

The Board of Trustees of the Galveston Wharves
A Component Unit of City of Galveston, Texas

PORT OF GALVESTON

GALVESTON, TEXAS



Comprehensive Annual Financial Report

For Year Ending December 31, 2014

The Board of Trustees of the Galveston Wharves
A Component Unit of City of Galveston, Texas

PORT OF GALVESTON

GALVESTON, TEXAS

Prepared by the Department of
Finance Staff under the direction of
the Finance Director and Controller



Comprehensive Annual Financial Report

For Year Ending December 31, 2014

PORT OF GALVESTON

GALVESTON, TEXAS



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
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PORT OF GALVESTON

GALVESTON, TEXAS



Introduction



BOARD OF TRUSTEES OF THE GALVESTON WHARVES

Directory of Officials

Comprehensive Annual Financial Report

For Year Ending December 31, 2014

BOARD OF TRUSTEES

Benjamin F. Holland, Jr., Chairman

Edward J. Walsh III, Vice - Chairman

Richard DeVries, Trustee

Albert P. Shannon, Trustee

John A. Smecca, Jr., Trustee

Gerald A. Sullivan, Trustee

Mayor James D. Yarbrough, Trustee

OFFICERS AND EXECUTIVE STAFF

Michael J. Mierzwa, Port Director

Peter Simons, Deputy Port Director/Director of Facilities-Operations

Captain John G. Peterlin III, Senior Director of Marketing and Administration

Judy K. Sponge, Executive Assistant - Board of Trustees/Port Director

Bernard A. Curran, Director of Administration

Diane P. Falcioni, Director of Governmental Relations and Legislative Affairs

Mark R. Murchison, Director of Finance

Roger Quiroga, Director of Economic Development and External Affairs

H.L. "Bubba" Smith, Director of Cruise Operations

Earl L. Kalsnes, Harbormaster

GENERAL COUNSEL

McLeod, Alexander, Powel & Appfel, P.C.

BOND COUNSEL

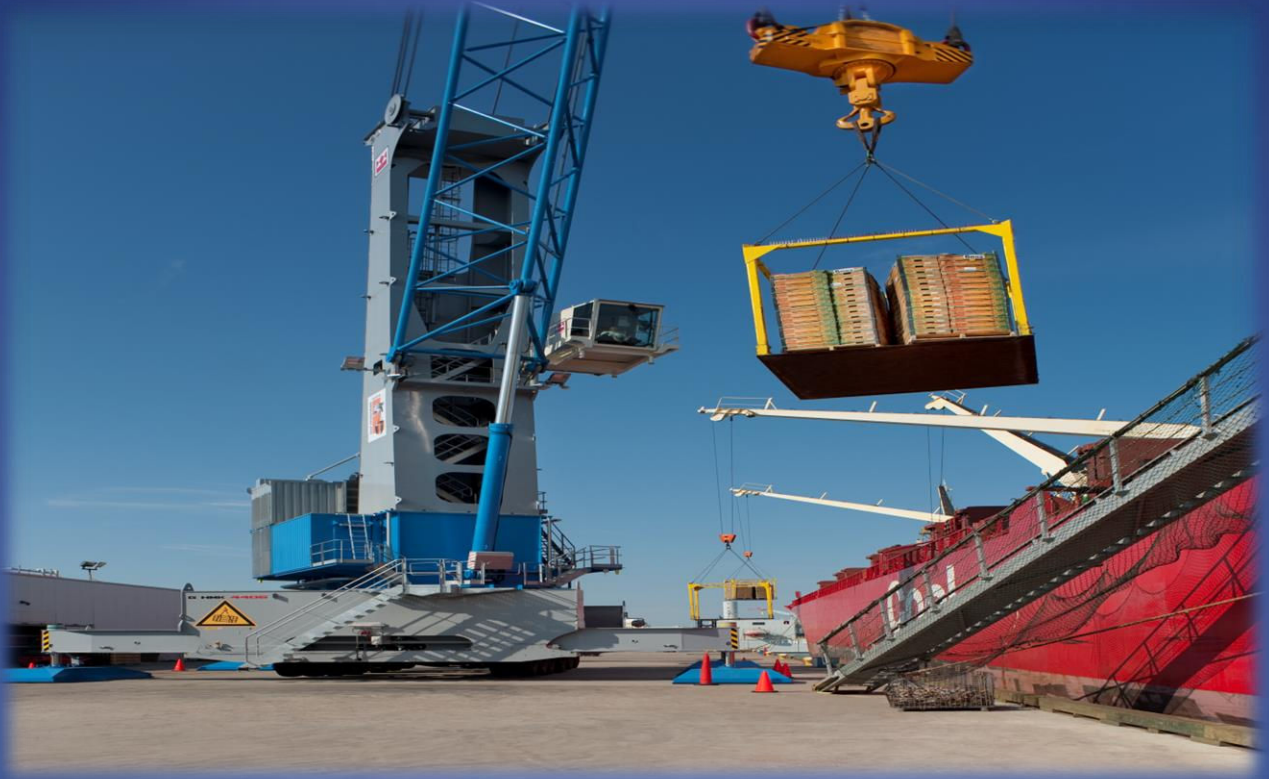
Bracewell & Giuliani, L.L.P.

AUDITORS

Whitley Penn, LLP

PORT OF GALVESTON

GALVESTON, TEXAS



IT'S ISLAND TIME

TOUR BY LAND OR BY SEA

There seems to be no better way to see all the sides of Galveston Island than to embark on one of the many sightseeing tours. Whether by air, land or sea, Galveston offers plenty of tours to learn all of the rich history of the area.



Guided Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Tree Sculpture Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Historic Mansions
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Boat Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Haunted Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Fishing Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Art Gallery Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



Architecture Tours
 Perfect for a historical and informative tour of the island, these guided tours are available in English, Spanish, and Vietnamese.



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www.portofgalveston.com

BOARD OF TRUSTEES OF
THE GALVESTON
WHARVES

Benjamin F. Holland Jr., Chairman
Edward J. Walsh III, Vice Chairman
Richard DeVries, Trustee
Albert P. Shannon, Trustee
John A. Smecca, Trustee
Gerald A. Sullivan, Trustee
Mayor James D. Yarbrough,
Trustee

PORT DIRECTOR
Michael J. Mierzwa

March 30, 2015

Board of Trustees of the Galveston Wharves
Galveston, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Board of Trustees of the Galveston Wharves for the year ended December 31, 2014. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Galveston Wharves. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Galveston Wharves. All disclosures necessary to enable the reader to gain an understanding of the Galveston Wharves' financial activities have been included.

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.

Independent Auditors selected by the Board of Trustees have audited the financial statements and supplemental schedules for the year ended December 31, 2014. The Independent Auditors' report is included in front of the financial section of this report.

In addition to meeting the requirements of generally accepted auditing standards, the audit was designed to also meet the requirements of the Federal Single Audit Act of 1984 and related OMB Circular A-133. A copy of the Independent Auditor's reports related specifically to the Single Audit Act may be obtained by contacting the Director of Finance, 123 Rosenberg, P.O. Box 328, Galveston, TX 77553.

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

Profile of the Government

The Galveston Wharves ("Port of Galveston") was created by City Ordinance in 1940 as a separate utility of the City of Galveston to manage, maintain, operate and control all existing port properties and all additions, improvements, or extensions to such properties. The Galveston Wharves operates an Enterprise Organization under the direction of a Board of Trustees appointed by the Galveston City Council. An enterprise fund is used to account for activity in which the cost of providing goods and services are primarily recovered through the fees charged to the users of such goods and services. All Galveston Wharves properties are located within the City limits of Galveston, Texas.

The Galveston City Council created the Port's blended component unit, the Galveston Port Facilities Corporation (GPFC), in FY2002 for use as a financing vehicle for expansion and renovation of Wharves facilities. A detailed explanation of the GPFC is given in Note One to the 2014 Financial Statements which are included in the Financial Section of the CAFR.

This report includes all activities of the Galveston Wharves and its blended component unit, the Galveston Port Facilities Corporation.

The Wharves is a separate utility so designated by provision of the City Charter (the "Charter") of the City. The Charter provides that all city-owned wharf and terminal properties, and all income and revenue there from, is to be set aside and controlled, maintained and operated by a "Board of Trustees of the Galveston Wharves." One member of the Board of Trustees is an ex-officio representative of the City Council of the City and is elected by the Council from its own membership for a term contemporaneous with the term of the council electing such member. The Council appoints the remaining six members of the Board of Trustees. The Charter provides that the Board of Trustees shall have those powers which are necessary or proper to the discharge of its responsibilities including, but not limited to, the employment of a General Manager for the Wharves and such subordinate officers and employees as may be required for the proper conduct of the business of the Wharves, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and, in general, the complete management and control of the Wharves and the income and revenues, thereof, subject only to the special limitations provided in the Charter.

Situated on Galveston Island two miles off the Texas coast on the Gulf of Mexico and approximately fifty miles south of Houston, the Port of Galveston is Texas' oldest commercial enterprise. Galveston was used for shipping as long ago as 1820 and on October 17, 1825, became a provisional port and customs entry port by Act of Congress in Mexico.

The Island is connected to the Texas mainland by two vehicular causeways and a railroad bridge on the northwest, a third highway bridge to the Texas mainland across the San Luis Pass at the southwestern tip of Galveston Island, and an excellent free state highway ferry service to Bolivar Peninsula and mainland connections to the northeast.

The Galveston Wharves' facilities, located at the entrance to Galveston Bay, constitute a large portion of the greater Port complex. This complex is situated on the north side of the island city with property and facilities also located on adjacent Pelican Island. The Gulf Intercoastal Waterway runs alongside the Port of Galveston. The 45 foot deep Galveston Channel provides access to the open Gulf. At the completion of dredging activity in 2010 the authorized minimum depth increased to 45 feet with widths up to 1,200 feet. Galveston port facilities are situated 9.3 miles from the open sea.

Galveston was the principal port of the Republic of Texas, 1836-1845. Texas joined the Union as the 28th state in 1845; and in 1854, Galveston strengthened its port when all local interests joined in a single management for the wharves, warehouses and other properties chartered by the state as the Galveston Wharves and Cotton Press Company. In 1889, Congress decided to deepen the natural channel and build the protective jetty system. The Port became municipally owned by a vote of the citizens in 1940. It is officially known today as the Board of Trustees of the Galveston Wharves, although it is commonly referred to as the Galveston Wharves or the Port of Galveston.

Budgetary Process

During the fourth quarter each year, the Board of Trustees adopts an annual budget for the period beginning January 1 through December 31. This budget is based on the Port's recommended tariff rates, projected revenues, operating expenses, debt service and capital improvements plans.

Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported monthly to the Trustees of the Galveston Wharves. Through Management reporting, the Trustees review and hold management accountable for actual results, the Port is promulgating sound financial and management practices.

Local Economic Condition and Outlook

The economic base of Galveston Island includes one of the oldest deep-water ports on the Gulf Coast, The Port of Galveston, along with a growing medical center and education complex which includes the first medical school and comprehensive health sciences centers in Texas, The University of Texas Medical Branch, which is also the Island's largest employer. One of the largest national insurance companies, American National Insurance Company, is based on the Island. With its 32 miles of beaches, festivals and many attractions, tourism continues to grow.

The Port of Galveston and the related marine cargo at the public and private marine facilities along with the cruise vessel calls have a tremendous impact on the State and regional economy. State wide over 12,800 jobs are in some way related to marine cargo moving through and cruise activity at the Port of Galveston. These Texas jobs consist of over 3,000 direct jobs (of which about 90% are held by residents of Galveston and Galveston County), over 3,300 induced jobs, over 3,400 indirect jobs and over 3,000 jobs related to users of the Port. In addition to the job creation, the marine cargo activity located at the Port of Galveston marine terminals and the private terminals located on the Galveston Channel generated over \$3.1 billion of economic activity in the State of Texas. The tax impact consisting of direct, induced, and indirect state and local taxes exceeded \$52.6 million with an additional \$24.5 million of state and local taxes due to the economic activity of the related users of the cargo moving through and cruise activity via the public and private marine terminals. (Data is based on The Local and Regional Economic Impact of Marine Cargo and Passenger Activity at the Port of Galveston, 2011 prepared by Martin Associates)

Galveston's medical and education complex continues to expand. The Island is home to Galveston College, a community college with an average of 2,200 enrolled and facilities valued at over \$55 million. Texas A&M University at Galveston (TAMUG) located on Pelican Island has increased to around 2,200 enrolled, 75% of which are science and engineering majors in marine and maritime studies. TAMUG also houses the Texas A & M Maritime Academy. With the continued growth, TAMUG will add two new buildings, one a new residence hall funded privately through a public/private partnership and a new \$45 million Maritime Academy Cadet Hall.

Located at the east end of the Strand District is The University of Texas Medical Branch (UTMB). Major growth at this complex includes the new Jennie Sealy Hospital, a \$438 million investment opening in 2016, a 93,000 square foot expansion of research space representing a \$42 million investment and a massive medical district heating and cooling system project representing a \$289 million investment. The UTMB is a teaching hospital/research medical center with enrollment of 3,112 students and total staff of 11,534.

Other growth in the area includes the Gulf of Mexico Foundation plans to relocate from Corpus Christi, Texas to Galveston, the addition of an \$40 million marina on the bay side of the island and Galveston Island State Park being recognized as one of the top 5 "Best Gulf Coast Beaches" by the Travel Channel – the only Texas Beach to make the list.

