

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

2017

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



The Board of Trustees of the Galveston Wharves.  
A Component Unit of the City of Galveston, Texas  
Comprehensive Annual Financial Report  
for the Year Ending December 31, 2017

PORT OF GALVESTON

Galveston, TX



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



Year Ending December 31, 2017

Prepared by the Department of Finance Under  
the Direction of the Director of Finance and the  
Senior Financial Staff

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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## Directory of Officials

### 2017 Board of Trustees of the Galveston Wharves

E. L. "TED" O'ROURKE  
CHAIRMAN



ALBERT P. SHANNON  
VICE CHAIRMAN



ELIZABETH BEETON  
TRUSTEE



RICHARD DEVRIES  
TRUSTEE



JAMES D. YARBROUGH  
TRUSTEE



TODD P. SULLIVAN  
TRUSTEE



JAYSON LEVY  
TRUSTEE



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Directory of Officials (continued)

### Comprehensive Annual Financial Report For Year Ending December 31, 2017

#### BOARD OF TRUSTEES

*E. L. O'Rourke, Chairman*

*Albert P. Shannon, Vice - Chairman*

*Leigh Elizabeth Beeton, Trustee*

*Richard DeVries, Trustee*

*Todd P. Sullivan, Trustee*

*Mayor James D. Yarbrough, Trustee*

*Jayson Levy, Trustee*

#### OFFICERS AND EXECUTIVE STAFF

*Rodger Rees, Port Director / CEO*

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

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

*Angie Ramirez, Executive Assistant - Board of Trustees/Port Director*

*Mark R. Murchison, Director of Finance*

*William Dell, Interim Director of Cruise Operations*

*Nicholas Rac, Interim Chief of Police, Director of Safety and Security*

*Brett Milutin, Harbormaster*

#### GENERAL COUNSEL

*McLeod, Alexander, Powel & Apffel, P.C.*

#### BOND COUNSEL

*Bracewell & Giuliani, L.L.P.*

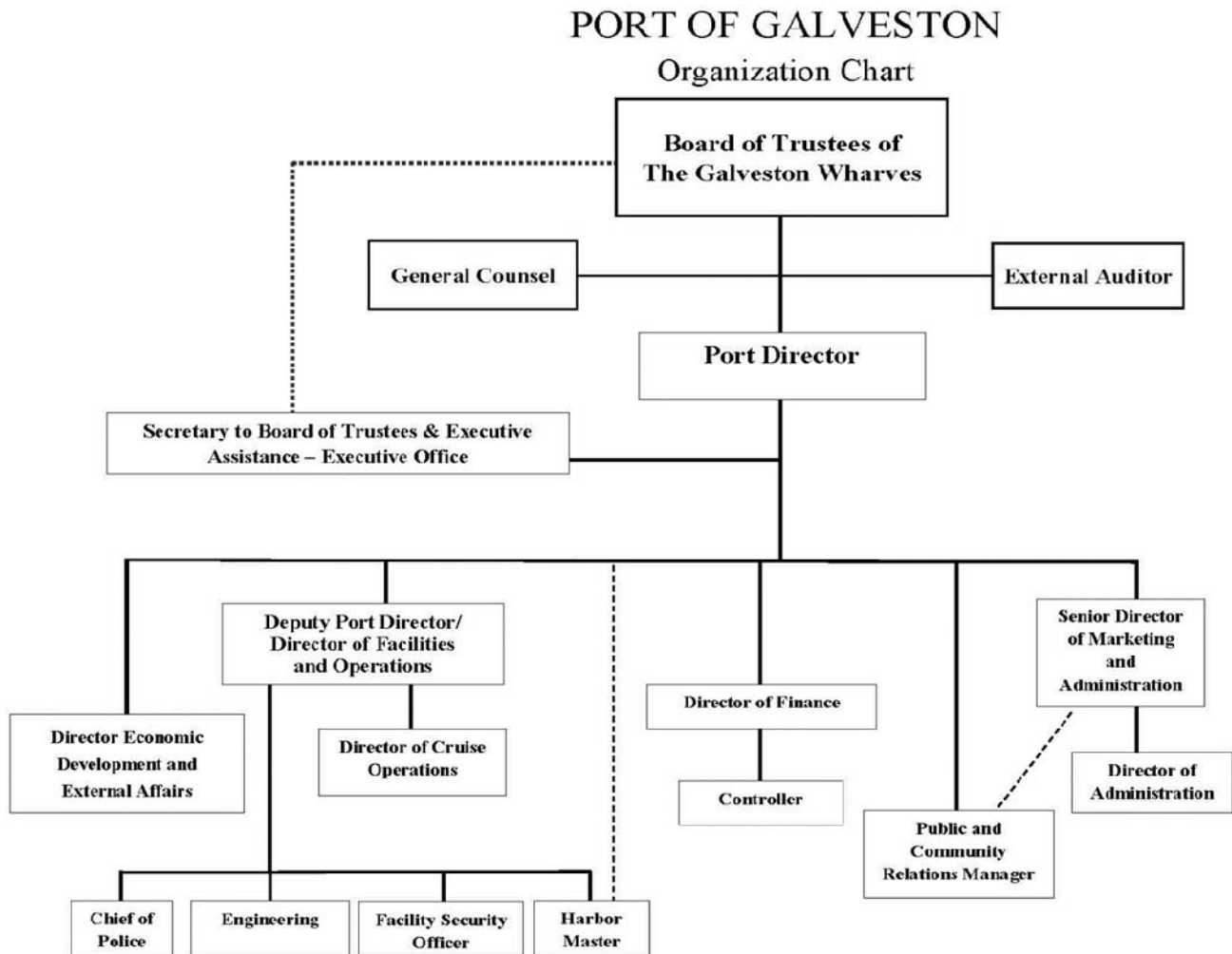
#### AUDITORS

*Whitley-Penn, LLP*



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## Organization Chart



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Port Contact Information

Port of Galveston  
123 Rosenberg St.  
Galveston TX 77550

Mailing Address:  
Port of Galveston  
P.O. Box 328  
Galveston, TX 77553

**Tel** 409-765-9321

**Fax** 409-766-6109

[www.portofgalveston.com](http://www.portofgalveston.com)

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- 123 Rosenberg Avenue 8<sup>th</sup> Floor, Galveston, Texas 77550
- P O Box 328 Galveston, Texas 77553
- Galveston (409) 765-9321 • Houston (281) 286-2484
- Fax (409) 766-6171
- Website: <http://www.portofgalveston.com>

## Letter of Transmittal

March 27, 2018

Board of Trustees of the Galveston Wharves  
Galveston, TX

