

# Galveston Wharves Pension Plan

Financial Statements  
December 31, 2019

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**Independent Auditor's Report**

Retirement Committee  
Galveston Wharves Pension Plan

**Report on the Financial Statements**

We have audited the accompanying statement of fiduciary net position of the Galveston Wharves Pension Plan (the Plan) as of December 31, 2019, the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2019, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 1, the financial statements present only the financial position of the Plan and do not purport to, and do not, present the financial position of the Board of Trustees of the Galveston Wharves as of December 31, 2019, and the changes in financial position for the year then ended.

**Other Matters—Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of contributions and schedule of investment returns, as listed in the table of contents, 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.

*RSM US LLP*

San Antonio, Texas  
May 26, 2020

## **Galveston Wharves Pension Plan**

### **Management's Discussion and Analysis**

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This section of the financial statements of the Galveston Wharves Pension Plan (the Plan) offers a narrative overview and analysis of the financial activities as of and for the year ended December 31, 2019. The reader of this statement should take time to read and evaluate all sections of this report, including the notes and other required supplementary information that are provided in addition to this management's discussion and analysis (MD&A).

#### **Financial Highlights and Analysis**

- Net position restricted for pensions is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. Net position restricted for pensions increased by approximately \$2.3 million, or 18.63% in 2019. Changes primarily correlate with an increase in income from investments.
- Employer contributions totaled \$575,000 in 2019 and 2018. Management determined that the employer contributions should remain at \$575,000; thus, contributing in excess of the actuary's recommendations.
- The amount of benefits paid to participants increased by \$33,052, or 2.77% during 2019.
- The Plan's rate of return on investments for the year ended December 31, 2019, was 25.07%, which was greater than the return of (4.21)% for 2018. The actuarial assumed rate of return is 7.25%.

#### **Overview of the Financial Statements**

This MD&A is intended to serve as an introduction to the Plan's financial statements. The financial statements are comprised of: (1) financial statements, (2) notes to financial statements and (3) required supplementary information.

The statement of fiduciary net position reports the Plan's assets and liabilities, with the difference between the two reported as net position. This is a measure of financial position, which can indicate financial condition improvement or deterioration from year to year.

The statement of changes in fiduciary net position presents information showing how the Plan's net position changed during the fiscal year. It reflects contributions by the employer and investment income, along with deductions for benefits paid to participants and administrative expenses.

The notes to financial statements provide additional information necessary to fully understand the data provided in the financial statements.

The required supplementary information includes the MD&A, schedule of changes in net pension liability and related ratios, schedule of contributions and schedule of investment returns and is required by the Governmental Accounting Standards Board.

## Galveston Wharves Pension Plan

### Management's Discussion and Analysis

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#### Condensed Financial Information

	2019	2018	Percentage Change
Assets:			
Cash equivalents	\$ 613,100	\$ 147,973	314.33%
Prepaid benefits	99,831	89,058	12.10%
Investments	14,116,736	12,263,654	15.11%
Total assets and net position	<u>\$ 14,829,667</u>	<u>\$ 12,500,685</u>	18.63%
Additions:			
Employer contributions	\$ 575,000	\$ 575,000	0.00%
Net investment income (loss)	3,023,018	(560,524)	639.32%
Total additions	<u>3,598,018</u>	<u>14,476</u>	24755.06%
Deductions:			
Benefits paid to participants	1,226,101	1,193,049	2.77%
Administrative expenses	42,935	64,481	(33.41%)
Total deductions	<u>1,269,036</u>	<u>1,257,530</u>	0.91%
Net increase (decrease) in net position	<u>\$ 2,328,982</u>	<u>\$ (1,243,054)</u>	287.36%

#### Analysis of Changes in Condensed Financial Information

Investments increased by \$1,853,082, or 15.11%, from 2018 to 2019. This was primarily due to an increase in the fair value of investments.

Net investment income increased by \$3,583,542, or 639.32%, from 2018 to 2019. This increase was primarily due to favorable market conditions in 2019 compared to 2018.

Employer contributions stayed the same, from 2018 to 2019. The Plan's actuary prepares an annual valuation. As part of this valuation, the Plan actuary calculates the annual required contribution (ARC) and the Plan sponsor contributes at minimum in accordance with this calculation. In both 2018 and 2019, the employer contribution was in excess of the minimum required contribution.