Total cargo tonnage increased 10.69% in 2014 when compared to 2013 driven by recovery of grain movements and bulk fertilizer shipments partially offset by a decline in liquid bulk. Grain is on pace to have a near record setting year in 2015. Planned improvements by ADM to the grain terminal should enhance the attractiveness of Galveston as an export site well into the future. Other cargos are expected to increase or remain stable in 2015. Additional tonnage from wind tower imports and other oversized cargo are anticipated to increase in 2015. Additionally, the Port of Galveston continues to promote cargo and industrial growth through the expansion of its Roll-On-Roll-Off (RO-RO) dock facilities. Improvements in 2015 will be the establishment of a new vehicle processing center on 18.9 acres at Pier 10 to include improved lighting and pavement and filling in the Pier 12 – 14 slip to create an additional 8 acres of upland storage. Major capital improvements to Pier 18 completed in December 2012 and to Pier 16 completed in 2013 expanded the 1,200 foot wharf by an additional 40 feet to 85 feet. These improvements have resulted in a 30% increase in fresh fruit import tonnage through the Del Monte facility since completion of the project. Additional improvements to the uplands were completed in 2014 to increase the number of spaces to accommodate reefer trucks for Del Monte's refrigerated cargo.

Success with the cruise industry continues. In 2014, Royal Caribbean's Navigator of the Seas became the third cruise ship to call Galveston its year round home port. In mid-February 2015, Carnival Cruise Lines added Carnival Freedom to the existing Carnival fleet which currently includes Carnival Magic and Carnival Triumph bringing the Carnival ships located year round in Galveston to three. Ranking seventh in embarkations worldwide, the Port of Galveston is the number one cruise port on the Gulf of Mexico and the number four cruise port in North America and the number two United States homeport for Carnival Cruise Lines.

In 2014, operating cruise ships who call the Port of Galveston their homeport had embarkations and disembarkations in excess of 1,285,200 with 2015 revenue passengers projected to be in excess of 1,648,000. The numbers of cruise ship passengers are anticipated to continue to increase based on continued growth expectations of Carnival Cruise Lines as demonstrated by the positioning of newer and larger ships that call Galveston their homeport. In 2014, the Port began a \$13 million expansion of Cruise Terminal 2 to accommodate larger cruise vessels and additional passenger volumes when completed in 2015.

Relevant Financial Policies

Grant proceeds are treated as contributions to capital and are not included in operating income. Capital grants and contributions are listed immediately following operating income before contributions in the Port's Statement of Revenues, Expenses and Changes in Net Position, which is contained in the Financial Section of the Port's CAFR.

Major Initiatives

The Port of Galveston has several major projects under way with others in the planning stage. Work continues on the Galveston Downtown Transportation Terminal. This \$6.3 million project funded by a Federal Transit Administration grant administered by the City of Galveston will construct a three story facility with parking available on the top two floors above the ground floor bus facility. This facility connects to the Port's existing garage, which ultimately connects to Cruise Terminal 1 via a recently renovated aerial walkway. Once development and renovations are completed these structures will enhance the regional transportation plan.

Cruise Terminal 2 expansion is currently underway. This estimated \$13 million project will expand the terminal an additional 60,000 square feet to 150,000 square feet, increasing the number of passengers who may be processed in one day from 5,200 to 8,400.

Completion of both projects is scheduled to occur fall/winter of 2015.

Additional capital projects under way include a vehicle processing center for imported automobiles to be located at Pier 10, continued improvements to the refrigerated warehouse terminal located at Piers 16/18 consisting of expanding the number of spaces with electric outlets for refrigerated containers, improvements to the bulk grain terminal being installed by ADM, creating additional upland space through filling in of outdated slips, and beginning the permitting process of a 100 acre water front site located on the Pelican Island side of the Galveston Channel. In 2014, the Port approved a lease option agreement with a potential developer for an LNG liquefaction export facility which will be located on Port property on the northern side of Pelican Island.

The Port is finalizing engineering design/build for filling in the East End slips. Upon completion, this will provide additional upland space between Piers 12 and 14 created by filling in the existing slip. The Port currently has permits to fill in the slips.

Long-Term Financial Planning

The Port intends to continue to pursue public-private financing for additional improvements and additions to its facilities. Federal and State Grants will be sought out and leveraging Grant proceeds with local share contributions will also be a financing tool. Plans for additional future facilities financing include replacing or increasing bonded indebtedness as existing issues are retired or increased cash flow from operations permits.

Awards

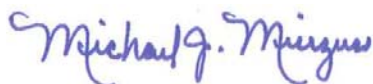
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Board of Trustees of the Galveston Wharves ("Port of Galveston"), for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2013. This was the 21st consecutive year that the Port of Galveston has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Port of Galveston must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Port of Galveston staff believes that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Report could not have been accomplished in a timely manner without the assistance of the staff and other contributors. It would not have been possible without the dedicated efforts of the Board of Trustees, the management staff, and our loyal employees. We request that you continue to provide us with your advice, efforts and loyalty.

Respectfully submitted,



Michael J. Mierzwa
Port Director



Mark Murchison
Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Board of Trustees
of the Galveston Wharves
Texas**

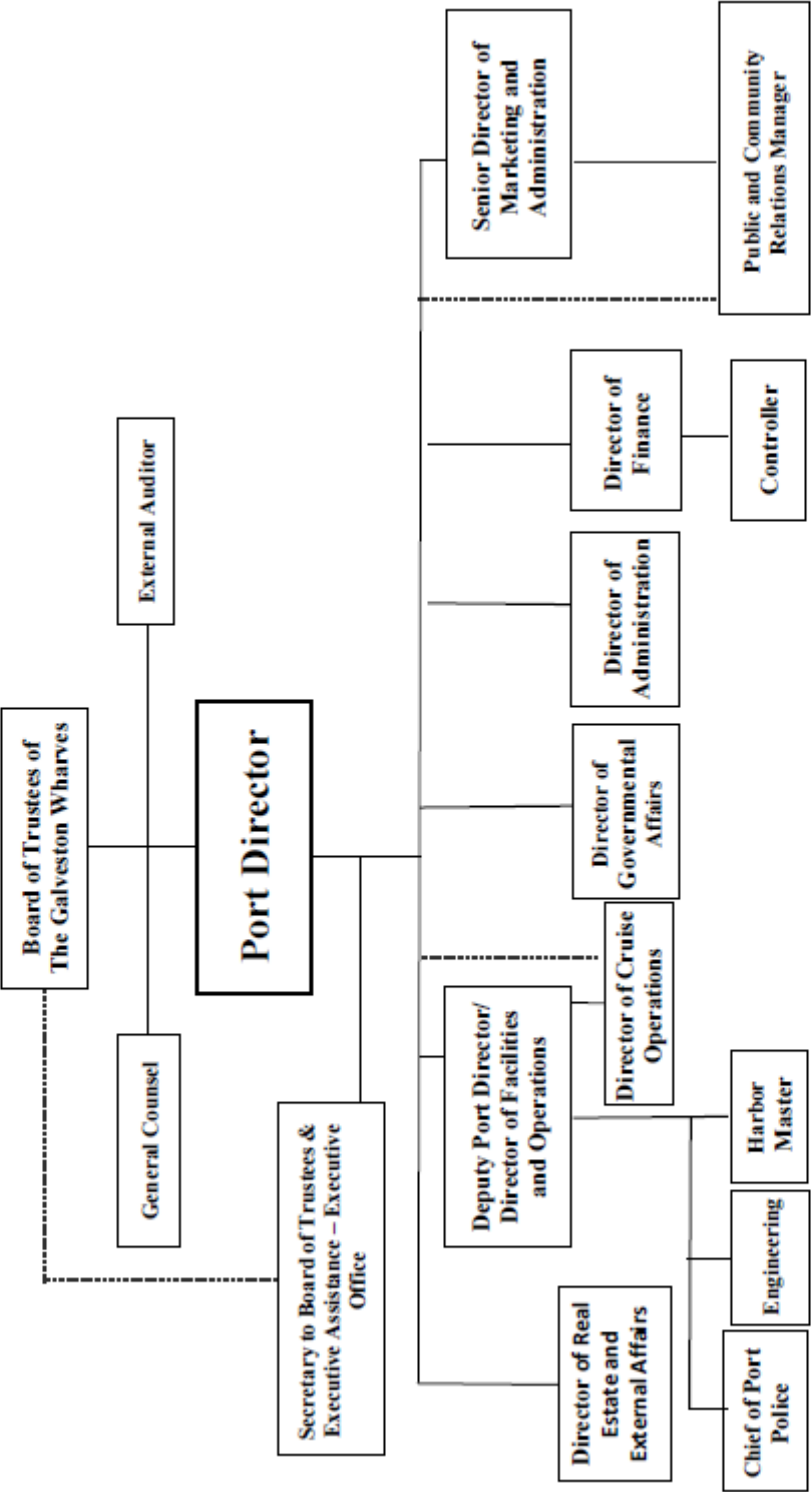
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

A handwritten signature in black ink, reading "Jeffrey R. Enser". The signature is fluid and cursive.

Executive Director/CEO

PORT OF GALVESTON **Organization Chart**





PORT OF GALVESTON

GALVESTON, TEXAS



Financial Section



Report of Independent Auditors

To the Board of Trustees of
The Galveston Wharves
Galveston, Texas

Report on the Financial Statements

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Board of Trustees of the Galveston Wharves (the “Wharves”), a component unit of the City of Galveston, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Wharves’ basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the Board of Trustees of the Galveston Wharves, as of December 31, 2014, and the respective changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees of
The Galveston Wharves

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and required pension system supplementary information on page 34 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Wharves' basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2015 on our consideration of the Wharves' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wharves' internal control over financial reporting and compliance.

Whitley Penn LLP

March 30, 2015

PORT OF GALVESTON

GALVESTON, TEXAS



Management's Discussion and Analysis



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The Management Discussion and Analysis is intended to serve as an introduction to the Wharves' basic financial statements which consist of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses, and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report includes other supplementary information in addition to the basic financial statements.

The statement of net position presents as of a specific date information on the Wharves assets, liabilities and deferred inflows of resources with the difference between the three reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Wharves is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Wharves net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in this statement result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The basic financial statements include not only the Wharves (known as the primary government), but also a legally separate blended component unit, the Galveston Port Facilities Corporation. Financial information for this component unit is reported in conjunction with the primary government.

Since the Wharves follows enterprise fund accounting and reporting requirements, there is a statement of cash flows included as part of the basic financial statements. The accompanying notes to the financial statements provide required disclosures and other information that is essential to a full understanding of data provided in the statements.

Financial Analysis of the Wharves as a Whole

Net Position

The following financial information is derived from the Wharves' financial statements comparing the Wharves' current to prior year financial position (in 000's):

	2014	2013	Increase (Decrease) over prior year
Current assets	\$ 55,782	\$ 45,499	23%
Capital assets	136,548	137,639	-1%
Other non current assets	2,257	2,456	-8%
Total Assets	194,587	185,594	5%
Current liabilities	11,202	10,389	8%
Long Term Liabilities	56,186	46,456	21%
Total Liabilities	67,388	56,845	19%
Deferred inflows of resources	143	189	-24%
Net Position			
Net investment in capital assets	106,323	103,645	3%
Restricted	6,360	6,203	3%
Unrestricted	14,373	18,712	-23%
Total Net Position	\$ 127,056	\$ 128,560	-1%

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

The Wharves' combined net position decreased \$1.5 million between fiscal years 2013 and 2014, to approximately \$127.1 million. Net Investment in Capital Assets increased by \$2.7 million accompanied by a decrease in Unrestricted (\$4.3 million) Net Position during 2014.

- Total Assets increased \$8.9 million or 5%
 - Current Assets increased \$10.3 million in 2014
 - Unrestricted cash decreased by \$563K. In 2014, the Port utilized \$1.1 million of unrestricted cash to fund Hurricane Ike projects of which \$900K is expected to be reimbursed by FEMA
 - Receivables decreased \$1.9 million. Grant and FEMA related receivables increased \$741K. Receipt of \$523K from a 2013 business interruption receivable which was recognized as revenue in 2013 occurred in 2014. The Port increased reserve for doubtful accounts by \$164K specifically for a disputed federal security grants claim being administered by Harris County, Texas (Application for payment was denied by Harris County who is acting as the local administrator forcing the Port to appeal directly to FEMA). Trade and other receivables decreased \$2.6 million due to timing of trade accounts such as a \$304K decrease in receivables from cruise lines (timing), \$300K reduction due to a 2013 receivable related to reimbursement of shared dredging cost, \$493K receivable from US Department of Commerce, and \$503K other trade receivables.
 - Restricted cash increased \$12.8 million due to issuance of Series 2014 Note in the amount of \$13 million for expansion of Cruise Terminal 2. The Cruise Terminal 2 expansion project is scheduled to be completed in 2015.
 - Capital Assets net of depreciation decreased \$1 million. Activity in capital assets included 2014 additions totaling \$4.7million offset by a net increase in accumulated depreciation of \$5.8 million and net retirements of \$235K.
 - The Wharves total liabilities increased by \$10.5 million during the year ended December 31, 2014.
 - Current Liabilities increased by \$577K when compared to 2013. In 2014, \$1.3 million of the Federal Community Disaster Loan was reclassified from short term liability to long term liability. In 2014, the Port received approval of a requested five year extension on the \$1.3 million CDL loan.
 - Long Term Liabilities increased \$10.5 million due issuance of the Series 2014 Notes for \$13 million, reclassification of the Community Disaster Loan from short term to long term totaling \$1.3 million offset by reclassing debt payable in 2015 to short term - \$4.5 million.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Changes in Net Position

The following financial information is derived from the Wharves' financial statements comparing the Wharves' current to prior year changes in financial position or net position (in 000's):

	2014	2013	Increase (Decrease) over prior year
Operating Revenues			
Vessels and cargo services	\$ 17,807	\$ 15,176	17%
Building and facilities rental and fees	9,904	9,591	3%
Total Operating Revenues	27,711	24,767	12%
Operating Expenses			
Personnel services	8,858	8,845	0%
Maintenance and operations	8,913	7,106	25%
Sales and office	3,804	2,428	57%
Annual city payment	187	187	
Depreciation	5,838	5,641	3%
Total Operating Expenses	27,599	24,207	14%
Net Operating Income	112	560	-80%
Non-Operating Revenue (Expense)			
Lease income			
Earnings on investments	226	200	13%
Interest expense	(1,971)	(2,116)	-7%
Other Debt Expense	(171)	(225)	100%
Gain (loss) on disposal of equipment		2	100%
Total Non-Operating Revenues (Expenses)	(1,916)	(2,139)	-10%
Income Before Capital Grants and Contributions and Special Items	(1,804)	(1,579)	14%
Capital Grants and Contributions	2,264	15,958	-86%
Extraordinary items	(1,964)	(945)	108%
Changes in Net Position	(1,504)	13,434	-111%
Beginning Net Position	128,560	115,126	12%
Ending Net Position	\$ 127,056	\$ 128,560	-1%

Net Operating Income decreased \$449 thousand from \$561 thousand in 2013 to \$112 thousand in 2014.

