

GALVESTON WHARVES PENSION PLAN

**ANNUAL FINANCIAL REPORT
AND SUPPLEMENTAL SCHEDULES**

**Year Ended December 31, 2013
with Report of Independent Auditors**

GALVESTON WHARVES PENSION PLAN

ANNUAL FINANCIAL REPORT AND SUPPLEMENTAL SCHEDULES

Year Ended December 31, 2013

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REPORT OF INDEPENDENT AUDITORS

To the Retirement Committee of the
Galveston Wharves Pension Plan
Galveston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Galveston Wharves Pension Plan (the “Plan”), which comprise the statement of net position as of December 31, 2013, and the related statement of changes in net position for the year 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.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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.

To the Retirement Committee of the
Galveston Wharves Pension Plan

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Galveston Wharves Pension Plan, as of December 31, 2013, and changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary pension information on pages 3 and 15 be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas
March 31, 2014

GALVESTON WHARVES PENSION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As sponsor of the Galveston Wharves Pension Plan (the "Plan"), we offer readers of the Plan financial statements this narrative overview and analysis of the financial activities of the Plan for the year ended December 31, 2013.

Financial Highlights

The plan net position of the Plan, at December 31, 2013, was \$11.6 million. This net position is restricted for the payment of future employee retirement benefits.

The Plan's net position increased by \$1,696,956 for the year ended December 31, 2013.

Net investment income on the Plan's assets was \$1,884,706 for the year ended December 31, 2013.

Contributions to the Plan are made solely through contributions from the sponsor. These contributions totaled \$540,004 for the year ended December 31, 2013.

Benefit payments are the primary expense of the Plan. Such payments were \$710,480 for the year ended December 31, 2013. Other expenses of the Plan include administrative expenses, which totaled \$17,274 for the year ended December 31, 2013.

GALVESTON WHARVES PENSION PLAN

STATEMENT OF PLAN NET POSITION

December 31, 2013

Assets

Cash equivalents	\$ 1,137,649
Investments:	
Equity Mutual Funds	2,554,441
Corporate Bonds	788,923
Municipal Bonds	544,207
Common Stock	6,273,143
Government and Agencies	203,342
Total Investments	<u>10,364,056</u>
Prepaid benefits	<u>50,512</u>
Total assets	<u>11,552,217</u>
Net position restricted for pension benefits	<u><u>\$ 11,552,217</u></u>

Note: A schedule of funding progress is presented in the Required
Supplementary Information.

See notes to financial statements.

GALVESTON WHARVES PENSION PLAN
STATEMENT OF CHANGES IN PLAN NET POSITION

For the Year ended December 31, 2013

Additions

Contributions:

Employer	\$	540,004
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Investment income:

Net increase in fair value of investments		1,681,739
Dividends and interest		257,289
Total investment earnings		1,939,028
Less: Investment expense		(54,322)
Net investment earnings		1,884,706
Total Additions		2,424,710

Deductions

Benefits paid to members and beneficiaries		710,480
Administrative expenses		17,274
Total Deductions		727,754

Change in net position		1,696,956
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Net position - beginning of year		9,855,261
Net position - end of year	\$	11,552,217

See notes to financial statements.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

A. Description of the Plan

The following description of the Galveston Wharves Pension Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

The Galveston Wharves Pension Plan (the "Plan") is a single-employer defined benefit pension plan created by City of Galveston, Texas, ordinance to provide retirement and incidental benefits for employees of the Board of Trustees of the Galveston Wharves (the "Wharves"). The Plan was established January 1, 1965, restated January 1, 2008, and most recently amended effective January 1, 2013. On January 10, 2010, the plan was amended to cease further accrual of benefits under the Plan for existing employees electing to participate in the Galveston Wharves 2010 Plan and for all Wharves employees hired after January 1, 2010. The Plan has been designed as a "governmental plan" by the U.S. Department of Labor and, thus, is not subject to the provisions of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA").

Plan Administration

The Plan is administered by the Wharves. Frost National Bank is the Trustee for the Plan.