#### Current Environment

The Plan had 152 participants as of December 31, 2019 and 2018.

#### Future Outlook and Currently Known Facts

The Plan's actuary has developed a recommended contribution for year 2020 of approximately \$515,000; however, management expects to contribute \$575,000 to the Plan. There are no other currently known facts, decisions or conditions known to management.

## **Galveston Wharves Pension Plan**

### **Management's Discussion and Analysis**

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#### **Request for Information**

This financial report is designed to provide the Plan's patrons and other interested parties with a general overview of the finances to demonstrate the Plan's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Port of Galveston, 123 Rosenberg, 8<sup>th</sup> floor, Galveston, Texas 77550.

## Galveston Wharves Pension Plan

### Statement of Fiduciary Net Position December 31, 2019

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Assets:	
Cash equivalents	<u>\$ 613,100</u>
Prepaid benefits	<u>99,831</u>
Investments:	
Common stock	6,314,852
Mutual funds	4,905,463
U.S. government agency securities	149,732
Municipal bonds	104,140
Corporate bonds	2,431,128
Foreign bonds	211,421
<b>Total investments</b>	<u>14,116,736</u>
<b>Total assets</b>	<u>14,829,667</u>
<b>Net position restricted for pensions</b>	<u><u>\$ 14,829,667</u></u>

The accompanying notes are an integral part of these statements.



## Galveston Wharves Pension Plan

### Statement of Changes in Fiduciary Net Position Year Ended December 31, 2019

Additions:	
Employer contributions	<u>\$ 575,000</u>
Investment income (loss):	
Net appreciation in fair value of investments	2,721,810
Interest and dividends	364,904
Less investment expense	<u>(63,696)</u>
<b>Net investment income</b>	<u>3,023,018</u>
<b>Total additions</b>	<u>3,598,018</u>
Deductions:	
Benefits paid to participants	1,226,101
Administrative expenses	<u>42,935</u>
<b>Total deductions</b>	<u>1,269,036</u>
<b>Net increase in net position</b>	2,328,982
Net position restricted for pensions at beginning of year	<u>12,500,685</u>
Net position restricted for pensions at end of year	<u><u>\$ 14,829,667</u></u>

The accompanying notes are an integral part of these statements.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 1. Description of Plan

The following brief description of the Galveston Wharves Pension Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

**Reporting entity:** The Plan is sponsored by the Board of Trustees of the Galveston Wharves (the Port). The Plan does not purport and does not present the financial position or changes in financial position of the Port as of any time or for any period.

**Plan description:** The Plan is a single-employer defined benefit pension plan created by the City of Galveston, Texas, ordinance to provide retirement and incidental benefits to qualified retirees of the Port. The Plan has two pension benefits which consist of the traditional pension and the cash balance pension. 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 Port employees hired after January 1, 2010. Effective January 1, 2020, the plan was amended to provide an ad-hoc benefit increase to all participants whose benefits commenced prior to January 1, 2019. The Port's seven member Board of Trustees (the Trustees) govern the Plan, under which benefit and contribution terms are established or amended.

Management of the Plan is vested in the Port's Trustees and advised by the Pension Plan Committee (the Committee), whose members are appointed by the Port's Trustees. The Committee has overall responsibility for the operation and administration of the Plan. The Committee determines the appropriateness of the Plan's investment offerings and monitors investment performance. The assets of the Plan are held in a trust by a trustee. The trustee on behalf of the Plan carries out an investment policy established by the Committee, consistent with the purposes of the Plan and the requirements of applicable laws and regulations.

**Plan membership:** At December 31, 2019, the Plan's membership consisted of the following:

	Traditional Pension	Cash Balance Pension
Inactive Plan members or beneficiaries currently receiving benefits	65	-
Inactive Plan members entitled to, but not yet receiving benefits	58	9
Active Plan members	29	11
	<u>152</u>	<u>20</u>

**Vesting:** Participants become 100% vested upon completion of five years of service. Vesting service includes periods prior to the effective date of the Plan computed as if the Plan had been in effect. The Plan also allows for participants to recognize prior service (limited to five years) with a governmental entity or other entity related to the provision of public transportation services. For vesting purposes, service shall be credited based on elapsed time.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 1. Description of Plan (Continued)

**Pension benefits:** Plan participants are eligible for their Plan benefits after terminating employment with vested rights. The 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 monthly 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  $66\frac{2}{3}\%$  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 benefits:** If a participant who has not had a termination of employment and dies prior to commencement of benefits after achieving five years of vesting service, his or her surviving spouse will be entitled to receive  $66\frac{2}{3}\%$  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 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.

