 miles north of the Mexican border. The Authority maintains one of the deepest ports along the Gulf of Mexico coast with a channel depth of 45 feet. The Authority’s port facilities are part of the Port of Corpus Christi complex. The Port of Corpus Christi has been a deep draft port since 1926. The channel is approximately 30 miles long and links the City of Corpus Christi with the Gulf of Mexico.

The Authority (formerly the Nueces County Navigation District No.1) is a navigation district and political subdivision of the State of Texas, having boundaries co-extensive with those of Nueces and San Patricio Counties, Texas. The Authority operates under the provisions of Article XVI, Section 59, of the Texas Constitution and related laws of the State of Texas, particularly Sections 60 and 62 of the Texas Water Code, and all amendments thereto. The Authority being a navigation district and political subdivision of the State of Texas is a separate and distinct entity of Nueces and San Patricio Counties and operates independently with its own Port Commission as its governing body. The only relationship the Authority and Nueces County have is that in the event the Port Commission deems it necessary to issue tax-supported bonds, it must request the Commissioners Court to call an election. The Commissioners Court shall call the election, canvas the vote, and if the bond issue is approved, thereafter set the necessary tax rate to service the bonds.

A Port Commission composed of seven commissioners who serve without pay governs the Authority. Each commissioner serves a staggered term of three years with appointments made to the Commission each year. Three commissioners are appointed by the Corpus Christi City Council, the governing body of the City of Corpus Christi, three commissioners are appointed by the Nueces County Commissioners Court, the governing body of Nueces County, and one commissioner is appointed by the San Patricio County Commissioners Court, the governing body of San Patricio County. The executive staff, under the leadership of the executive director, manages the operations of the Authority and assists the Commission in

planning for the future. Port Commission efforts are directed toward encouraging industrial expansion, attracting new cargo, building and maintaining public terminals, setting operational policy and cooperating with the Federal Government as a local sponsor in maintaining and further improving vital navigation channels.

The Authority owns and operates public wharves, transit sheds, open storage facilities, freight handling facilities and equipment, warehouses, a bulk material handling terminal, a refrigerated warehouse, and a multi-purpose cruise terminal/conference center. The Authority also owns a grain elevator that is leased to Archer Daniels Midland (ADM), and cotton warehouses that are leased to Gulf Compress. In addition, the Authority leases land, buildings and improvements, and maintains areas for the placement of dredged materials.

The Port of Corpus Christi consists not only of the Authority's docks, but also includes privately owned docks. The Authority owns eight general cargo docks, eleven liquid bulk cargo docks, two bulk material docks, a container terminal, two bagging facilities, a shipside grain elevator, a refrigerated warehouse, cotton warehouses and a multi-purpose cruise terminal/conference center. All of these facilities are operated for hire on a first-come, first-serve basis, with the exception to the shipside grain elevator and cotton warehouses that are leased. Most of the privately owned docks at the Port of Corpus Christi are owned by, and operated exclusively for, the various refineries, chemical plants and other industries that line the Channel. Approximately thirty-two privately owned docks are located at the Port of Corpus Christi, and compete directly with the Authority's docks.

The Port Commission adopts an annual budget each year, on a basis consistent with accounting principles generally accepted in the United States of America for proprietary funds, as a prudent management tool. Monthly budget reports are prepared for management to maintain proper budgetary control, and are reviewed by the Port Commission on a quarterly basis.

LOCAL ECONOMY

The Authority continues to remain financially strong and a primary driver of the local economy. The Authority's sound fiscal management has allowed the Authority to remain financially stable. The Authority is currently ranked as the 6th largest port in the United States in terms of tonnage. The Authority has served the local economy for over eighty years, and is continually upgrading and expanding its' facilities to better serve South Texas industry and shippers. Local Port industries as well have made investments to upgrade and expand their facilities, to improve air and water quality, and improve process efficiencies, or supply utilities such as electricity and steam. Local refineries have made investments that permit them to provide clean burning gasoline during the ozone alert months, a volunteer program that has contributed to the local area's ability to maintain its "attainment" classification with environmental agencies.