2014 Revenues increased \$2.9 million to \$27.7 million

- **Passengers** revenues – Passenger Charges revenue for the year ending December 31, 2014, (2014) was \$887K or 18.70% over revenues for the year ending December 31, 2013 (2013) adjusted for business interruption claim. The increase in revenue in part is the result of an overall 6% increase in passenger movements for 2014 over 2013 and an increase in passenger rates charged to Carnival. The increase in passenger movements is primarily attributable to RCI's Navigator (a higher passenger capacity ship than the Mariner, RCI's previous ship) having a full year of sailings in 2014 as opposed to seasonal sail dates in 2013. The aforementioned Carnival rate increase is principally offset by a marketing service fee that becomes due to Carnival on a quarterly basis.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

- **Dockage** revenue for 2014 was \$339K or 6.34% over 2013. The increase in revenue is due to increased dockage in Ro-Ro (\$138K), Del Monte (\$88K), Bulk Grain-ADM (\$559K) and Liquid Bulk (\$148K) offset by decreases in Lay Vessels (\$290K), Research Vessels (\$125K) and other minor variances.
- **Parking** revenue for 2014 was \$734K or 17.82% over 2013. The increase in Parking revenue is primarily attributable to the aforementioned increase in passenger movements.
- **Ship Service Revenue** for 2014 was \$557K or 19.24% over 2013. The increase in revenue is due to both the aforementioned increase in passenger movements along with higher ship services rates charged to Royal Caribbean which had 49 sail dates in 2014 versus 22 in 2013. Ship Services Revenue is intended to offset the cost to the Port for services provided to the cruise lines under their respective operating agreements.
- **Rental** revenue for 2014 was \$397K or 11.53% under 2013. The decrease in revenue is primarily due to percentage rents recognized by the Port under an agreement with Gulf Copper for 2014 being under the amounts recognized in 2013. The percentage rent is based on the total revenue of Gulf Copper recognized at the facility it leases from the Port calculated using Gulf Copper's fiscal year ending April 30. Gulf Copper's total revenue for their fiscal year 2014 was \$19.2M less than that of 2013. Additionally, due to continued decreases in projections provided to the Port by Gulf Copper (used to accrue the percentage rent on a monthly basis) for their fiscal year 2014 the Port had recognized approximately \$631K of fiscal year 2014 revenue in 2013. Gulf Copper's actual results for fiscal year 2014 provided for a percentage rent in the amount of \$442K. As a result, the Port ultimately recognized in calendar year 2014 a net negative percentage rent revenue for fiscal year 2014 in the amount of \$190K. Fiscal year 2015 percentage rent through November 30, 2014 was being accrued based on Gulf Copper's projection of \$45M. Gulf Copper provided an updated projection of \$47.8M. Accruals for December 2014 and forward will be based on this projection contingent on receipt of future updated projections.
- **Wharfage** revenue for 2014 was \$354K or 15.36% over 2013. The increase in revenue is due to increases in Ro-Ro (\$154K), Fertilizer (\$144K) and other General Cargo including wind energy (\$72K) offset by a decrease in Liquid Bulk (\$57K).
- **Switching** revenue for 2014 was \$267K or 53.65% over 2013. The increase in revenue is primarily due to the aforementioned increases in Fertilizer and Grain cargo movement. Fertilizer and Grain cargo is transported to and from the Port's facilities via rail. The Port receives a percentage of the switching and other fees charged by the rail operator for transporting cargo, storage of cars and other miscellaneous fees.
- **Security Cost Recovery** revenue for 2014 was \$98K or 17.44% over 2013. The Port's Security Cost Recovery charges are assessed against Dockage charges and cargo tonnage. The increase in revenue is consistent with the aforementioned increases in Dockage and Wharfage.
- **Terminal Access Fees** revenue for 2014 was \$135K or 90.88% over 2013. The increase in revenue is primarily due to an increase in commercial vehicle access to the Port's cruise terminal as a result of the aforementioned increases in cruise sailings and passenger counts.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

2014 Operating expenses increased \$3.4 million to \$27.6 million

- **Salaries and Benefits** expense for 2014 was \$183K or 2.39% higher than 2013. The increase in expense is due to annual employee pay increases, increases in health benefits cost and a slight increase in pension cost.
- **Contract Labor** expense for 2014 was \$28K or 5.14% higher than 2013. The increase in expense is due to increases in cost related to contract police and security services for cruise operations and is consistent with the aforementioned increase in passengers due to the larger cruise vessels sailing from the Port.
- **Repairs and Maintenance** expense for 2014 was \$213K or a 17.92% increase over 2013. The increase in expense is primarily due to increased cost in the areas of maintenance dredging (\$190K) and landscape maintenance cost (\$47K). Landscape maintenance prior to 2014 was performed by Port employees. In 2014, the Port began utilizing outside services for landscape maintenance.
- **Other Operating Expense** for 2014 was \$2.6M or 21.62% over 2013. The most significant increases were primarily in the areas of Ship Services Expense (\$1.2M) and Cruise and Parking Contract Marketing Fees (\$992K). Ship Services Expenses result from services that the Port has agreed to provide to the cruise lines that operate at the Port's facilities. The Port's agreement with Royal Caribbean requires substantially more services to be provided than does the Port's other cruise operations agreements. In 2014, Royal Caribbean had 49 sailings vs. 22 in 2013. In 2014, the Port entered into an agreement with Carnival that provided for an increase in passenger rate charges payable to the Port intended to be principally offset by a fee to be paid to Carnival for marketing activities to be conducted by Carnival related to Carnival's Galveston operations.
- **Office and Sales Expense** 2014 was \$367K or 16.14% over 2013. The increase in expense is primarily due to increased professional services cost (\$182K), Direct Sales Expense (\$83K), Office & Other Administrative Expense (\$53K) along with other minor increases. The increase in professional services cost results from litigation cost incurred in 2014 that the Port did not incur in 2013. The increase Direct Sales Expense results from increased advertising and parking website related cost. The increase in Office & Other Administrative Expense is due to the addition of Human Resources services provided through ADP. In 2013, the services provided by ADP were limited to time keeping and payroll processing.
- Increased operating expenses are attributable to increased personnel and health care cost, increased unscheduled maintenance for the passenger walkways and increased depreciation due to the capitalization of completed capital projects in 2013 and 2014

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Debt Administration

Capital Assets

At year-end 2014, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled \$218.4 million. This is an increase of \$4.5 million over 2013. Accumulated depreciation as of year-end 2014 increased by \$5.6 million. The net change in Capital Assets was \$1.1 million decrease from 2013. The following is a comparison of capital assets for the years ended December 31, 2013 and 2014 (in 000's):

	2014	2013
Land	\$ 16,499	\$ 16,498
Channel Deepening	11,339	11,339
Construction in progress	7,446	9,358
Total capital assets, non depreciable	35,284	37,195
 Railway property and buildings	 4,261	 4,245
Wharves property and buildings	166,925	161,415
Operating equipment	8,825	8,751
Office equipment	3,092	2,269
Total capital assets being depreciated	183,103	176,680
Less allowance for depreciation	(81,839)	(76,236)
Total assets being depreciated, net	101,264	100,444
Total capital assets	\$ 136,548	\$ 137,639

Completed projects during 2014 include Pier 10 rehabilitation (\$1.9 million), Cruise Terminal / Harborside Walkway (\$1.8 million), Shearn Moody Garage Improvements (\$760K), Cruise Terminal 2 roof replacement (\$449K funded by City of Galveston IDC grant) along with other smaller projects. Other capital improvements underway remain in construction work in progress, which decreased \$1.9 million to \$7.5 million.

More detailed information on capital assets can be found in note 4 of the financial statements.

Long-Term Debt

At year-end the Wharves had \$40.3 million in bonds and contracts payable and \$16.9 million in notes and leases outstanding representing an increase of 18.1% over the prior year. The notes payable are a Series 2014 Note Payable (\$13M), a Community Disaster Loan and a Capital Lease. Changes in Long-term debt for the year ended December 31, 2014, are summarized below (in 000's):

Debt Category	2014	2013
Revenue Bonds	\$ 23,726	\$ 25,187
Contracts payable	16,571	19,073
Notes and leases payable	16,942	4,189
Total	\$ 57,239	\$ 48,449

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

MANAGEMENT'S DISCUSSION AND ANALYSIS *(continued)*

On October 2, 2014, the City of Galveston issued Subordinate Lien Wharves and Terminal Revenue Notes totaling \$13.0 million guaranteed primarily by the Wharves' revenue. These notes are payable to Moody National Bank, NA (\$6 million), Texas First (\$4 million), Home Town Bank, NA (\$3 million). These notes are to be used for Cruise Terminal 2 addition and expansion along with required water front improvements. Final redemption of these notes is August 1, 2026.

Bond Ratings

The underlying ratings assigned to the Wharves' bond issues are as follows: Standard & Poors: BBB+ and Moody's Investor's Services: Baa1.

More detailed information on long-term debt can be found in note 5 to the financial statements

Economic Factors and Next Year's Rates

The Board of Trustees of the Galveston Wharves' mission is to manage the assets and resources under its stewardship for optimum economic benefit for the City of Galveston and the surrounding region. It is the intent of the Wharves to set its fees, leases and other charges at a level to recover the cost of its activities including renewal and replacement of its facilities and equipment. The Wharves rates are not expected to increase significantly next year.

The Galveston Wharves serves niche markets with diversified cargos. The development of dock side rail capable of shipping oversized cargo such as wind turbine towers along with space to build component trains for such cargo was successfully completed in 2012 resulting in 2012 imports of wind turbine parts. After a lull in wind cargo brought about due to delays in issuing energy credits to the wind industry, the Port anticipates a steady stream of wind turbine imports and exports in 2015. Those shipments have begun. The Wharves is also an alternative site for shipping of livestock overseas.

The Galveston Wharves continues to seek private partners to develop and enhance the Port's facilities on the West End and on Pelican Island. Development and funding for these initiatives requires no cash investment from the Wharves.

The Wharves major tenant that handles fruits and vegetables has continued expanding and improving its facilities and Roll On-Roll Off (RO-RO) cargo carrier activity has continued to increase. Cruise ship business continues to bolster the Wharves business with a 6% increase in passengers over last year. Currently, the Port has three year round cruise ships which consider Galveston their homeport. With the increase of year round ships, the Port is beginning the process of expanding Cruise Terminal 2 to accommodate larger ships which are anticipated to arrive in 2015. With the overall economy picking up, the Port anticipates increased cargo movement and robust cruise ship activity for year 2015.

Contacting the Wharves' Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Wharves' finances and to demonstrate the Wharves' accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 123 Rosenberg, P.O. Box 328, Galveston, TX 77553.



PORT OF GALVESTON

GALVESTON, TEXAS



Basic Financial Statements



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF NET POSITION
December 31, 2014

	2014
Assets	
Current Assets - Unrestricted:	
Cash and cash equivalents	\$ 8,949,001
Accounts receivable, net of allowance for doubtful accounts	11,623,877
Prepaid assets	716,784
Current Assets - Restricted:	
Cash and cash equivalents	34,292,711
Current portion of investment in direct financing lease	199,146
Total Current Assets	<u>55,781,519</u>
Non-Current Assets	
Capital Assets:	
Capital assets, non depreciable	35,283,954
Capital assets, net of depreciation	101,264,089
Total Capital Assets	<u>136,548,043</u>
Other Assets:	
Net investment in direct financing lease - less current portion	2,256,990
Total Non-Current Assets	<u>138,805,033</u>
Total Assets	<u>194,586,552</u>
Liabilities	
Current Liabilities (payable from current assets):	
Accounts payable	2,851,074
Accrued expenses	2,417,504
Accrued compensated absences	296,000
Payable to other government	187,302
Long term debt due within one year	416,868
Interest payable	918,398
Total Current Liabilities (payable from current assets)	<u>7,087,146</u>
Current Liabilities (payable from restricted assets):	
Long term debt due within one year	4,115,000
Total Current Liabilities (payable from restricted assets)	<u>4,115,000</u>
Total Current Liabilities	<u>11,202,146</u>
Long-Term Liabilities:	
Accrued compensated absences	813,419
Long term debt due in more than one year	52,707,229
Unearned revenues and rents	2,665,129
Total Long-Term Liabilities	<u>56,185,777</u>
Total Liabilities	<u>67,387,923</u>
Deferred inflows of resources	
Deferred gain on refunding	142,594
Total Deferred inflows of resources	<u>142,594</u>
Net Position	
Net investment in capital assets	106,323,197
Restricted for debt service	6,360,062
Unrestricted	14,372,776
Total Net Position	<u>\$ 127,056,035</u>

See notes to the financial statements.