Retirement Benefits

Traditional Pension Benefits

Normal Retirement

Plan participants are eligible for normal retirement upon attainment of age 65 and the fifth anniversary of the date that he or she entered the Plan as a participant. The normal retirement benefit under the Plan equals 1.5% of average monthly compensation multiplied by a participant's years of benefit service at retirement or earlier termination of employment. If a participant is married for at least one year at the time of his or her death, the surviving spouse will be paid 66 ²/₃% of the amount the participant was receiving at the time of his or her death. If the spouse is more than 10 years younger than the participant, the traditional pension benefit otherwise payable will be reduced on an actuarially equivalent basis to reflect that the spouse is exactly 10 years younger than the participant.

Death benefit

If a participant, who has not had a termination of employment, dies prior to commencement of benefits after achieving five years of vesting service, his or her surviving spouse will be entitled to receive 66 ²/₃% of the participant's accrued benefit determined under normal retirement, considering the employee's average monthly compensation and years of benefit service as of his or her date of death. If the spouse is more than 10 years younger than the participant, the traditional pension benefit otherwise payable will be reduced on an actuarially equivalent basis to reflect that the spouse is exactly 10 years younger than the participant. The last payment will be made as of the first day of the month preceding the spouse's date of death or remarriage, if earlier.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Retirement Benefits - continued

Late retirement

If a participant elects to work beyond normal retirement age, the accrued benefit the participant is entitled to receive will be determined as of normal retirement age and will be recomputed on each annual anniversary thereof.

Early retirement

Early retirement is permitted on the first day of any month coinciding with or following the date as of which the participant completes at least 10 one-year periods of service and the sum of the participant's age and service equals 70. Upon reaching early retirement age prior to termination of employment, a participant may retire and elect to receive at any time up to the normal retirement date an amount equal to his or her accrued benefit payable under normal retirement but based only on average monthly compensation and years of benefit service as of his or her early retirement date, reduced in accordance with the following table (interpolated between whole ages to completed months):

<u>Attained Age</u>	<u>Percent of Benefits Paid</u>
65	100%
64	95%
63	90%
62	85%
61	80%
60	75%
59	70%
58	65%
57	60%
56	55%
55	50%

Disability

A participant who suffers a disability prior to termination of employment and who has completed ten or more years of vesting service will be entitled to receive a monthly amount which will be computed in the same manner as his or her normal retirement benefit considering his or her average monthly compensation and years of benefit service as of the date of his or her disability. Such benefit shall commence at the time the participant is eligible or would have been eligible (if the participant was a full-time employee) for benefits under the employer's long-term disability plan and has met the definition of disability as defined in the Plan document.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Retirement Benefits - continued

Termination

A terminated participant will be entitled to the vested portion of his or her accrued benefit, calculated under normal retirement, except that his or her benefit will be determined as of his or her termination of employment and will be payable to such participant at normal retirement date. If eligible, a participant may elect to have his or her vested accrued benefit commence at his or her early retirement date, in which event, it will be reduced to reflect such early commencement. A participant is 100% vested after five years of vesting service.

Cash Balance Pension Benefits

Prior to October 1, 2005, a cash balance account was established for each Participant. The cash balance account consisted of the accumulation of the contribution credits and interest credits. Contribution credits for a particular year equaled six percent of the Participant's compensation during the Plan year. Contribution credits were credited as of the end of each Plan year, except that in the case of a participant who terminated employment before the last day of the Plan year, the contribution credits were credited as of the date of such termination of employment. The interest credit was based on the interest rate used to value lump sum payments. However for Plan years beginning prior to January 1, 2002, the interest rate credited for each year a Participant maintained a cash balance was 7%. For Plan years beginning on or after January 1, 2002, the interest crediting rate applied to the cash balance at the beginning of each year in the past was based on the annual interest rate on five-year treasury securities (with constant maturities) as specified by the commissioner of the Internal Revenue Service for the first calendar month preceding the first day of the Plan year. However, in no event was this rate in any year to be greater than 7%. The Plan was amended effective September 30, 2005, to cease benefit accruals under the cash balance feature. Contribution credits credited on or before September 30, 2005, will be intact until Participants make a withdrawal election. No further contribution credits will be credited to a participant's cash balance account on or after September 30, 2005.