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, 2017. 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, 2017. 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 2CFR 200. In 2017 the Board of Trustees of the Galveston Wharves did not meet the required threshold to produce a Federal Single Audit. A copy of the Independent Auditor's reports may be obtained by contacting the Director of Finance, 123 Rosenberg, P. O. Box 328, Galveston, TX 77553. An electronic copy of this report will be posted to the Port's website at [www.portofgalveston.com](http://www.portofgalveston.com) within 15 days of acceptance of the report by the Board of Trustees of the Galveston Wharves.

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.

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Profile of the Government

The Galveston Wharves (“Port”) 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 Port operates as 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 limits of the City of Galveston, Texas.

The Galveston City Council created the Galveston Port Facilities Corporation (GPFC) in 2002 for use as a financing vehicle for expansion and renovation of Wharves facilities. A detailed explanation of the GPFC is given in Note One of the 2017 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 GPFC.

The Port is a separate utility so designated by provision of the City Charter (the “Charter”). The Charter provides that all city-owned wharf and terminal properties, and all income and revenue derived therefrom, 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 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 port. 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 of Mexico.

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

The Port’s facilities, located at the entrance to Galveston Bay, constitute a large portion of the greater port complex that surrounds Galveston Harbor. 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 deep water access to the open Gulf. The Galveston Channel includes two turning basins with 45 feet depth and widths up to 1,400 feet. Galveston port facilities are situated 9.3 miles from the open sea.

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## Budgetary Process

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

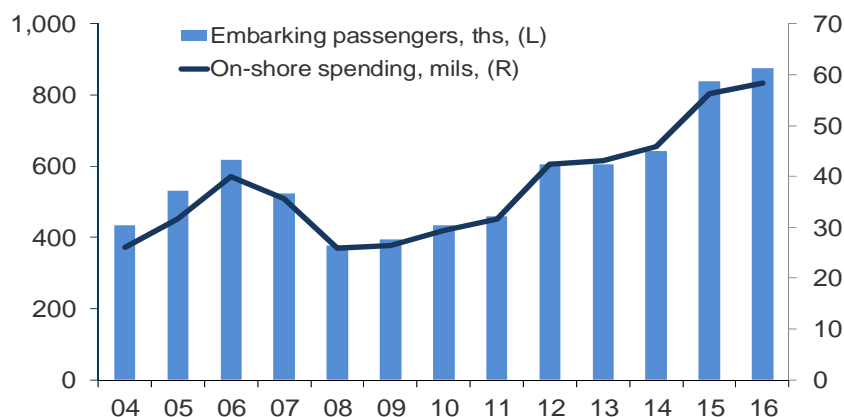
Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported monthly to the Board of Trustees, which also holds management accountable for actual results. Through management reporting,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

## Local Economic Condition and Outlook

The Port of Galveston is one of Texas' major seaports. It operates as a self-supporting enterprise and does not rely on any local tax dollars for operations. The Port generated \$38 million in revenues in 2017 with an annual estimated economic impact to the state of \$2.3 billion. A landlord port with facilities and property totaling approximately 850 acres on Galveston Island and the adjacent Pelican Island, the Port of Galveston facilitates the movement of a diverse mix of domestic and international cargoes. One of the top 50 ports in the nation and one of the busiest in Texas, the Port moved 3.4 million tons of cargo and had over 1.86 million cruise passenger movements in 2017.