**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):

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

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 1. Description of Plan (Continued)

**Disability benefits:** A participant who suffers a disability prior to termination of employment and who has completed 10 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.

**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 6% 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 (IRS) 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 or her 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

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#### Note 1. Description of Plan (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.

On 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:

Benefits 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%

**Contributions:** The Port will pay contributions for a Plan year, as determined by the actuary, to fund plan benefits and at such times as the Port may decide. Employees do not make contributions under this Plan. All contributions under the Plan shall be paid or transferred into the trust to be held, managed, invested and distributed in accordance with the provisions of the Plan. The Port reserves the right to reduce, suspend or discontinue contributions to the Plan. Currently, the Port is making semimonthly contributions until payments equal to the prior-year funding requirement is met. In the event the funding requirement exceeds semimonthly contributions, an additional contribution is normally scheduled to fund the annual required contribution. Employer contributions totaled \$575,000 as of December 31, 2019.

**Actuarial valuation:** The Plan has an actuarial valuation performed annually for financial reporting purposes in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*. The most recent actuarial valuation was performed as of December 31, 2019.

#### Note 2. Summary of Significant Accounting Policies

**Basis of accounting:** The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for local governmental entities, as prescribed by GASB. The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized as revenues in the period in which employee services are performed. Benefits 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.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Cash equivalents:** For purposes of the statement of fiduciary net position, short-term, highly liquid investments are considered cash equivalents. Highly liquid investments are defined as investments with a maturity date of three months or less at time of purchase.

**Investment valuation and income recognition:** Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of common stocks are based on quoted market prices. The fair value of United States (U.S.) government securities, municipal, corporate and foreign bonds are based on quotes from broker-dealers or are valued using interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and considering the counterparty rating. Shares of registered investment companies (mutual funds) are reported at fair value based on the quoted price per share of the fund.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as held during the year.

**Use of estimates:** The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and changes therein; disclosure of contingent assets and liabilities and the actuarial present value of accumulated plan benefits at the date of the financial statements and changes therein. Actual results could differ from those estimates.

**Risk and uncertainties:** The Plan may invest in various types of investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

Plan employer contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**Payment of benefits:** Benefit payments are recognized as expenses when due and payable in accordance with the terms of the Plan.

**Administrative expenses:** All administrative expenses, unless paid by the Port at its discretion, are paid by the Plan. Certain expenses incurred in connection with the general administration of the Plan that are paid by the Plan are recorded as deductions in the accompanying statement of changes in fiduciary net position. In addition, certain investment-related expenses are included in net appreciation (depreciation) in fair value of investments presented in the accompanying statement of changes in fiduciary net position.

**Subsequent events:** The Plan has evaluated subsequent events through May 26, 2020, the date the financial statements were available to be issued (see Note 8).

## Galveston Wharves Pension Plan

### Notes to Financial Statements

#### Note 3. Investments

Investments at fair value as of December 31, 2019, are as follows:

Asset Class	Fair Value	Percentage of Portfolio
Equities:		
Common stock	\$ 6,314,852	45%
Mutual funds	4,905,463	35%
Fixed income:		
U.S. government agency securities	149,732	
Municipal bonds	104,140	
Corporate bonds	2,431,128	
Foreign bonds	211,421	
Total fixed income	2,896,421	20%
Total investments at fair value	\$ 14,116,736	99%

**Investment policy:** The Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trustees to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. There were no significant modifications to the investment policy during 2019. The following is the Trustees adopted asset allocation policy as of December 31, 2019:

Asset Class	Target Allocation
Fixed income equities securities	10.0%
Common stock	60.0%
Domestic equities—large cap	5.0%
Domestic equities—mid cap	3.0%
Domestic equities—small cap	5.0%
International equities	10.0%
Natural resources	1.0%
Emerging markets	1.0%
Cash	5.0%
Total	100.0%

The Plan uses various methods to measure the fair value of investments on a recurring basis. GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are as follows.