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended December 31, 2014

	<u>2014</u>
Operating Revenues	
Charges for services:	
Vessels and cargo services	\$ 17,806,900
Building and facilities rental and fees	9,904,192
Total Operating Revenues	<u>27,711,092</u>
Operating Expenses	
Personnel services	8,858,156
Maintenance and operations	8,911,837
Sales and office	3,804,123
Annual city payment	187,302
Depreciation	5,837,831
Total Operating Expenses	<u>27,599,249</u>
Operating Income	<u>111,843</u>
Non-Operating Revenue (Expenses)	
Earnings on investments	225,801
Interest expense	(1,970,803)
Other Debt Expense	(170,521)
Total Non-Operating Revenues (Expenses)	<u>(1,915,523)</u>
Income (Expense) Before Contributions and Special Items	(1,803,680)
Capital grants and contributions	2,263,814
Extraordinary item- clean up and repair- Hurricane Ike	(1,963,657)
Change in Net Position	(1,503,523)
Total Net Position - Beginning	<u>128,559,558</u>
Total Net Position - Ending	<u><u>\$ 127,056,035</u></u>

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

Page 1 of 2

Cash flows from operating activities

Cash receipts from customers	\$ 30,185,946
Cash payments to employees	(8,734,017)
Cash payments to suppliers for goods and services	(10,981,598)
Cash payments to City of Galveston	(187,302)
Net cash provided (used) by operating activities	10,283,029

Cash flows from capital and related financing activities

Payments received on capital and direct financing leases	199,146
Proceeds from issuance of notes	13,000,000
Debt issuance cost	(170,521)
Principal payments, scheduled debt service	(4,232,569)
Payments on extraordinary items, hurricane damage	(1,963,657)
Receipts from capital grant	1,523,015
Interest paid, long-term debt	(2,097,866)
Acquisition and construction of capital assets	(4,512,228)
Net cash provided (used) by capital and related financing activities	1,745,320

Cash flows from investing activities

Receipts of interest	226,887
Net cash provided (used) by investing activities	226,887

Net increase (decrease) in cash and cash equivalents 12,255,236

Cash and cash equivalents, beginning of year	30,986,476
Cash and cash equivalents, end of year	\$ 43,241,712

Cash and cash equivalents per statement of net position:

Unrestricted	\$ 8,949,001
Restricted	34,292,711
Cash and cash equivalents, end of year	\$ 43,241,712

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES*Page 2 of 2***STATEMENT OF CASH FLOWS*****For the Year Ended December 31, 2014*****Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

Operating income	\$ 111,843
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	5,837,831
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	2,654,539
(Increase) decrease in prepaid assets	58,118
Increase (decrease) in accounts and wages payable	1,292,021
Increase (decrease) in accrued expenses	384,223
Increase (decrease) in Unearned revenues and rents	(179,685)
Increase (decrease) in accrued compensated absences	124,139
Total adjustments	<u>10,171,186</u>
Net cash provided (used) by operating activities	<u><u>\$ 10,283,029</u></u>

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Board of Trustees of the Galveston Wharves (the “Wharves”) was designated “a separate utility” in Article XII, Section 2 of the Charter of the City of Galveston (by ordinance adopted October 17, 1940). Article XII, Section 2 states “The Galveston Wharves and the income and revenues there from, shall be fully managed, controlled, maintained and operated by a Board of Trustees to be known as “Board of Trustees of the Galveston Wharves.”

The accompanying financial statements of the Board of Trustees of the Galveston Wharves have been prepared in conformity with generally accepted accounting principles.

The following is a summary of the most significant policies:

A. Reporting Entity

The Board of Trustees of the Galveston Wharves consists of seven members; one member is the ex-officio representative of the Galveston City Council and is elected from the City Council by council members. The Council appoints the six remaining members for three year staggered terms. The Trustees have the powers which are necessary or proper to discharge their responsibilities which include, but are not limited to: the election of a chairman, the employment of a general manager and such other officers and employees as may be required for the proper conduct of the Galveston Wharves, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and in general, the complete management and control of the Wharves and the income and revenue thereof. The Trustees have no power to contract in the name of the City of Galveston and no action or inaction by the Board shall render the City liable for damages or shall be binding other than on the properties, income and revenues of the Galveston Wharves. Except for a \$187,000 annual payment to the City, all net revenues of the Galveston Wharves shall be retained by the Wharves for the betterment and extension of the Galveston Wharves. For reporting purposes, the Wharves are considered a component unit by the City of Galveston.

As required by generally accepted accounting principles, these financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations or functions, as part of the Galveston Wharves’ financial reporting entity. Based on these considerations, the following entity has been included in the Galveston Wharves' reporting entity as a blended component unit.

Galveston Port Facilities Corporation

The Galveston Port Facilities Corporation (the “Corporation”) was incorporated on June 17, 2003, under the provisions of the Texas nonprofit corporation act as a financing facility for the future financing of expansion and renovation of Wharves’ facilities. The Corporation provides services exclusively for the benefit of the Galveston Wharves and is governed by a board of directors composed of the seven members of the primary government and two additional directors appointed by the Galveston City Council. Because of the nature and significance of the Corporation’s relationship with the primary government entity is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, the Corporation’s activities have been included in the accompanying financial statements. Separate financial statements for the Corporation are not prepared.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies (continued)

B. Financial Statement Presentation, Measurement Focus and Basis of Accounting

The Wharves follow enterprise fund accounting and reporting requirements, including the accrual basis of accounting and all generally accepted accounting principles prescribed by the Governmental Accounting Standards.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Galveston Wharves and the Galveston Port Facilities Corporation are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Wharves' policy to use restricted resources first, then unrestricted resources as they are needed.

C. Cash and Cash Equivalents

All short-term investments with maturities of three months or less are considered to be cash equivalents. Cash equivalents are considered to be cash-on-hand, demand deposits, time deposits and certificates of deposit.

D. Investments

Temporary investments consist of balances in the TexStar investment pool and U.S. Treasury Bills with maturities of one year or less and are reported at cost plus amortized discounts.

E. Prepayments

Prepayments for services and insurance that will benefit periods beyond the current period are reflected as prepaid expenses.

F. Restricted Assets

Cash and certain resources are set aside for specified annual payment to the City of Galveston, repayment of revenue refunding bond interest and principal and certain contractual obligations related to operating agreements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

Property constructed or acquired by purchase is stated at cost. The Wharves' policy is to capitalize all capital assets with historical cost of \$5,000 or more. Contributed assets are stated at market value on the date the asset is received. Net interest costs are capitalized during the construction period of major projects. Depreciation is computed on the straight-line method over the following useful lives:

Railroad facilities	5-25 years
Wharves, docks and buildings	5-75 years
Machinery and equipment	3-40 years
Furniture and office equipment	5-30 years

H. Compensated Employee Absences

Compensated employee absences, which include unpaid accrued vacation and sick leave, are accumulated during employment and are accrued when incurred. Employees of the Galveston Wharves earn annual vacation and sick leave time at the rate of one-twelfth of the annual days eligible for each month worked. Vacation time accrued at the rate of 10 to 25 working days per year and may accumulate up to a maximum of 320 hours. Full-time employees accumulate sick leave time at the rate of one day per month, not to exceed 180 days. Upon termination, employees are paid for accumulated vacation time and one-half of accumulated sick leave.

I. Unearned Revenues and Rents

The unearned revenue and rents represent lease payments received that are to be recognized in future periods, and provision for dredging slips and access channels.

J. Net Position

Net position flow assumption

Sometimes the Wharves will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Restricted Net Position

Restricted net position represent those portions of net position segregated pursuant to the provisions of the indenture of the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2004A and B, and the Series 2011 Revenue Refunding bonds which require the Galveston Wharves to establish and maintain an interest and sinking fund and a debt service reserve fund.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 1 - Summary of Significant Accounting Policies *(continued)*

K. Deferred inflows of resources

In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item that qualifies for reporting in this category. It is the deferred gain on refunding reported in the statement of net position. A deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

L. 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. Significant estimates utilized in preparing the financial statements include depreciable lives of property and equipment, estimated accrued loss contingencies, actuarial assumptions relative to future pension benefit obligations and other post-retirement benefits. Although not expected by management, actual results could differ from those estimates.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Temporary Investments

State statutes and the Wharves policy authorize the investment in direct obligations of the U.S. Government, fully collateralized certificates of deposit and investment pools.

Deposit Custodial Credit Risk

State statutes and the Wharves' depository agreement also require that all cash and investment balances in depository institutions be covered by federal depository insurance and/or to be collateralized at the lower of par or current market value by the following:

- Obligations of the United States or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies;
- Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; or
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.

Cash and temporary investments balances at December 31, 2014 consisted of the following:

Checking and time deposits	
Cash on hand	\$ 8,200
Deposits with financial institution:	
Checking	17,959,705
Held by City of Galveston	2,756,896
	<u>20,724,801</u>
Temporary investments	
U.S. Treasury bills	4,368,246
Local Government investment pools (TexStar)	18,148,665
	<u>22,516,911</u>
Total cash and temporary investments	<u><u>\$ 43,241,712</u></u>

Cash and temporary investments for the Wharves are recorded on the face of the financial statements as follows:

Unrestricted	
Cash and temporary investments	\$ 8,949,001
Restricted	
Cash and temporary investments	34,292,711
Total cash and temporary investments	<u><u>\$ 43,241,712</u></u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Temporary Investments (continued)

Restricted Cash and Temporary Investments

Restricted cash and temporary investments and the net investment in a direct financing lease were required under the terms of: Article XII, Section 9, of the Charter of the City Galveston that requires the Galveston Wharves to make annual payments to the City of Galveston. Provisions of the indenture of the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2011 as well as Series 2004A and B, require the Galveston Wharves to establish and maintain an interest and sinking fund and a debt service reserve fund.

	<u>2014</u>
Interest and sinking and debt service reserves	
Terminal Revenue Refunding Bonds Series 1998A&B	\$ 2,549,919
Terminal Revenue Bonds Series 1999	1,818,328
Series 2013 C.O. Interest and Sinking Fund	2,576,896
Series 2014 Subordinate Lien Notes Interest and Sinking Fund	143,098
City of Galveston franchise payment	182,000
Bond proceeds	14,174,251
Series 2014 Restricted Notes Funds	12,840,000
Channel deepening	7,825
Bulkhead improvements	394
	<u><u>\$ 34,292,711</u></u>

Investment Policies

State statutes establish investment practices and authorized investments for political subdivisions of the State of Texas. The Wharves' has adopted an investment policy which authorizes the Wharves' to invest in certain of the following investments authorized by state statutes:

- obligations of the United States or its agencies and instrumentalities;
- direct obligations of this state or its agencies and instrumentalities;
- a certificate of deposit or share certificate issued by a depository institution with an office in this state or as otherwise described in the statutes;
- a fully collateralized repurchase agreement that has a defined termination date, is secured by the obligations and pledged as defined in the statutes; and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;
- a securities lending program that meets all of the detailed conditions defined in the statutes;
- a bankers' acceptance that has a stated maturity of 270 days or fewer from the date of its issuance, will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank and is accepted by a bank as defined in the statutes;

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Cash and Temporary Investments (continued)

Investment Policies (continued)

- commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance, is rated or fully secured as defined in the statutes;
- a no-load money market mutual fund that is registered with and regulated by the Securities and Exchange Commission, provides information and investment objectives as required by the statutes, has a dollar-weighted average stated maturity of 90 days or fewer;
- a no-load mutual fund that invests exclusively in the obligations authorized in this section, is registered with the Securities and Exchange Commission, has an average weighted maturity of less than two years, is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent and conforms to other statute requirements;
- a guaranteed investment contract is an authorized investment for bond proceeds if it has a defined termination date of no longer than five years from the date of issuance of the bonds, is fully secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities and is pledged to the Wharves' and deposited with the Wharves' or with a third party selected and approved by the Wharves'. Eligibility must meet requirements as defined in the statutes;
- an investment pool that invests exclusively in the obligations authorized in this section and furnishes the Wharves' specified required information as defined in the statutes. The investment pool must also meet additional guidelines as defined in the statutes.