An employee who is eligible for normal or late retirement will receive a monthly amount equal to the actuarial equivalent of the balance of the Participant's cash balance account as of the end of the month prior to the annuity starting date. The cash balance payable upon death will be determined as a single lump sum amount equal to the Participant's cash balance account as of the last day of the month coinciding with or preceding his or her date of death. However, at the option of the Participant's beneficiary, such amount may be paid in the form of an actuarially equivalent benefit.

The cash balance payable upon termination of employment will be payable to a Participant who terminated prior to his normal retirement age and will be a monthly life annuity, equal to the actuarial equivalent of the balance of the Participant's cash balance account as of the end of the month preceding his or her annuity starting date (or alternatively, the actuarial equivalent of the annuity that could be provided at normal retirement age based upon an accumulation of the cash balance at the interest rate used to determine lump sum benefits) but no less than the Participant's cash balance account.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Retirement Benefits - continued

Special Benefit Enhancements

Special early retirement window benefits have been offered several times in the past, the most recent of which was effective November 1, 1995. Employees who were at least age 60 with 10 years of service and who elected to retire were provided with enhanced benefits equal to their Normal Retirement assuming they stayed in service until their Normal Retirement Date and their compensation remained until such date. A special minimum enhancement of 10% was provided.

In addition, effective January 1, 2007, an ad-hoc increase in retiree benefits was provided to each retiree whose pension commenced prior to January 1, 2006. The increase was equal to a percentage of the monthly benefit payable at January 1, 2006, based on benefit commencement year, as follows:

Benefit Commencement Year	Percentage Increase
Before 1999	20.80%
1999	18.95%
2000	16.38%
2001	12.99%
2002	9.86%
2003	8.15%
2004	5.74%
2005	3.00%

Participation Summary Data

Below is a summary of the participant data for the Plan as of January 1, 2013, the date of the Plan's last actuarial valuation:

	Traditional Pension	Cash Balance Pension
Retirees and beneficiaries currently receiving payments	52	3
Terminated vested participants	61	35
Active employees	68	44
Total Participants	181	82

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses for Plan administration are paid by the Plan from investment earnings.

Use of Estimates

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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash and Investments

Cash and Equivalents

The Plan considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of money market funds. Cash balances were covered by federal depository insurance or by collateral held by the Plan's agent in the Plan's name.

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Other investments not having an established market are recorded at estimated fair value. The Plan's investments are held by a bank administered trust fund.

The Plan's investment strategy is to invest in equity and fixed income securities. Statutes of the State of Texas authorize the Plan to invest surplus funds in a manner provided by the Chapter 802, Subchapter C.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. At December 31, 2013, the Plan had no investments that were subject to custodial credit risk.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

C. Cash and Investments - continued

Concentration of Credit Risk

The allocation of assets among various asset classes is set by the board in the investment policy. As of December 31, 2013, the Plan's assets were allocated in the following manner:

Plan Asset	Fair Value	Percentage of Portfolio
Equity Mutual Funds	\$ 2,554,441	22%
Municipal Bonds	544,207	5%
Corporate Bonds	788,923	7%
Common Stock	6,273,143	55%
Money Market Mutual Fund	1,137,649	10%
Government & Agencies	203,342	1%
	<u>\$ 11,501,705</u>	<u>100%</u>

Interest Rate Risk

The Plan's investment policy does not address interest rate risk beyond the applicable investments above as defined by state statutes and provisions. Information about the exposure of the Plan's debt-type investments to this risk, using the segmented time distribution model as follows:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Municipal Bonds	\$ 544,207	\$	\$ 544,207	\$	\$
Corporate Bonds	788,923		460,544	328,379	
Government Agencies	203,342			203,342	
	<u>\$ 1,536,472</u>	<u>\$</u>	<u>\$ 1,004,751</u>	<u>\$ 531,721</u>	<u>\$</u>

Credit Risk

Generally, credit risk is the risk that an issuer of a debt-type instrument will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally-recognized rating organization. The Plan's debt investment's ratings at December 31, 2013, are presented below:

Rated Debt Investments	Fair Value	Quality Ratings							
		Aaa	Aa1	Aa3	A1	A2	A3	AA-	Baa2
Municipal Bonds	\$ 544,207	\$ 110,310	\$ 212,537	\$ 113,322	\$	\$ 108,038	\$		\$
Corporate Bonds	788,923			114,830	226,845		220,431	108,580	118,237
Government Agencies	203,342	203,342							
	<u>\$ 1,536,472</u>	<u>\$ 313,652</u>	<u>\$ 212,537</u>	<u>\$ 228,152</u>	<u>\$ 226,845</u>	<u>\$ 108,038</u>	<u>\$ 220,431</u>	<u>\$ 108,580</u>	<u>\$ 118,237</u>

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

D. Funding Policy

The Wharves normally contribute an amount equal to the amount recommended by the actuary including the amount needed to pay the normal cost for the year and interest on the unfunded actuarial accrued liability. The total contribution for the year was \$540,004.

The funded status of the Plan as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
1/01/2013	\$ 8,982,457	\$ 13,404,790	\$ 4,422,333	67.0%	\$ 3,921,729	112.8%

The actuarial accrued liability is determined using an entry age normal actuarial cost method. The actuarial value of Plan assets is equal to the market value. The initial amortization period for the unfunded accrued liability was 30 years commencing January 1, 2010. For subsequent years, the unfunded accrued liability as of each valuation date is amortized over the remaining period. Actuarial assumptions include (a) 7.5% investment rate of return, (b) projected salary increases of 4.6% per year, and (c) inflation increases of 3.5%.

The required schedule of funding progress immediately following the notes to the financial statements presents additional, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Tax Status

The Plan obtained its latest determination letter dated January 10, 2003, as applicable for the amendment executed on February 25, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code Section 401(a) and that, therefore, the Plan is tax-exempt. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

F. Plan Termination

Although the Wharves has not expressed any intent to terminate the Plan, upon complete or partial termination of the Plan, each affected Member's accrued benefit, based on his years of Service and Average Monthly Compensation prior to the date of such termination, shall become fully vested and non-forfeitable to the extent then funded.

G. Commitments and Contingencies

As described in Note A, eligible participants are entitled to a cash balance benefit upon termination. As of December 31, 2013, aggregate contributions plus interest were approximately \$ 0.96 million.

GALVESTON WHARVES PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (continued)

H. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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GALVESTON WHARVES PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION (unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
1/01/2008	\$ 10,042,804	\$ 10,624,989	\$ 582,185	94.5%	\$ 4,096,280	14.2%
1/01/2009	6,763,164	11,284,681	4,521,517	59.9%	4,146,487	109.0%
1/01/2010	8,261,569	11,915,880	3,654,311	69.3%	3,990,184	91.6%
1/01/2011	9,312,959	12,824,151	3,511,192	72.6%	3,889,073	90.3%
1/01/2012	8,982,457	13,404,790	4,422,333	67.0%	3,921,729	112.8%
1/01/2013	9,807,649	13,746,070	3,938,421	71.3%	3,627,781	108.6%

Schedule of Employer Contributions

Year Ended December 31	Actuarial Recommended Contributions	Contributions Made	Percentage Contribution
2008	\$ 319,782	\$ 319,782	100%
2009	541,408	541,408	100%
2010	595,057	595,057	100%
2011	593,171	593,171	100%
2012	669,776	669,776	100%
2013	540,004	540,004	100%

Actuarial Data

Actuarial valuation date:	January 1, 2013
Actuarial cost method:	Entry age normal
Asset valuation method:	Market value
Actuarial assumptions:	
Interest credit rate for cash balance:	5% *
Investment return	7.5%
Earnings progression	4.6%
Inflation rate	3.5%
Amortization method:	Level dollar - closed group
Amortization period:	30 years **

* Effective September 30, 2005, the Plan was amended to cease future cash balance contribution credits.

** The initial amortization period for the unfunded accrued liability was 30 years commencing January 1, 2010.

For subsequent years, the unfunded accrued liability as of each valuation date is amortized over the remaining period.