The cruise industry has a significant influence on the State of Texas, the local economy and the Galveston Wharves. In October, 2017 Cruise Lines International Association (CLIA) published a report entitled "The Contribution of the International Cruise Industry to the U.S. Economy in 2016" prepared by Business Research & Economic Advisors. The report stated that Texas cruise related direct expenditures generated total economic impacts of 25,166 jobs and \$1.62 billion throughout the state's economy. Additionally, over the next five years, CLIA forecasts a 62% cumulative increase in demand for cruising. Currently, the Galveston Wharves is the only cruise port in Texas and the 4<sup>th</sup> largest cruise port in the United States. The local impact to Galveston alone, reflected in cruise passenger-derived economic activity, generated \$58.4 million of local on-shore spending and another \$19.1 million in on-shore services during the same period.

### Cruise Passengers and On-Shore Spending



Sources: Port of Galveston, CLIA, Tourism Economics

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



Galveston Wharves began cruise operations on September 30, 2000. We have had a ship home ported year round since then. In December 2017, we welcomed out nine millionth cruise passenger.

Since 2011, the Port has made direct payments in excess of \$47.8 million to vendors located within the City of Galveston. This is an average annual expenditure of \$6.8 million in local spending by the Port over the past seven years. Additionally, the Port operates cruise parking lots subject to sales tax through which the local government receives 2% of parking revenues, or \$132 thousand in 2017.

A November 2016 economic impact study commissioned by the Port and performed by Martin Associates found that the Port generated 13,892 jobs in Texas in 2015, excluding the effect of non-maritime operations, marina operations in the Pier 19-21 area, and the Pier 10 BMW vehicle distribution. As previously indicated, the Martin study also found that marine cargo activity at both the public and private marine terminals along Galveston Harbor generated \$2.3 billion of economic activity within the State of Texas. This activity consisted of an estimated \$52.7 million in direct, induced, and indirect Texas state and local tax revenue from the Port. An additional \$14.1 million in Texas state and local taxes were created due to the economic activity of the related users of the cargo moving through public and private marine terminals, thus generating a total state wide tax impact in 2015 of \$66.8 million.

In 2017, the Port focused on capital projects totaling \$4.3 million, which included continuing waterside improvements to cruise terminal two, west end dock and wharf improvements, and beginning the improvements to accommodate the arrival of the Carnival Cruise Line ship Vista at cruise terminal one in 2018. The Vista is scheduled to arrive in late September, 2018 replacing the Carnival Breeze.



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In 2017, the Port exported approximately 735 thousand short tons of grain. Grain generally constitutes the largest volume of the Port's bulk cargo. In 2015, the Port entered into a revised agreement with Archer Daniels Midland (ADM) which increased the minimum annual guaranteed revenue to the Port. Due to low grain volumes in 2017, ADM was required to make the minimum annual guaranteed payment. ADM reassured the Port that the low volumes in 2017 were temporary. As of the end of February, 2018 grain shipments are 48% higher than during the same period in 2017.

In 2017 the refrigerated fruit/banana business remained stable at 2016 levels. This followed substantial growth in 2013, 2014 and 2015. Tonnage growth in prior years was the result of capital investments totaling \$25 million shared between Del Monte, their stevedore, and the Galveston Wharves.

Port tonnage in the general cargo category increased 59% from approximately 62,000 short tons in 2016 to almost 97,000 short tons in 2017. This was a direct result of increased wind project cargo shipped through the Port. The Port expects to see a similar level of wind project cargo through 2018. Finally, in 2017, the tonnage of roll-on/roll-off cargo shipped through the Port decreased 10%. This was due principally to an economic downturn in the destination countries served by shippers operating in the Port.



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Long Term Financial Planning

A major undertaking for 2018 is the development of a revised port infrastructure assessment and master plan. This process is expected to be accomplished in a “phased approach” so that certain clearly identified projects are both incorporated into the master plan and also fast tracked.

In 2017, the Port received approval of various Federal Port Security Grants, local Industrial Development Corporation (4B Sales Tax) (IDC) grants, and notification of funding from Texas Department of Transportation for Port infrastructure improvements. These grants range from 100% funding of specific projects to projects with a 25% or more Port cost share. Generally, the grants received by the Port require a 25% Port cost share which may be satisfied by either in-kind or actual percentage cash contribution. Due to the timing of these items and the related spend / reimbursement rate occurring in 2017, the Galveston Wharves is not required to file a Federal Single Audit report in 2017.