Interest Rate Risk

In order to limit interest and market risk from changes in interest rates, the Wharves adopted Investment Policy sets a maximum stated maturity date of one year in operating funds, 210 days in debt service funds and three years in bond reserve funds. As of December 31, 2014, the Wharves investments consisted of the following investment types and weighted average maturities:

	Fair Value	Average Maturity (days)	Percentage of Total Portfolio
Investments			
U.S. Treasury bills	\$ 4,368,246	149	19%
Local Government investment pools (TexStar)	18,148,665	49	81%
Total Investments	<u>\$ 22,516,911</u>		<u>100%</u>
Weighted average maturity (days)		<u>68</u>	

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3 - Accounts Receivable

Trade accounts receivable are generated from general deep water port services and rental property and facilities. Accounts receivable and the associated allowance for doubtful accounts follows:

	2014
Accounts receivable, trade	\$ 4,012,526
Grants receivable	7,999,056
Interest receivable	1,338
Less allowance for doubtful accounts	(389,043)
Net accounts receivable	<u>\$ 11,623,877</u>

Note 4 - Capital Assets

Changes in capital assets during the year ended December 31, 2014, are summarized as follows:

	Balance at December 31, 2013	Additions	Retirements	Transfers / Reclassification	Balance at December 31, 2014
Capital assets not being depreciated:					
Land	\$ 16,498,075	\$ 1,220	\$	\$	\$ 16,499,295
Channel Deepening	11,338,742				11,338,742
Construction in progress	9,357,972	3,890,918		(5,802,973)	7,445,917
Total capital assets not being depreciated	37,194,789	3,892,138		(5,802,973)	35,283,954
Capital assets being depreciated:					
Railway property and buildings	4,245,109	15,454			4,260,563
Wharves property and buildings	161,414,647	736,224	(235,116)	5,009,268	166,925,023
Operating equipment	8,751,152	74,394			8,825,546
Office equipment	2,268,832	29,134		793,705	3,091,671
Total capital assets being depreciated	176,679,740	855,206	(235,116)	5,802,973	183,102,803
Less accumulated depreciation for:					
Railway property and buildings	(2,205,168)	(53,586)			(2,258,754)
Wharves property and buildings	(69,073,906)	(4,665,830)	235,116		(73,504,620)
Operating equipment	(3,373,636)	(851,380)			(4,225,016)
Office equipment	(1,583,289)	(267,035)			(1,850,324)
	(76,235,999)	(5,837,831)	235,116		(81,838,714)
Total assets being depreciated, net	100,443,741	(4,982,625)		5,802,973	101,264,089
Total capital assets	<u>\$ 137,638,530</u>	<u>\$ (1,090,487)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 136,548,043</u>

Depreciation expense for the year amounted to \$5.8 million

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Capital Assets (continued)

The Port is currently constructing an Intermodal Transit Center with 160 parking spaces on a Port owned lot at the corner of Strand and 25th street. The original completion date was 4th quarter 2013. Due to issues pertaining to the historical building on the lot next to the new construction there has been a delay in the completion. Currently it is estimated that construction will be completed in 3rd quarter 2015. The Transit Center is being funded through grants in conjunction with the City of Galveston. Acquisition cost of the lot was \$850 thousand with total Transit Center cost of construction not to exceed \$6.5 million.

Commitments relating to construction in progress as of December 31, 2014, are as follows:

	Total Commitment	Construction in Progress	Remaining Commitment
Galveston Transit Terminal-Construction	\$ 6,826,511	\$ 3,886,638	\$ 2,939,873
CT 2 Expansion	12,840,000	1,115,792	11,724,208
Shearn Moody Plaza Garage - Remodel	834,154	759,864	74,290
West End Development Study	300,000	338,988	(38,988)
Projects under \$200,000	1,242,062	1,344,635	(102,573)
Totals	\$ 22,042,727	\$ 7,445,917	\$ 14,596,810

Note 5 - Long Term Debt

During the year ended December 31, 2014, the following changes occurred in the Wharves' general long-term debt issues:

Issue	Balance at December 31, 2013	Increases	Decreases	Balance at December 31, 2014	Amount Due Within One Year
Revenue Bonds					
Series 2011 Refunding	\$ 24,570,000	\$	\$ (1,410,000)	\$ 23,160,000	\$ 1,470,000
Premium on Series 2011	617,093		\$ (51,070)	566,023	
Contracts Payable					
Series 2013A&B	13,600,000		(2,575,000)	11,025,000	2,645,000
Premium on 2013 A&B	710,071		(173,895)	536,176	
Series 2004B	2,873,672			2,873,672	
Accreted intrest on Capital Appreciation Bonds	1,888,921	247,643		2,136,564	
Capital Lease Payable					
Capital Lease	2,849,937		(247,569)	2,602,368	257,654
Notes Payable					
Series 2014		13,000,000		13,000,000	
Federal Community Disaster Loan	1,339,294			1,339,294	159,214
	<u>\$ 48,448,988</u>	<u>\$ 13,247,643</u>	<u>\$ (4,457,534)</u>	<u>\$ 57,239,097</u>	<u>\$ 4,531,868</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Debt (continued)

Long-term bonded debt at December 31, 2014, was composed of the following issues:

Description	Original Issue	Interest Rates	Maturity Dates Beginning/ Ending	Interest Payment Dates
Revenue Bonds				
City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds Series 2011	\$ 25,925,000	4.00-5.00%	February 1, 2013/2026	February 1/ August 1/
Contracts Payable				
City of Galveston, Texas Combination Tax and Revenue Certificate of Obligation Series 2004B	5,163,672	5.09-5.18%	February 1, 2004/2020	February 1/ August 1/
City of Galveston, Texas Combination Tax and Revenue Certificate of Obligation Series 2013A	11,420,000	2.00-4.00%	February 1, 2004/2018	February 1/ August 1/
City of Galveston, Texas Combination Tax and Revenue Certificate of Obligation Series 2013B	2,180,000	3.00%	February 1, 2004/2018	February 1/ August 1/

The bonded debt described above, along with the note and capital lease payable, have been issued to fund capital improvements of the Wharves.

As of December 31, 2014, the annual debt service requirements for bonded debt until maturity are as follows:

Fiscal Year	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 1,470,000	\$ 1,079,394	\$ 2,549,394
2016	1,530,000	1,019,394	2,549,394
2017	1,600,000	948,794	2,548,794
2018	1,680,000	866,794	2,546,794
2019	1,765,000	780,669	2,545,669
2020	1,855,000	690,169	2,545,169
2021	1,950,000	595,044	2,545,044
2022	2,055,000	494,919	2,549,919
2023	2,150,000	395,169	2,545,169
2024	2,255,000	294,647	2,549,647
2025	2,365,000	183,375	2,548,375
2026	2,485,000	62,122	2,547,122
	<u>\$ 23,160,000</u>	<u>\$ 7,410,490</u>	<u>\$ 30,570,490</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Debt (continued)

Contracts Payable			
Fiscal Year	Principal	Interest	Total
2015	\$ 2,645,000	\$ 325,875	\$ 2,970,875
2016	2,720,000	245,400	2,965,400
2017	2,820,000	148,200	2,968,200
2018	2,840,000	45,900	2,885,900
2019	1,483,051	1,676,949	3,160,000
2020	1,390,621	1,769,379	3,160,000
	<u>\$ 13,898,672</u>	<u>\$ 4,211,703</u>	<u>\$ 18,110,375</u>

Revenue Bonds

The indentures creating the Series 2011 Wharves and Terminal Refunding Bonds issued on December 6, 2011 provide that after provision for payment of maintenance and operations and required deposits into the city payment fund annually by December 31 of \$187,300. The Gross revenues of the Port are to be pledged for the payment of debt service on the bonds through February 1, 2026. Maintenance and operating expenses, for the purpose of determining funds available for debt service, do not include depreciation expense or interest on obligations or indebtedness issued by the Galveston Wharves or operating expense for use by lessees or others using the Galveston Wharves facilities. The indentures require that for the duration of the period the bonds are outstanding, the Galveston Wharves create and maintain a Debt Service Reserve Fund of \$2,549,919 equal to at least 150 percent of the Average Annual debt Service or of 125 percent of the Maximum Annual Debt Service Requirements on all Parity Obligations that will be Outstanding after the issuance of the series of Additional Parity Bonds then proposed to be issued; provided, however, that this requirement shall not apply to the issuance of refunding bonds that will have the effect of reducing the Average Annual Debt Service Requirements on the Parity Obligations. These interest and sinking funds have been established at the Galveston Wharves depository bank and are reported as restricted cash and temporary investments in the financial statements. The Galveston Wharves is in compliance with all significant bond covenants.

Contracts Payable

On January 13, 2004, the City of Galveston issued Combination Tax and Revenue Certificates of Obligation (CO's) Series 2004A and 2004B totaling \$19,323,672 in favor of the Wharves. The primary security for the repayment of these CO's, which have a final maturity date of August 1, 2018, is the net revenues of the Wharves. The proceeds of this issue are to be used to build out Cruise Terminal No. 2, demolish grain elevator B, construct warehousing, channel deepening, and parking facilities. The liability of the Wharves relating to these obligations is presented as contracts payable to reflect the agreement between the Wharves and the City for the repayment of the debt with Wharves revenues.

On May 2, 2013 \$14,025,000 Combination Tax and Revenue Certificates of Obligation (CO's) Series 2004A and Series 2004B were refunded through the issuance of \$13,600,000 of the City of Galveston issued Combination Tax and Revenue Certificates of Obligation (CO's) Series 2013 yielding cash proceeds of \$14,445,695.42 (including accrued interest and premium). The purpose of this issue was to reduce total debt service of the City of Galveston issued Combination Tax and Revenue Certificates of Obligation (CO's) Series 2004A and 2004B yielding a Net PV Savings of \$1,155,542.51 over the remaining life of the CO's. The sale of the bonds resulted in deferred gain on refunding of \$188,841. The refunded bonds were called on May 6, 2013.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Debt (continued)

Notes Payable

Revenue Notes Series 2014 (AMT) were issued. These notes are payable to Moody National Bank, NA (\$6 million), Texas First (\$4 million), Home Town Bank, NA (\$3 million). The purpose of this issue is to be used for Cruise Terminal 2 addition and expansion along with required water front improvements. Final redemption of these notes is August 1, 2026.

The Port participated in the Community Disaster Loan Program through the Department of Homeland Security (FEMA) and was awarded \$3.7 million in June 2009. The note bears interest at 2.5% per annum and matures on June 30, 2014. Neither principal nor interest payments are required until maturity. The terms of the loan provide that if the recipient jurisdiction has not recovered sufficiently to meet its operating budget after three full fiscal years, repayment of all or part of the loan may be cancelled. Based on FEMA review \$2.4 million was forgiven in 2014 leaving a balance of \$1.3 million to be paid quarterly over a 5 year period beginning July 2014.

Fiscal Year	Notes Payable		
	Principal	Interest	Total
2015	159,214	770,753	929,967
2016	326,709	603,659	930,368
2017	334,979	595,389	930,368
2018	343,433	586,936	930,369
2019	174,959	578,825	753,784
2020	1,773,750	577,200	2,350,950
2021	2,012,916	498,446	2,511,362
2022	2,102,500	409,072	2,511,572
2023	2,201,667	315,721	2,517,388
2024	2,301,667	217,967	2,519,634
2025	2,406,250	115,773	2,522,023
2026	201,250	8,936	210,186
	<u>\$ 14,339,294</u>	<u>\$ 5,278,677</u>	<u>\$ 19,617,971</u>

Capital Lease Payable

On March 30, 2011, the Wharves entered into a capital lease agreement to finance the purchase of a replacement gangway system for Cruise Ship Terminal 1 in the amount of \$3.5 Million. The lease has a term of seven years at an interest rate based on the Stockholm Interbank Offered Rates (STIBOR) plus 60 basis points with an initial interest rate of 4.0. This interest rate is adjustable on each anniversary of the agreement. Under the terms of the agreement, the Wharves is to make 83 equal payments of \$29,755 and a residual payment of \$1,779,634 on the expiration date of the lease. Future minimum lease payments for the balance of the lease are as follows:

Fiscal Year	Future Minimum Lease Payments
2015	\$ 357,060
2016	357,060
2017	357,060
2018	1,809,389
	<u>2,880,569</u>
Less interest portion	<u>(278,201)</u>
Capital lease payable	<u>\$ 2,602,368</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Long Term Debt (continued)

Compensated Absences

Compensated absences liability activity for the year is as follows:

Balance at December 31, 2013	Increases	Decreases	Balance at December 31, 2014
<u>\$ 985,280</u>	<u>\$ 483,406</u>	<u>\$ (359,267)</u>	<u>\$ 1,109,419</u>

The amount due within one year is estimated to be \$332,826

Note 6 - Lease Agreements

Direct Financing Lease - Dockside Elevator

The Galveston Wharves acquired a dockside elevator in 1977 for \$36,085,730. The acquisition was financed by the issuance of \$26,000,000 special revenue bonds and \$10,085,730 advance rental from the lessee. During 1982, the Wharves issued \$27,420,000 special revenue bonds to finance additional improvements by the lessee that were redeemed on October 1, 1987.

Upon issuing Special Contract Refunding Revenue Bonds in the amount of \$8,500,000 on April 15, 1998, the Galveston Wharves entered into an amended lease agreement with its present lessee to amend the terms of the lease extending the initial lease period to November 1, 2015, (17 years), with options to extend the lease for four additional successive terms of three years each.

The Wharves had no obligation for the special revenue bonds beyond the resources provided by the direct financing lease. These special revenue bonds were retired in December 2011.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2014:

	2014
Minimum lease rental payments receivable:	
Due within one year	\$ 489,106
Due after one year	5,543,208
	<u>6,032,314</u>
Unearned income, direct financing lease:	
Due within one year	289,960
Due after one year	3,286,218
	<u>3,576,178</u>
Net investment in direct financing lease	<u>\$ 2,456,136</u>

Unearned income is amortized and charged to operation over the initial and optional terms of the leases on a straight-line basis.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Lease Agreements (continued)

Advance Facility Rental

In 1977, the Galveston Wharves received approximately \$10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2014, the amount that applies to future periods was approximately \$3.5 million. This amount is presented as unearned revenues and rentals on the face of the financial statements.