**Level 1:** Inputs are unadjusted quoted prices in active markets for identical assets.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 3. Investments (Continued)

**Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

**Level 3:** Unobservable inputs for the asset, to the extent relevant observable inputs are not available, represent the Plan's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The hierarchy of investments as of December 31, 2019, is as follows:

Investment Type	Fair Value Hierarchy				Fair Value
	Level 1	Level 2	Level 3		
Common stock	\$ 6,314,852	\$ -	\$ -	\$	6,314,852
Mutual funds	4,905,463	-	-		4,905,463
U.S. government agency securities	-	149,732	-		149,732
Municipal bonds	-	104,140	-		104,140
Corporate bonds	-	2,431,128	-		2,431,128
Foreign bonds	-	211,421	-		211,421
	<u>\$ 11,220,315</u>	<u>\$ 2,896,421</u>	<u>\$ -</u>	<u>\$</u>	<u>14,116,736</u>

**Rate of return:** For the year ended December 31, 2019, the annual money-weighted rate of return for the Plan's investments, net of pension plan investment expense, was 25.07%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Custodial credit risk:** The Plan's investment policy does not specifically address custodial credit risk. Custodial credit risk is the risk that in the event of bank or investment failure, the Plan's deposits or investments may not be returned. At December 31, 2019, the Plan had no investments that were subject to custodial credit risk.



## Galveston Wharves Pension Plan

### Notes to Financial Statements

#### Note 3. Investments (Continued)

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan does not have a formal policy regarding interest rate risk. The Plan monitors credit exposure using segmented time distribution. The following is a listing of the Plan's fixed income investments and related maturity schedule (in years) as of December 31, 2019. The maturity schedule is based on the average maturity of the fund, as noted by the fund manager.

	Less Than			
	1 Year	1-5 Years	6-10 Years	Fair Value
U.S. government agency securities	\$ -	\$ -	\$ 149,732	\$ 149,732
Municipal bonds	-	-	104,140	104,140
Corporate bonds	100,431	770,207	1,560,490	2,431,128
Foreign bonds	-	107,112	104,309	211,421
	<u>\$ 100,431</u>	<u>\$ 877,319</u>	<u>\$ 1,918,671</u>	<u>\$ 2,896,421</u>

**Credit risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's investment policy does not specifically address the quality rating of the investments. The Committee is responsible for determining the risks and commensurate returns of its portfolio. The Plan's fixed income investment's ratings at December 31, 2019, are presented below:

Moody's Quality Ratings	U.S. Government Agency Securities	Municipal Bonds	Corporate Bonds	Foreign Bonds	Fair Total
Aaa	\$ 149,732	\$ -	\$ -	\$ -	\$ 149,732
Aa1	-	104,140	-	107,112	211,252
Aa2	-	-	101,321	-	101,321
Aa3	-	-	343,486	-	343,486
A1	-	-	357,499	-	357,499
A2	-	-	665,915	-	665,915
A3	-	-	639,556	104,309	743,865
Baa1	-	-	220,110	-	220,110
Baa2	-	-	103,241	-	103,241
	<u>\$ 149,732</u>	<u>\$ 104,140</u>	<u>\$ 2,431,128</u>	<u>\$ 211,421</u>	<u>\$ 2,896,421</u>

**Concentration risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investments in a single issuer. The Plan's investment policy does not specifically address concentration risk. As of December 31, 2019, the Plan had no concentrations of investments with individual organizations equaling or exceeding 5% of the Plan's fiduciary net position.

**Foreign currency risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan's investment policy does not specifically address foreign currency risk. The Plan's diversified selection of equity and fixed income securities encourages the investment advisors to employ diversification, asset allocation and quality strategies to minimize risks. Each participant is responsible for determining the risks and commensurate returns of his or her portfolio. The Plan's investment in international equities does not require disclosure of the individual investment within the fund, as such fund balances are denominated in U.S. dollars.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

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#### Note 4. Net Pension Liability of the Port

The net pension liability is measured as the total pension liability, less the amount of the Plan's fiduciary net position as of December 31, 2019. In actuarial terms, this will be the accrued liability less the Plan's net position. The components of the Port's net pension liability as of December 31, 2019, are as follows:

Total pension liability	\$ 16,440,887
Plan fiduciary net position	14,829,667
Net pension liability	<u>\$ 1,611,220</u>

Plan fiduciary net position as a percentage of the total pension liability 90%

The schedule of changes in net pension liability and related ratios presents multi-year trend information, beginning with 2014, to illustrate changes in the plan fiduciary net position over time. In addition to the above, additional information is presented in the required supplementary information.