The Authority has adopted a mission statement, which has become an integral part in the development of a strategic plan to guide the Authority into the year 2010. The mission statement is as follows: "It is the mission of the Port of Corpus Christi to serve as a regional economic development catalyst while protecting and enhancing its existing industrial base and simultaneously working to diversify its international maritime cargo business. In pursuit of this mission, the Port, which is a political subdivision of the State of Texas governed by appointees of Nueces County, the City of Corpus Christi and San Patricio County, shall be guided by the following basic principals: (1) The Port shall conduct its affairs in a positive, open and cooperative manner; (2) The Port shall operate in a fiscally responsible manner; (3) The Port shall be a positive and proactive force in the protection of the region's marine and water related resources; and (4) The Port shall be committed to serving its customers - present and future."

Economic development means attracting industrial and commercial activity, private capital and waterborne cargo shipments that will create employment opportunities, sustaining and upgrading existing jobs, introducing new basic dollars to the area and broadening the tax base that supports all public services. The 2003 Port Economic Impact findings reinforce the Port's mission statement: to be an economic catalyst for the region. Martin Associates of Lancaster, PA studied the economic impact of the Authority operations including the Ortiz Center and the gaming ship *Texas Treasure*. The last economic

impact study for the Authority was in 1994. Nine years later, the 2003 report shows significant increases. In 1994, the Authority created 30,927 jobs, generated \$66.4 million in state and local taxes, and provided \$1 billion in business revenue. Today, the Authority creates approximately 39,905 jobs with 11,859 direct jobs. The Authority generates 8,930 induced jobs that are the result of purchases by the direct employees. The remainder of total jobs is comprised of 19,116 indirect jobs supported by the local purchases by businesses supplying services or dependent upon the Authority. The 39,905 jobs provide \$2.2 billion in income (direct, induced, and indirect wages and salaries) for families throughout the Coastal Bend. Authority operations generate \$1.3 billion of revenue for businesses providing services to the Authority and port industries, Ortiz Center, and Texas Treasure. More than \$195.4 million was paid in state and local taxes due to activity created by the Authority. Over the nine-year period, Authority tonnage grew by 7 million tons. Increasing by 4.7 million tons over the last nine years, petroleum and petrochemicals continue to be the Authority's top commodity; however, the 2003 report indicates the Authority's diversification efforts are working. The Authority remains an economic force via its ability to provide the commercial shippers with first class channels, docks and facilities for handling their cargo, and by providing public facilities designed to attract more tourist dollars to the area while maintaining financial stability. Ultimately, our goal is to raise the standard of living and enhance the quality of life of everyone in the local surrounding region.

LONG-TERM FINANCIAL PLANNING

The Authority has two major projects that will require significant funding in the future. These projects will be funded from federal and state assistance, revenue bonds and the Authority's unrestricted net assets of \$20.1 million.

Joe Fulton International Trade Corridor

This corridor encompasses an 11.5-mile road and rail project that will significantly improve access to more than 2,000 acres of land along the North side of the channel for existing and future development. The corridor will make approximately 1,100 acres of land (which has no access available) for use as marine terminals or industrial sites. The corridor will connect two major highway components- US Highway 181 and Interstate Highway 37; thus, establishing efficient intermodal links between highway, marine, and rail transportation systems. The corridor will address environmental and safety concerns, and facilitate international trade. Most important, the corridor will generate future economic development opportunities for South Texas.

Construction began in 2004 and is scheduled for completion in 2008. At the end of 2006 this project was over 80% complete. Total project costs are estimated at \$56.3 million. Funding for this project will be provided through federal and state assistance, and cash reserves of the Authority. Funding to complete this project will be provided from \$7.3 million of federal and state assistance, and \$13.5 million of the Authority's unrestricted net assets over the remaining years of the project.