A schedule of minimum lease payments receivable over the life of the lease follows:

Fiscal Year	Future Minimum Lease Payments
2015	\$ 489,106
2016	489,106
2017	489,106
2018	489,106
2019	489,106
Thereafter	3,586,784
Total	\$ 6,032,314

Railroad Facilities

Following the favorable settlement in 2006 of a lawsuit filed by the Wharves over the interpretation of certain language in the lease covering rail facilities owned by the Wharves, the Wharves entered into a new lease agreement with the previous lessee covering the rail facilities effective August 1, 2006, through the period ending July 31, 2026. This new lease calls for annual base rent in the amount of \$100,000 adjusted annually for a cost of living increase, and percentage rent of 20% of the lessee's total gross revenues. It also calls for relocation of certain rail track, the cost of which will be split 50/50 between the Wharves and the lessee. The lease also provides for the establishment of an "Annual Track Fund". Under this section, the lessee will accrue \$20,000 per month to be spent on maintaining and repairing the railroad track. If during the course of a year, lessee spends less than the annual \$240,000 accrual the balance remaining is to be split 50/50 between the lessee and the Wharves.

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2014, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Fiscal Year	Future Lease Payments
2015	\$ 3,140,408
2016	3,203,216
2017	3,267,281
Total	\$ 9,610,905

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 7 - Employee Retirement System (Pension Plan)

Plan Description

The Galveston Wharves Pension Plan ("The Plan") is a single-employer defined benefit pension plan administered by an administrative committee appointed by the Board of Trustees of the Galveston Wharves. The Plan provides retirement, death and disability benefits for all regular, full-time employees and employees' surviving spouses, except those employees covered by a collective bargaining agreement, of the Galveston Wharves. The authority under which obligation to contribute to the Plan and any plan amendments is vested in the Board of Trustees of the Galveston Wharves by Article 12 of the Charter of the City of Galveston, Texas. The Plan issues a stand-alone financial report that may be obtained by requesting such report from the Board of Trustees of the Galveston Wharves, 123 Rosenberg, P. O. Box 328, Galveston, Texas 77553. Beginning January 1, 2010 the plan is frozen to new members.

Basis of Accounting

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Plan assets are reported at fair value.

Funding Policy

The Wharves will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Wharves may decide. The Wharves reserves the right to reduce, suspend or discontinue contributions to the plan. Currently the Wharves is making monthly contributions such that payments equal to the prior year funding requirement is met. In the event that the funding requirement exceeds monthly contributions an additional contribution is normally scheduled to fund the annual required contribution.

Annual Pension Cost and Net Pension Asset

The annual contribution was determined through an actuarial valuation performed as of January 1, 2013. The actuarial assumptions used are as follows:

Actuarial Assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period in Years	30 - Closed
Asset Valuation Method	Market Value
Investment rate of return	7.5%
Projected Salary Increases	4.6%
Interest credit for cash balance	5.0%
Rate of inflation	3.5%

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (Pension Plan) (continued)

The Wharves annual pension cost and net pension asset for the current year are as follows:

Normal Cost	\$ 183,481
Amortization of unfunded liability	214,802
Annual pension cost	398,283
Contributions made	<u>540,004</u>
Net pension asset, beginning of year	-
Net pension asset, end of year	<u><u>\$ 141,721</u></u>

Three-year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 669,776	100%	\$ 0
2013	540,004	100%	0
2014	398,283	100%	0

Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2013, the most recent actuarial valuation date is as follows:

	January 1, 2014
Actuarial value of plan assets	<u>\$ 11,492,112</u>
Actuarial accrued liability	14,039,689
Unfunded Actuarial Accrued liability (UAAL)	\$ 2,547,577
Funded Ratio	81.9%
Annual covered payroll	\$ 3,484,519
Ratio- of UAAL to covered payroll	73%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Note 8 - Deferred Compensation Plans

Deferred Compensation Plan

The Galveston Wharves offers all full-time employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (IRC 457). The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseen emergency.

Government entities relying upon third parties to manage IRC 457 assets are not required to report such assets on their balance sheets.

Employees Retirement Accumulation Plan

Employees of the Galveston Wharves elected to be covered under a special program of benefits designed as an alternative to Social Security. The plan is comprised of certain death and disability benefits to all employees in the event of death or disability during employment, and also provides the vehicle for accumulating funds for retirement. All employees, other than employees covered by a collective bargaining agreement, are eligible to participate and are required to participate in the plan.

The Galveston Wharves had no employees covered by a collective bargaining plan in the year 2014; therefore, all Wharves' employees participated in the plan.

According to the original Plan arrangement, the Galveston Wharves' contribution to the plan was discretionary, however, it was intended that they will make contributions for each employee that are at least equal to a contribution which would be required if Federal Social Security coverage were applicable. Employees were required to make contributions that are equal to amounts required to be contributed under the requirements of the Federal Social Security program. In order to eliminate the employer's salary cap under the plan, the Board approved a plan amendment eliminating the salary cap effective January 1, 1997. The plan is a defined contribution plan and the Galveston Wharves' and the employees' contributions must be made on at least a monthly basis.

In January 1995, the Galveston Wharves amended its single employer defined benefit plan. The amendment established a Cash Balance Account that places six percent of employees' annual base wages in a Cash Balance Account. The contribution will be made from the defined benefit pension plan assets and replaces the Galveston Wharves' obligation for making annual contributions to the Employees Retirement Accumulation Plan. The cash balance contributions are vested one hundred percent in employees' accounts at the end of each pay period. The Cash Balance Account funds will be administered by the Galveston Wharves Pension Plan Administrative Committee, remain in the plan's trust fund and be invested in accordance with the policies of the administrative committee and the trust fund. On September 30, 2005, the six percent cash balance feature of the pension plan was terminated and replaced by a 5.5% contribution made to the plan by the Wharves. The remaining one half of a percent is used to purchase disability insurance as a substitution for social security.

During the year ended December 31, 2014, employees contributed \$396,555 and the Wharves contributed \$286,385 to the plan.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Commitments, Contingencies, and Uncertainties

A substantial portion of the Galveston Wharves' facilities and operating assets are subject to federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Galveston Wharves. However, due to the nature of the industry in which they operate, a risk of possible fines, penalties and liability claims exists. Management believes that its current practices and procedures for the control and disposition of waste comply with applicable federal and state requirements and the Galveston Wharves is insured against claims arising from environmental hazards.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Wharves' expects such amounts, if any, to be immaterial.

The Galveston Wharves' is subject to claims and lawsuits arising from the normal course of business. The Galveston Wharves' legal counsel routinely evaluates such claims and management may make provision for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2014 and 2013.

The Galveston Wharves is a defendant in a lawsuit filed by three of the private cruise parking lots. These parking lots are contesting the 2014 rate increase in private parking lot cruise terminal access fees. By order of the court the defendants are required to remit the old rate to the Wharves and place the difference between the old rate and the new rate in escrow with the court until the matter is resolved.

With respect to litigation cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Galveston Wharves.

The Galveston Wharves' currently lease land from entities for parking lots on a month to month basis.

Note 10 - Risk Management

The Galveston Wharves is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the Galveston Wharves carries commercial insurance. The Galveston Wharves is also exposed to the risk of loss resulting from operation of equipment; general, professional and law enforcement liability and workers' liability for which it carries commercial insurance. For the amounts deductible from the loss coverage amounts, the Galveston Wharves is self-insured. The Galveston Wharves has not significantly reduced insurance coverage for the past two years or had settlements that exceeded coverage amounts for the past three fiscal years.

The Galveston Wharves also provides for losses ranging for \$1 million to \$65 million by carrying excess/umbrella liability insurance coverage.

The Galveston Wharves provides all active, regular full-time employees with group life, medical and dental insurance coverage and flexible benefit program. Coverage is obtained through third party insurance carriers.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Arbitrage Compliance

Per Section 148 of the *Internal Revenue Code of 1986* as amended (the “*Code*”), the Wharves’ must meet certain criteria with regard to interest earnings on its proceeds from long-term debt issuances in order for the interest income paid on those obligations to be considered tax-exempt for the debt holders. Related United States Treasury regulations promulgated under that same *Code* section generally provide that the initial determination of the taxable or tax-exempt status of an obligation is made as of the date such obligation is issued, based on reasonable expectations regarding the use of the resulting proceeds.

Long-term debt that does not initially meet, and continue to meet, the minimum criteria of Section 148 of the *Code* and the related Treasury regulations, and particularly the requirement to rebate certain *arbitrage profits* to the federal government, is considered “arbitrage bonds” and forfeits its tax-exempt status. The Wharves’ obligation to calculate and, if necessary, make rebate payments continues as long as proceeds of debt remain unexpended.

Arbitrage profits result when the interest rate earned on invested debt proceeds is materially greater than that paid to holders of that debt, as calculated beginning on the third anniversary of the debt’s issuance. Accordingly, any proceeds unexpended more than three years after debt issuance is subject to yield restriction. The yield restriction may be satisfied, if any, by making yield-reduction payments pursuant to Treasury Regulation Section 1.148-5(c).

The Wharves’ presently has unexpended debt proceeds from certain debt issues, but will not be subject to yield restrictions until January 2014 and therefore does not anticipate associated non-compliance issues.

Note 11 - Concentration of Credit Risk

Five customers generating operating revenues in excess of \$13 million annually comprise approximately 49 percent of total operating revenues for the year ended December 31, 2014. In the normal course of business, the Galveston Wharves extends unsecured credit to its customers.

Note 12 - Extraordinary Items

On September 13, 2008, Hurricane Ike made landfall bringing up to a 20 foot storm surge ashore causing \$29.5 billion in damages to the Texas Gulf Coast. Damages to the Galveston Wharves exceeded its total property insurance limits of \$55 million. The Galveston Wharves has submitted to the Texas Division of Emergency Management (TDEM) and the Federal Emergency Management Agency (FEMA) eligible project worksheets totaling up to \$45 million.

In 2012, the Galveston Wharves received the final layer of the property insurance policy limits. Port management is currently reconciling the property insurance final proof of loss and supporting documentation for new storm induced erosion eligible projects with TDEM and FEMA. Due to the magnitude of these claims it is taking an extended period of time to complete the required repairs. Projects are recorded as actual cost are incurred and are recorded at 80% of the total cost incurred. The FEMA receivable balance is currently at \$7 million.

Total Property Insurance Received	55,000,000
Total Current TDEM/FEMA Project Worksheet Amounts	19,471,882
Estimated Future TDEM/FEMA Projects Amounts	29,053,003
FEMA Reimbursement to Date	(13,714,337)
Total Pending Current and Future FEMA Project Amounts	34,810,547

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 13 - Combining Schedule for Galveston Wharves (POG) and Galveston Port Facilities Corporation (GPFC)

	POG	GPFC	Eliminations	Totals
Current assets	\$ 49,995,304	\$ 7,365,878	\$ (1,579,663)	55,781,519
Capital assets	125,841,421	10,706,622		136,548,043
Other non current assets	2,256,990			2,256,990
Total Assets	178,093,715	18,072,500	(1,579,663)	194,586,552
Current liabilities	11,534,857	950,952	(1,579,663)	10,906,146
Long Term Liabilities	56,481,777			56,481,777
Total Liabilities	68,016,634	950,952	(1,579,663)	67,387,923
Deferred inflows of resources	142,594			142,594
Net Position				
Net investment in capital assets	95,616,575	10,706,622		106,323,197
Restricted	6,360,062			6,360,062
Unrestricted	7,957,850	6,414,926		14,372,776
Total Net Position	\$ 109,934,487	\$ 17,121,548	\$ -	\$ 127,056,035
	POG	GPFC	Eliminations	Totals
Operating Revenues				
Vessels and cargo services	\$ 7,493,387	\$ 10,313,513	\$ -	\$ 17,806,900
Building and facilities rental and fees	14,018,273	46,015	(4,160,096)	9,904,192
Total Operating Revenues	21,511,660	10,359,528	(4,160,096)	27,711,092
Operating Expenses				
Personnel services	7,732,924	1,125,232		8,858,156
Maintenance and operations	5,287,742	7,784,191	(4,160,096)	8,911,837
Sales and office	2,838,701	965,422		3,804,123
Annual city payment	187,302			187,302
Depreciation	5,144,815	693,016		5,837,831
Total Operating Expenses	21,191,484	10,567,861	(4,160,096)	27,599,249
Net Operating Income	320,176	(208,333)		111,843
Non-Operating Revenue (Expense)				
Earnings on investments	225,012	789		225,801
Interest expense	(1,970,803)			(1,970,803)
Other Debt Expense	(170,521)			(170,521)
Total Non-Operating Revenues (Expenses)	(1,916,312)	789		(1,915,523)
Income Before Capital Grants and Contributions				
and Special Items	(1,596,136)	(207,544)		(1,803,680)
Capital Grants and Contributions	2,263,814			2,263,814
Extraordinary items	(1,963,657)			(1,963,657)
Changes in Net Position	(1,295,979)	(207,544)		(1,503,523)
Beginning Net Position	111,230,466	17,329,092		128,559,558
Ending Net Position	\$ 109,934,487	\$ 17,121,548	\$ -	\$ 127,056,035