**Actuarial assumptions:** The total pension liability was determined by an actuarial valuation as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions used are as follows:

Actuarial cost method	Individual entry age cost method
Asset method	Market value of assets
Interest rates	Discount rate 7.25%
	Expected long term rate of return 7.25%, net of investment expenses, including inflation
Inflation rate	2.75%
Annual pay increases	3.00%
Ad-hoc cost of living increases	None
Mortality rates	Pri-2012 Mortality Tables projected from 2012 with the Mortality Improvement Scale MP-2019
Retirement rates	The latter of attainment of age 65 or the completion of five years of vesting service
Experience study	The most recent experience study was completed in 2017 to review the interest rate and mortality assumption. There has not been a recent experience study to review the demographic assumptions. As the Plan is not large enough to have credible experience, demographic assumptions are determined based on the results of broad population trends.

The following changes in actuarial assumptions occurred as of December 31, 2019:

- The mortality table has been updated from the RP-2014 Mortality Table projected from 2006 with the Social Security Generational Improvement Scale based on the 2018 Trustees Report to the Pri-2012 Mortality Tables Projected Generationally from 2012 with the Mortality Improvement Scale MP-2019.

## Galveston Wharves Pension Plan

### Notes to Financial Statements

#### Note 4. Net Pension Liability (Continued)

**Long-term expected rate of return:** The long-term rate of return on the pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2019 (see the discussion of the Plan's investment policy), are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed income equities securities	2.00%
Common stock	6.28%
Domestic equities—large cap	6.28%
Domestic equities—mid cap	6.86%
Domestic equities—small cap	7.35%
International equities	5.89%
Natural resources	3.94%
Emerging markets	8.42%

**Discount rate:** The discount rate used to measure the total pension liability was 7.25%. Professional judgement on future contributions has been applied in those cases where contribution patterns deviate from the actuarially determined contribution rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate:** The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
Net pension liability	\$ 3,253,843	\$ 1,611,220	\$ 390,265

## **Galveston Wharves Pension Plan**

### **Notes to Financial Statements**

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#### **Note 5. Plan Termination**

Although the Port 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 or her years of service and average monthly compensation prior to the date of such termination, shall become fully vested and nonforfeitable to the extent then funded.

#### **Note 6. 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 IRS stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC) 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 IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

#### **Note 7. Commitments and Contingencies**

As described in Note 1, eligible participants are entitled to a cash balance benefit upon termination. As of December 31, 2019, aggregate contributions plus interest was \$322,692 for the cash balance benefit.

#### **Note 8. Subsequent Events**

On January 30, 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern." On March 11, 2020, COVID-19 was declared to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The pandemic in the United States and throughout the world has resulted in substantial volatility in financial markets. This has had a significant adverse impact on investment portfolios, as well as the industry in which the Plan Sponsor operates. COVID-19 and actions taken to mitigate it had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the United States. While it is unknown how long these conditions will last and what the complete financial effect will be to the Plan, to date, the Plan is experiencing investment losses on Plan assets due to the negative impact in the global financial markets.