Channel Improvement Project

In 2003, the Authority completed the feasibility phase of the Channel Improvement Project and is currently awaiting authorization through the Water Resources Act (WRDA) to begin the project. The project will include deepening the Corpus Christi Ship Channel from 45 to 52 feet, adding barge shelves on both sides of the ship channel and extending the La Quinta Channel to serve the proposed La Quinta Trade Gateway project. Although the project is still pending WRDA authorization, the engineering and design phase is underway and costs are shared 25% from the Authority and 75% from federal funds. Cost estimates for this phase include engineering and design of the La Quinta extension, addition of barge shelves across Corpus Christi Bay, and construction of the ecosystem restoration features. The Corp of Engineers is utilizing General Investigation Federal Funds for the federal share of the project. Upon authorization of the project, the improvements will be constructed in seven contracts beginning in 2008 and ending in 2014. The initial contract will include the extension of the La Quinta Ship Channel and the construction of the barge shelves across Corpus Christi Bay. The six remaining contracts will be for various reaches of the Corpus Christi Ship Channel, beginning at the entrance in the Gulf of Mexico and progressing towards the end of the channel at the Viola Turning Basin. Total improvements will cost

approximately \$250 million. Funding for this project will come from federal assistance and revenue bonds, supported by a proposed tariff increase.

MAJOR INITIATIVES - 2006

Environmental Management System

The Corpus Christi Air Quality Group and the Pollution Prevention Partnership honored the Authority's Environmental Management System with an award in January 2006. The award recognized the Authority's environmental management program for managing diesel air emissions. In addition, on March 20, 2006, in Washington D.C., the Authority was presented with a Certificate of Appreciation by the American Association of Port Authorities and the Environmental Protection Agency for our efforts and participation in the 1st Ports EMS Assistance Project. In November 2006, the Authority hosted the Pollution Prevention Partnership AutoCheck in the port area to test vehicle emissions. The event was opened to the community. In total, 232 cars were screened and 15 were identified as "dirty". Most of the "dirty" vehicles qualified for free repairs and have since been repaired and re-screened.

Naval Station Ingleside Reverts to Authority

In 2005, Congress passed legislation that will return Naval Station Ingleside to the Authority at no additional cost. While the Authority held the reversionary rights to the land that was deeded to the Navy, the deed stipulated that the Navy would be paid the fair market value of the capital improvements it constructed on the land less the value of the local and State contributions if the base ever closed. This historic legislation spearheaded by Senator Hutchinson, Chairman of the Senate Appropriations Subcommittee on Military Construction and Veterans Affairs and Senator Cochran, Chairman of the Senate Appropriations committee will save the Authority several hundred million dollars that it otherwise would have had to pay for the capital improvements. The Authority created the Coastal Bend Redevelopment Planning Committee and tasked it to commence work on identifying the regional economic impact of the closure of the base on the Coastal Bend, conducting extensive outreach with the citizens of the Coastal Bend in order to solicit their ideas for what the base could become after the Navy leaves, and developing a reuse/redevelopment plan to offset the projected economic loss of over 7,000 jobs.

Port of Corpus Christi Cold Storage

In 2006, the cold storage facility continued the Authority's aggressive sales and marketing effort with positive results. The Authority continued a second season with Ozark Mountain Poultry in Rogers, Arkansas, and Frontera Produce in Edinburg, Texas with substantial shipments of poultry, cantaloupes and honeydew melons. The poultry cargo is destined for Russia requiring certification from the country as an expert cold store. The produce was imported from Guatemala through the cold store to be distributed to retailers in Texas and the Mid-West

Military Cargo and Layberth

The Authority continues to operate as a major Tier-1 Military Strategic Seaport. Since the beginning of Operation Iraqi Freedom in 2003, over 110 ships have called at the port to load or discharge of military equipment in support of the global war on terrorism. The Authority has been one of the top four U.S. public seaports handling military ships. In 2006, 12 ships moved 146 helicopters and over 44 thousand tons of cargo through the port. The Authority completed two major construction projects in 2006 to help facilitate military movements through the port. Phase I of a \$5.2 million military rail project funded by the State of Texas was completed in May 2006 and dedicated by Governor Rick Perry. A new 2-ship military layberth facility was completed at the Bulk Terminal in April and became the homeport for the USNS Fisher and the USNS Pililaa. The USNS Benavidez also continues to be layberthed at the port at Cargo Docks 14-15. With the departure of the U.S. Army's 1395th Transportation Terminal Brigade in October, the port is now used by the Army on a quarterly basis under the direction of the 842d Transportation Battalion from Beaumont Texas. Since that time, 4 additional military ships have called at the port. To support this new arrangement, in September, the Authority entered into a long-term lease agreement with the Army Corps of Engineers for 2,500 square feet of office space in the Southside General Cargo Terminal.