PORT OF GALVESTON

GALVESTON, TEXAS



PORT OF GALVESTON

GALVESTON, TEXAS



Required Supplementary Information



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
REQUIRED PENSION SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS

	January 1, 2014	January 1, 2013	January 1, 2012
Actuarial value of plan assets	\$ 11,492,112	\$ 9,982,457	\$ 8,982,457
Actuarial accrued liability	14,039,689	13,746,070	13,404,790
Unfunded Actuarial Accrued liability (UAAL)	\$ 2,547,577	\$ 3,763,613	\$ 4,422,333
Funded Ratio	81.9%	72.6%	67.0%
Annual covered payroll	\$ 3,484,519	\$ 3,627,781	\$ 3,921,729
Ratio- of UAAL to covered payroll	73%	104%	113%



PORT OF GALVESTON

GALVESTON, TEXAS



Statistical Section



Statistical Section Categories

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Financial Trend:	
These schedules contain trend information to help the reader understand how the Port's financial performance and well being have changed over time.	
Condensed Statement of Net Position	36
Statement of Changes in Net Position	38
Operating Revenue Statement	40
Revenue Capacity Data:	
These schedules contain information regarding the largest contributors to operating revenues.	
Schedule of Ten Largest Revenue Generating Customers	42
Debt Capacity Data:	
These schedules contain information for the reader to assess the affordability of the Port's current levels of outstanding debt and the ability to issue additional debt in the future.	
Schedule of Long-term Debt	44
Pledged Net Revenue Coverage	46
Debt Service Schedule	48
Demographic and Economic Information:	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Port's financial activities take place.	
Demographic and Economic Statistics	49
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Operating Information:	
These schedules contain service and infrastructure data to help the reader understand how the information in the Port's financial report relates to the services the Port provides and the activities it performs.	
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THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CONDENSED STATEMENT OF NET POSITION

Last Ten Fiscal Years

Description	2014	2013	2012	2011
Assets				
Unrestricted Current Assets	\$ 21,289,662	\$ 23,855,430	\$ 26,711,814	\$ 15,432,593
Restricted Current Assets	34,491,857	21,643,798	22,538,833	22,812,482
Properties and Facilities, Net	136,548,043	137,638,530	127,239,959	118,050,502
Other Assets	2,256,990	2,456,136	2,655,282	2,904,883
Total Assets	194,586,552	185,593,894	179,145,888	159,200,460
Liabilities				
Current Liabilities (payable from non-restricted assets)	6,791,146	5,109,981	5,836,253	8,789,144
Current Liabilities (payable from restricted assets)	4,115,000	5,324,294	3,780,000	1,355,000
Long Term Debt (net of current portion)	53,816,648	43,566,405	51,255,689	52,359,120
Unearned revenues	2,665,129	2,844,814	3,149,585	4,842,624
Total Liabilities	67,387,923	56,845,494	64,021,527	67,345,888
Deferred inflows of resources	142,594	188,841		
Net Position				
Net investment in capital assets	106,323,197	103,644,735	87,905,458	85,136,679
Restricted	6,360,062	6,202,683	5,964,618	2,324,964
Unrestricted	14,372,776	18,712,141	21,254,285	4,392,929
Total Net Position	\$ 127,056,035	\$ 128,559,559	\$ 115,124,361	\$ 91,854,572

Effective January 1, 2012 the Wharves implemented GASB Statements No. 63 & 65. Prior periods presented above have been restated to reflect the accounting methods dictated by these statements.

2010	2009	2008	2007	2006	2005
\$ 25,064,376	\$ 21,687,683	\$ 41,213,126	\$ 21,127,290	\$ 19,050,905	\$ 7,911,234
33,752,774	32,014,012	37,456,831	22,995,060	24,925,698	29,562,815
101,418,433	100,546,191	92,136,296	84,020,395	78,079,114	75,577,516
11,607,319	11,809,757	12,012,194			
171,842,902	166,057,643	182,818,447	128,142,745	122,055,717	113,051,565
8,636,926	7,275,344	25,723,976	7,548,543	5,848,586	5,248,278
2,815,000	2,685,000	3,210,000	1,975,000	3,905,000	3,855,000
64,215,178	69,185,320	71,099,866	46,827,755	47,259,466	48,842,373
5,648,989	6,583,319	3,890,466	4,128,701	4,392,077	4,687,388
81,316,093	85,728,983	103,924,308	60,479,999	61,405,129	62,633,039
70,222,488	64,734,657	56,794,515	48,425,005	43,442,019	41,419,331
6,387,145	4,900,092	7,655,947	5,032,631	4,093,602	4,304,397
13,917,176	10,693,911	14,443,677	14,205,110	13,114,967	4,694,798
\$ 90,526,809	\$ 80,328,660	\$ 78,894,139	\$ 67,662,746	\$ 60,650,588	\$ 50,418,526

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CHANGES IN NET POSITION

Last Ten Fiscal Years

Description	2014	2013	2012	2011
Operating Revenues:	\$ 27,711,092	\$ 24,767,493	\$ 24,482,964	\$ 24,843,317
Operating Expenses:				
Personnel Services	8,858,156	8,845,314	8,819,701	8,281,209
Maintenance and Operations	8,911,837	7,105,943	6,990,167	7,329,099
Office & Sales Expense	3,804,123	2,428,240	2,333,548	2,869,070
Annual City Payment	187,302	187,302	187,302	182,000
Depreciation	5,837,831	5,640,607	4,999,706	4,112,167
Total Operating Expenses	<u>27,599,249</u>	<u>24,207,406</u>	<u>23,330,424</u>	<u>22,773,545</u>
Net operating Income (Loss)	111,843	560,087	1,152,540	2,069,772
Non-Operating Revenue (Expenses):				
Direct Financing Lease				428,542
Earnings on Investments	225,801	201,126	122,618	81,193
Income from Capital Lease				
Interest Expense	(1,970,803)	(2,115,837)	(2,500,263)	(2,991,863)
Bond issuance costs				(432,241)
Other Debt Expense	(170,521)	(225,146)		
Net Gain/(Loss) on Disposal of Equipment		1,840		(24,366)
Legal Settlement				
Operating Grants				1,962,345
Loss on Termination of Capital Lease				
Total Non-Operating Revenues (Expenses)	<u>(1,915,523)</u>	<u>(2,138,017)</u>	<u>(2,377,645)</u>	<u>(976,390)</u>
Capital Grants and Contributions	2,263,814	15,958,039	11,154,694	716,170
Extra-ordinary Items due to Hurricane Ike (Net)	<u>(1,963,657)</u>	<u>(944,908)</u>	<u>13,340,200</u>	<u>(481,789)</u>
Changes in Net Position	<u>\$ (1,503,523)</u>	<u>\$ 13,435,201</u>	<u>\$ 23,269,789</u>	<u>\$ 1,327,763</u>

Effective January 1, 2012 the Wharves implemented GASB Statements No. 63 & 65. Prior periods presented above have been restated to reflect the accounting methods dictated by these statements.

2010	2009	2008	2007	2006	2005
\$ 24,678,500	\$ 20,870,753	\$ 22,489,156	\$ 22,098,700	\$ 21,958,844	\$ 17,360,287
7,657,539	6,945,120	6,664,020	6,268,721	7,365,179	5,422,470
7,101,626	6,440,171	5,564,899	4,475,158	4,363,186	3,514,296
2,595,201	3,195,543	2,774,130	2,447,375	2,324,611	2,316,855
182,000	182,000	182,000	182,000	182,000	182,000
4,212,567	3,942,434	3,500,057	3,302,772	3,184,469	2,866,878
21,748,933	20,705,268	18,685,106	16,676,026	17,419,445	14,302,499
2,929,567	165,485	3,804,050	5,422,674	4,539,399	3,057,788
467,500	467,500	467,500	512,500	647,500	775,748
375,976	344,028	982,330	1,251,475	922,903	620,926
				110,956	144,833
(3,157,474)	(3,304,340)	(3,081,362)	(2,517,326)	(2,595,286)	(2,652,301)
		(747,438)			
(40)	(67,706)		2,340		5,439
				7,059,030	
3,421,521	540,163	5,909,385		(1,999,321)	
1,107,483	(2,020,355)	3,530,415	(751,011)	4,145,782	(1,105,355)
	6,092	123,938	2,340,495	1,546,881	864,889
6,161,099	3,283,299	3,772,990			
\$ 10,198,149	\$ 1,434,521	\$ 11,231,393	\$ 7,012,158	\$ 10,232,062	\$ 2,817,322

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**OPERATING REVENUE STATEMENT***Last Ten Fiscal Years*

Description	2014	2013	2012	2011
Switching	\$ 763,624	\$ 496,996	\$ 629,707	\$ 968,353
Wharfage	2,659,003	2,304,942	2,927,094	2,113,569
Passenger Charge	6,157,648	5,271,205	4,854,694	3,760,158
Parking Fees	4,851,414	4,117,693	4,203,115	3,307,542
Dockage	5,683,806	5,345,099	4,715,107	6,580,882
Equipment Rental				
Ship Service Revenues	3,449,474	2,892,874	2,471,125	2,064,344
Shed Hire			4,216	
Revenue Producing Svcs.	114,505	119,137	124,191	146,204
Rentals	3,049,244	3,446,461	3,718,048	5,098,394
Security Cost Recovery	960,516	722,253	636,404	764,705
Miscellaneous	21,858	50,833	199,263	39,166
Total Operating Revenues	\$ 27,711,092	\$ 24,767,493	\$ 24,482,964	\$ 24,843,317

2010	2009	2008	2007	2006	2005
\$ 1,089,685	\$ 878,609	\$ 998,713	\$ 1,093,779	\$ 1,155,976	\$ 704,294
1,873,470	1,583,092	1,615,490	1,263,005	1,097,040	1,013,879
3,438,848	3,032,155	2,348,848	3,143,038	3,755,383	3,220,104
3,208,581	3,132,854	2,910,778	3,736,096	4,373,018	4,124,552
7,084,880	5,451,920	5,926,759	5,654,473	5,701,825	5,129,856
				3,600	7,380
1,703,452	1,474,313	1,646,860	173,475		
	38,756	33,433			
467,740	349,995	371,812	498,900	529,122	559,097
4,703,380	4,365,053	5,799,238	5,777,558	4,325,814	2,224,589
711,322	550,516	584,578	652,800	688,434	249,165
397,142	13,490	252,647	105,576	328,632	127,371
<u>\$ 24,678,500</u>	<u>\$ 20,870,753</u>	<u>\$ 22,489,156</u>	<u>\$ 22,098,700</u>	<u>\$ 21,958,844</u>	<u>\$ 17,360,287</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF TEN LARGEST REVENUE GENERATING CUSTOMERS

Current Year and Nine Years Ago

2014			
Rank	Customer Name	Amount	Percent of Total Operating Revenues
1.	Royal Caribbean, Int'l.	\$ 4,911,490	18%
2.	Carnival Cruise Lines	4,840,444	17%
3.	ADM Grain Co.	1,510,864	5%
4.	Del Monte Fresh Fruit	1,314,187	5%
5.	Wallenius Wilhelmsen	1,112,246	4%
6.	Galveston Railroad	914,166	3%
7.	Gulf Copper	904,433	3%
8.	Agrilliance/CHS	858,643	3%
9.	Pelican Island Storage Terminal Inc.	726,422	3%
10.	Hoegh Autoliners Inc.	677,517	2%
Total Ten Largest Customers		17,770,410	64%
Others		9,940,682	36%
Total Operating Revenues		<u>\$ 27,711,092</u>	<u>100%</u>
Source: Port of Galveston Records			

2005

Customer Name	Amount	Percent of Total Operating Revenues
Carnival Cruise Lines	2,538,037	15%
Royal Caribbean, Int'l.	1,629,391	9%
ADM Grain Co.	1,344,242	8%
Marineco, LLC	778,676	4%
Galveston Railroad, L.P.	698,645	4%
Port of Houston Authority	554,756	3%
Agrilliance/CHS	400,194	2%
Del Monte Fresh Fruit Co.	385,690	2%
C Port Galveston, LP	325,000	2%
Hoegh Autoliners Inc.	304,711	2%
Total Ten Largest Customers	8,959,341	52%
Others	8,400,946	48%
Total Operating Revenues	\$ 17,360,287	100%

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES***SCHEDULE OF LONG TERM DEBT******Last Ten Fiscal Years***

Fiscal Year	Special Obligation Bonds	Revenue Bonds	Contracts Payable	Notes Payable	Capital Leases
2005	12,500,000	14,790,000	19,323,672	6,900,026	
2006	10,500,000	12,935,000	19,323,672	7,474,258	1,723,683
2007	8,500,000	11,030,000	19,323,672	9,306,941	1,614,446
2008	8,500,000	36,735,000	19,323,672	8,515,073	1,498,772
2009	8,500,000	34,170,000	19,323,672	8,565,751	1,376,280
2010	8,500,000	31,485,000	19,323,672	8,831,619	1,246,569
2011		25,925,000	20,753,455	6,626,054	3,316,379
2012		25,925,000	18,552,189	3,739,399	3,087,814
2013		25,187,093	19,072,664	1,339,294	2,849,937
2014		23,726,023	16,571,412	14,339,294	2,602,368