## **Required Supplementary Information**

## Galveston Wharves Pension Plan

### Schedule of Changes in Net Pension Liability and Related Ratios Last Six Measurement Years Ended December 31

	2019	2018	2017	2016	2015	2014
Total pension liability:						
Service cost	\$ 101,967	\$ 149,366	\$ 138,712	\$ 137,707	\$ 169,079	\$ 183,481
Interest	1,145,698	1,135,048	1,119,970	1,095,941	1,071,934	1,040,307
Change of benefit terms	206,256					
Change in assumptions	(96,477)	88,955	762,720	-	(239,557)	-
Difference between expected and actual experience	-	41,613	(134,857)	84,594	156,762	(56,421)
Benefit payments, including refunds of member contributions	(1,234,638)	(1,206,729)	(1,141,887)	(855,811)	(757,719)	(704,816)
Net change in total pension liability	122,806	208,253	744,658	462,431	400,499	462,551
Total pension liability at beginning of year	16,318,081	16,109,828	15,365,170	14,902,739	14,502,240	14,039,689
Total pension liability at end of year	\$ 16,440,887	\$ 16,318,081	\$ 16,109,828	\$ 15,365,170	\$ 14,902,739	\$ 14,502,240
Plan fiduciary net position:						
Contributions—employer	\$ 575,000	\$ 575,000	\$ 562,160	\$ 420,000	\$ 400,000	\$ 540,004
Net investment income (loss)	3,023,018	(560,524)	2,478,382	519,420	153,997	720,414
Benefit payments, including refunds of employee contributions	(1,226,101)	(1,193,049)	(1,120,885)	(855,183)	(758,472)	(709,670)
Administrative expense	(42,935)	(64,481)	(71,146)	-	(63,966)	(24,329)
Net change in plan fiduciary net position	2,328,982	(1,243,054)	1,848,511	84,237	(268,441)	526,419
Plan fiduciary net position at beginning of year	12,500,685	13,743,739	11,895,228	11,810,195	12,078,636	11,552,217
Plan fiduciary net position at end of year	\$ 14,829,667	\$ 12,500,685	\$ 13,743,739	\$ 11,894,432	\$ 11,810,195	\$ 12,078,636
Port's net pension liability at end of year	\$ 1,611,220	\$ 3,817,396	\$ 2,366,089	\$ 3,470,738	\$ 3,092,544	\$ 2,423,604
Fiduciary net position as a percentage of the total pension liability	90%	77%	85%	77%	79%	83%
Covered payroll	\$ 1,527,483	\$ 2,017,084	\$ 2,659,786	\$ 3,174,196	\$ 3,289,226	\$ 3,484,519
Port's net pension liability as a percentage of covered payroll	105%	189%	89%	109%	94%	70%

#### Notes to Schedule

1. No significant factors to disclose.
2. No significant methods or assumptions to disclose.
3. Schedule will be built out to 10 years.

See independent auditor's report.

## Galveston Wharves Pension

### Schedule of Contributions Last Ten Years Ended December 31

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 515,856	\$ 421,327	\$ 562,160	\$ 415,085	\$ 377,727	\$ 398,283	\$ 540,004	\$ 669,776	\$ 595,057	\$ 595,057
Contributions in relation to the actuarially determined contribution	575,000	575,000	562,160	420,000	400,000	540,004	540,004	669,776	595,057	595,057
Contribution deficiency (excess)	\$ (59,144)	\$ (153,673)	\$ -	\$ (4,915)	\$ (22,273)	\$ (141,721)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,527,483	\$ 2,017,084	\$ 2,659,786	\$ 3,174,196	\$ 3,289,226	\$ 3,484,519	\$ 3,627,781	\$ 3,921,729	\$ 3,889,073	\$ 3,990,184
Contributions as a percentage of covered payroll	37.64%	28.51%	21.14%	13.23%	12.16%	15.50%	14.89%	17.08%	15.30%	14.91%

#### Notes to Schedule

Actuarially determined contribution rates are calculated as of January 1 for the year of contribution.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual entry age cost method
Amortization method	21-year level dollar (closed)
Asset method	Market value of assets
Interest rates	7.25%, net of investment expenses, including inflation
Inflation rate	2.75%
Annual pay increases	3.00%
Final average pay load	A 7.5% load to the final average pay of active employees eligible to retire as of December 31, 2018, was added to anticipate the impact of accrued vacation and sick time pay.
Mortality rates	RP 2014 Mortality Table projected from 2006 with the Social Security Generational Improvement Scale based on the 2018 Trustees Report
Retirement rate	The later of the attainment of age 65 or the completion of five years of vesting service
Disability rates	Graduated rates
Withdrawal rates	Graduated rates
Percent married	It is assumed that 80% of the male participants and 80% of the female participants will be married at retirement
Spouse age difference	It is assumed that the male is three years older than the female if actual age is not known
Expense load	\$60,000
Changes Since Prior Valuation	The mortality table has been updated from using a fully generational improvement scale based on assumptions developed from 2017 Social Security Trustees Report to the improvement scale based on assumptions developed from the 2018 Social Security Trustees Report.

See independent auditor's report.

## Galveston Wharves Pension Plan

### Schedule of Investment Returns Last Six Ended December 31

	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	25.07%	(4.21)%	21.51%	4.51%	1.32%	6.33%

#### Notes to Schedule

1. No significant factors to disclose.
2. No significant methods or assumptions to disclose.
3. Schedule will be built out to 10 years.

See independent auditor's report.