Total	Percentage of Personal Income	Dollars Per Capita
\$ 53,513,698	5%	\$ 3,012
51,956,613	5%	2,924
49,775,059	5%	2,801
74,572,517	7%	4,197
71,935,703	8%	4,048
69,386,860	7%	3,905
56,620,888	5%	2,401
51,304,402	4%	2,176
48,448,988	4%	1,952
57,239,097	4%	2,167

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PLEDGED NET REVENUE COVERAGE

Last Ten Fiscal Years

Description	2014	2013	2012	2011
Operating Revenues:	\$ 27,711,092	\$ 24,767,493	\$ 24,482,964	\$ 24,843,317
Operating Expenses	<u>27,599,249</u>	<u>24,207,406</u>	<u>23,330,424</u>	<u>22,773,545</u>
Net Operating Income (Loss)	111,843	560,087	1,152,540	2,069,772
Add:				
Income from Capital Lease				
Miscellaneous Income				
Interest Income	225,801	201,126	122,618	81,193
Depreciation	<u>5,837,831</u>	<u>5,640,607</u>	<u>4,999,706</u>	<u>4,112,167</u>
Total Net Revenues	<u><u>\$ 6,175,475</u></u>	<u><u>\$ 6,401,820</u></u>	<u><u>\$ 6,274,864</u></u>	<u><u>\$ 6,263,132</u></u>
Annual Debt Service	<u>\$ 5,513,294</u>	<u>\$ 5,693,844</u>	<u>\$ 2,521,208</u>	<u>\$ 4,695,925</u>
Debt Service Coverage	<u>1.12</u>	<u>1.12</u>	<u>2.49</u>	<u>1.33</u>

** - Adversely affected by items carried forward from Hurricane Ike which hit the Port in 2008, such as extra cleanup and repair expenses, reduced revenues from Port customers affected by the hurricane which carried forward to FY2009. The computation of debt service coverage does not include \$1.2 million proceeds from business interruption insurance allocated to FY2009.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$ 24,678,500	\$ 20,870,753	\$ 22,489,156	\$ 22,098,700	\$ 21,958,844	\$ 17,360,287
<u>21,748,933</u>	<u>20,705,268</u>	<u>18,685,106</u>	<u>16,676,026</u>	<u>17,419,445</u>	<u>14,302,499</u>
2,929,567	165,485	3,804,050	5,422,674	4,539,399	3,057,788
				110,956	144,833
375,976	344,028	982,330	1,251,475	922,903	620,926
<u>4,212,567</u>	<u>3,942,435</u>	<u>3,500,056</u>	<u>3,302,772</u>	<u>3,184,470</u>	<u>2,866,878</u>
<u>\$ 7,518,110</u>	<u>\$ 4,451,948</u>	<u>\$ 8,286,436</u>	<u>\$ 9,976,921</u>	<u>\$ 8,757,728</u>	<u>\$ 6,690,425</u>
<u>\$ 4,682,086</u>	<u>\$ 4,696,288</u>	<u>\$ 3,207,889</u>	<u>\$ 3,210,340</u>	<u>\$ 3,213,331</u>	<u>\$ 2,880,590</u>
<u>1.61</u>	<u>0.95</u> **	<u>2.58</u>	<u>3.11</u>	<u>2.73</u>	<u>2.32</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
DEBT SERVICE SCHEDULE

Year Ending Dec. 31	Revenue Bonds, Series 2011	Contracts Payable	Total Principal And Interest Requirements
2015	2,549,394	2,970,875	\$ 5,520,269
2016	2,549,394	2,965,400	5,514,794
2017	2,548,794	2,968,200	5,516,994
2018	2,546,794	2,885,900	5,432,694
2019	2,545,669	3,160,000	5,705,669
2020	2,545,169	3,160,000	5,705,169
2021	2,545,044		2,545,044
2022	2,549,919		2,549,919
2023	2,545,169		2,545,169
2024	2,549,647		2,549,647
2025	2,548,375		2,548,375
2026	2,547,125		2,547,125
	<u>\$ 30,570,491</u>	<u>\$ 18,110,375</u>	<u>\$ 48,680,866</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**DEMOGRAPHIC AND ECONOMIC STATISTICS***Last Ten Fiscal Years*

Fiscal Year	Population (4)	Per Capita Personal Income (1)	Personal Income (in \$000's) (1)	Median Age (1)	Education Level in Years of Formal Schooling (2)	School Enrollment (2)	Unemployment (3)
2005	57,905	17,769	1,028,914	35.5	12	9,149	6.0%
2006	57,247	17,769	1,017,222	35.5	12	9,200	5.5%
2007	58,329	17,769	1,036,448	35.5	12	8,400	4.9%
2008	59,186	17,769	1,051,676	35.5	12	6,876	5.6%
2009	50,308	17,769	893,923	35.5	12	6,047	7.7%
2010	56,391	17,769	1,002,012	38.8	12	6,400	8.4%
2011	47,743	23,581	1,125,828	38.8	12	6,400	8.9%
2012	48,444	23,581	1,142,358	38.8	12	6,450	7.6%
2013	47,762	24,822	1,185,548	38.8	12	6,450	7.7%
2014	48,733	26,410	1,287,038	38.8	12	6,800	5.6%

SOURCE: (1) U.S. Census Bureau
 (2) Galveston Independent School District
 (3) Texas Workforce Commission (Data for Galveston County)
 (4) City of Galveston

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PRINCIPAL EMPLOYERS IN THE CITY OF GALVESTON

Current Year and Nine Years Ago

Employer	2014			2005		
	Employees	Rank	Percent of total employment	Employees	Rank	Percent of total employment
University of Texas Medical Branch	11,534	1	50.47%	14,000	1	5.03%
Galveston Independent School District	1,366	2	5.98%	1,271	3	4.81%
Landry's Restaurants	1,300	3	5.69%	1,010	4	3.83%
American National Insurance Company	866	4	3.79%	1,539	2	5.83%
County of Galveston (Island only)	864	5	3.78%	1,068	6	4.05%
Moody Gardens	810	6	3.54%	1,000	5	
City of Galveston	722	7	3.16%	760	7	2.88%
Mitchell Family Corp	460	8	2.01%			0.00%
Texas A & M University at Galveston	423	9	1.85%	350	11	1.33%
Galveston College	300	10	1.31%	543	8	2.06%
Schlitterbahn	286	11	1.25%			
Fertitta Hospitality				535	9	2.03%
U.S. Army Corps of Engineers				390	10	1.48%
Total	18,931		83%	22,466		80%

Source: Galveston Chamber of Commerce and GEDP Survey

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**NUMBER OF EMPLOYEES AND GROSS WAGES PAID***Last Ten Fiscal Years*

Year	Average No. Employees (Maintenance)	Average No. Employees (Security)	Average No. Employees (Administration)	Total Average Number of Employees (b)	Gross Wages Paid (a)
2005	20	36	23	79	3,410,706
2006	20	35	27	82	3,783,660
2007	20	35	29	84	4,036,240
2008	21	40	28	89	4,384,761
2009	21	39	28	88	4,432,599
2010	22	43	29	94	4,742,606
2011	21	45	32	98	5,027,568
2012	21	45	32	98	5,238,227
2013	18	44	33	95	5,213,368
2014	18	42	33	93	5,266,610

(a) Includes straight time and overtime.

(b) Based on quarterly workers compensation reports.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**TONNAGE HANDLED THROUGH FACILITIES, PORT ACTIVITY, INWARD/OUTWARD***Last Ten Fiscal Years*

Description	2014	2013	2012	2011
Bulk Grain	1,553,860	914,099	1,088,386	3,592,228
Bulk Fertilizer	721,562	542,121	700,104	413,890
Bulk Liquid	1,666,465	2,127,632	2,080,702	2,509,852
Bulk Cement				
Other Bulk Cargoes			10,818	20,362
Bananas & Other Fruit	296,787	248,508	219,779	227,541
Other General & Ro RoCargo	495,067	429,382	548,476	439,734
Livestock		11,897	20,178	5,043
Containerized Cargo	207,755	190,670	118,133	141,693
Total Tons Handled	4,941,496	4,464,309	4,786,576	7,350,343
Inward	3,103,258	3,314,967	3,404,705	3,485,019
Outward	1,838,238	1,149,342	1,381,871	3,865,324
Total Inward & Outward	4,941,496	4,464,309	4,786,576	7,350,343
Number of Vessels (Includes ships & barges)	846	912	803	774

2010	2009	2008	2007	2006	2005
4,361,157	3,037,793	3,696,415	4,131,026	4,425,479	2,858,813
376,278	370,384	335,687	461,457	319,488	243,960
2,753,381	1,820,621	1,213,185	1,017,712	815,584	871,892
			54,271	68,436	52,789
			3,714		
237,956	183,418	174,985	179,483	219,212	207,798
369,891	345,362	399,553	264,295	276,004	226,636
120,997	92,199	92,057	79,472	93,465	88,147
<u>8,219,660</u>	<u>5,849,777</u>	<u>5,911,882</u>	<u>6,191,430</u>	<u>6,217,668</u>	<u>4,550,035</u>
3,610,312	2,628,434	2,088,040	1,974,296	1,734,998	1,573,525
<u>4,609,348</u>	<u>3,221,343</u>	<u>3,823,842</u>	<u>4,217,134</u>	<u>4,482,670</u>	<u>2,976,510</u>
<u>8,219,660</u>	<u>5,849,777</u>	<u>5,911,882</u>	<u>6,191,430</u>	<u>6,217,668</u>	<u>4,550,035</u>
1,078	944	1,064	1,091	1,094	976

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**CRUISE TRAFFIC***Last Ten Fiscal Years*

Year	Cruise Ship Calls	Cruise Passengers	Vehicles Parked
2005	233	532,241	73,572
2006	253	616,939	78,905
2007	207	523,303	68,230
2008	133	376,815	53,162
2009	139	394,640	56,786
2010	152	434,524	58,378
2011	152	459,448	59,466
2012	174	604,272	77,624
2013	179	604,994	73,395
2014	181	641,650	87,422

Source: Port of Galveston Records

**BOARD OF TRUSTEES OF THE GALVESTON WHARVES
OPERATING FACILITIES
December 31, 2014**

East End Ro-Ro Cargo Terminal at Pier 9-15 (Pier 10 Terminal)	Services major roll-On roll-off (RO-RO) cargo shipping ocean lines. 49 Acres-Expanding additional 17 Acres in 2015. Major Ro-Ro Hub Port on Gulf Coast.
Refrigerated Warehouse Terminal at Pier 16-18	Services importation of refrigerated bananas and other fruit and produce. Quick access to Interstate Hwy 45. Phase I and Phase II expansion projects completed in 2009. Phase III expansion project was completed in 2011. Phase IV, and V expansion projects completed 2012 Pier 18 expansion (40 feet wide by 600 feet long) completed 2012 Pier 16 expansion (40 feet wide by 600 feet long) completed 2013 Uplands expansion (2 acres) in 2015.
Pier 21 Harborside Development	Retail/wholesale waterfront commercial development of outlets for the sale and provision of goods and services to the public, hotels, motels, residential rental units, offices, museums, and a small boat basin for the docking of pleasure craft and recreational vessels, together with related offices, parking facilities and other facilities incidental or appurtenant to these operations.
Texas Cruise Ship Terminals On Galveston Island®	Home port to Carnival Cruise Line and Royal Caribbean International Lines. Highest cruise passenger volume on the Gulf Coast. Fourth largest (by volume) cruise port in the United States. More than adequate parking for all cruises. Ability to take on additional cruises. Expansion of Cruise Terminal No. 1 to accommodate higher volume cruise vessels completed in October 2011. Expansion of Cruise Terminal No. 2 to accommodate larger cruise vessels to be completed by November 2015.
Export Grain Elevator at Pier 30-32	Operated by ADM Grain Company. Handles grain exports from U.S. Mid-West and Southwest regions-served by BNSF and UP railroads. Current plans call for expanding the type of commodities handled. Storage capacity, 3,000,000 bushels. Facility rail expansion completed in 2012 to allow handling of three unit trains.
Pier 34 Project and General Cargo Terminal	General cargo unloading facility with substantial adjacent open storage area. Current primary use unloading, loading, and trans-shipping structural members and components for wind-powered electric generating windmills. Construction of specialized rail ladder track for the loading and storage of rail cars with energy cargo completed March 2012.
Pier 35 Bulk Cargo Terminal-Fertilizer	Operated by CHS, Inc. a major importer of urea fertilizer. Facility has storage capacity of 80,000 tons. Served by BNSF and UP Railroads. Facility rail track expansion completed in 2012.
West End Roll-On/Roll-Off and General Cargo Piers 37-40	Services four major roll-on/roll-off cargo ocean shipping lines. Miscellaneous breakbulk, explosives, and other roll-on/roll-off cargo for other ocean cargo carriers. Piers also used for vessel repairs.
Vessel Repair Facility at Pier 41	Dockside repairs on research and other vessels primarily related to the offshore oil industry, including drilling ships. Operated by port tenant. Significant local employer.
The Old Navy Dock on adjacent Pelican Island	Tenant offers a full range of maritime services and emergency response solutions for worldwide deployment.
Shipyard Operation on adjacent Pelican Island	Property is 107 acre plus dock, pier and dry-dock facility operated by a major Port tenant. Facility repairs oil rigs, ships, barges, and research vessels. Major local employer. Major source of rental income to Port.
Pelican Island Storage Terminal	Liquid bulk terminal operated by Port tenant moving carbon black and heavy fuels. Tank storage capacity expanded 100% completed in 2012. Further expansion with guarantee of 40ft. water depth for larger vessels.