The Port continues to actively pursue public-private financing opportunities to fund additional improvements and additions to its facilities. Port staff is also continuing to seek other Federal, state, and local grants while leveraging grant proceeds with local share contributions. Plans for financing additional facilities include replacing or increasing bonded indebtedness as existing issues are retired and as 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 for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. This was the 24<sup>th</sup> consecutive year that the Port of Galveston has achieved this prestigious award. In order to receive a Certificate of Achievement, candidates 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 the Port of Galveston is submitting it to the GFOA to determine its eligibility for another certificate.

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



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, 2016**

*Christopher P. Morill*

Executive Director/CEO

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## 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 and before contributions in the Port's Statement of Revenues, Expenses and Changes in Net Position. These items are included in the Financial Section of the Port's CAFR.

## Acknowledgements

The preparation of this Report could not have been accomplished in a timely manner without the dedicated efforts of the Port's staff, our management team, the Board of Trustees, and other contributors. We appreciate your support as you continue to assist us with your advice, efforts, and loyalty.

Calendar Year 2018 represents an exciting time for the Port as we welcome a new Port Director / CEO, Rodger Rees effective January 16, 2018, prepare for the arrival of the Carnival Vista in September 2018 and facilitate continued growth of our major business lines.

Respectfully Submitted,



Peter Simons  
Interim Port Director



Mark R. Murchison  
Director of Finance



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Financial Section



## Port of Galveston

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**Port of Galveston  
Galveston, Texas**

## **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, 2017, 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.

To the Board of Trustees of  
The Galveston Wharves

### ***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, 2017, 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.

### ***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 11 and required pension system supplementary information on pages 43 and 44 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 opinion 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 27, 2018 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.

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

Houston, Texas  
March 27, 2018

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Management's Discussion and Analysis



Port of Galveston  
Galveston, Texas



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



Pelican Island Acreage with Waterfront on Main Channel Being Studied for Development.



# **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 Board of Trustees of the Galveston Wharves' (the "Port") 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 Port's assets, deferred outflows, liabilities and deferred inflows of resources with the difference between the four reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Port 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 Port (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 Port 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.

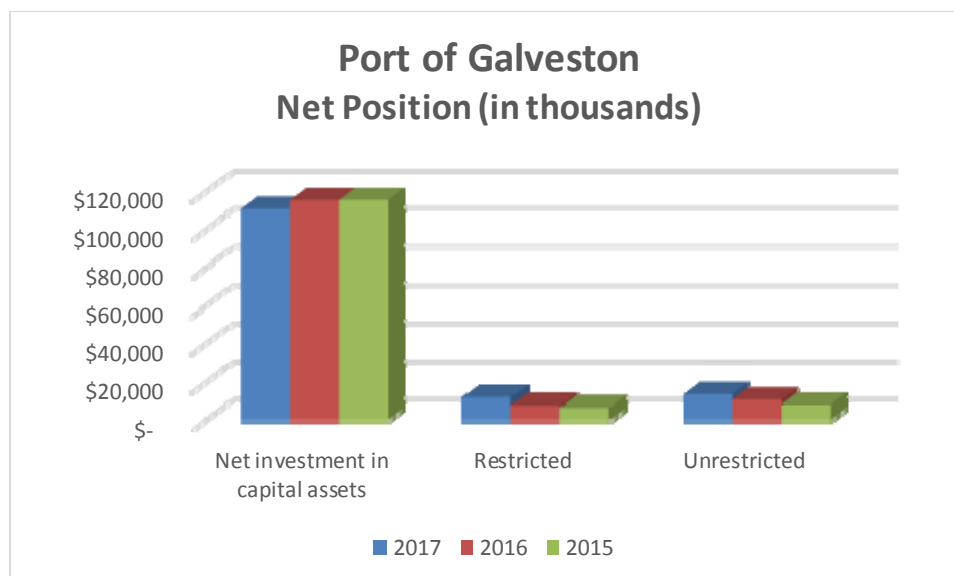
**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Financial Analysis of the Port as a Whole**

**Net Position**

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

	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease) over prior year</b>
Current assets	\$ 41,119	\$ 38,085	8%
Capital assets	147,820	152,026	-3%
Other non current assets	1,660	1,858	-11%
<b>Total Assets</b>	<b>190,599</b>	<b>191,969</b>	<b>-1%</b>
<b>Deferred outflows of resources</b>	<b>1,410</b>	<b>1,146</b>	
Current liabilities	13,689	10,024	37%
Long Term Liabilities	38,582	45,858	-16%
Net Pension Liability	3,525	3,147	
<b>Total Liabilities</b>	<b>55,796</b>	<b>59,029</b>	<b>-5%</b>
<b>Deferred inflows of resources</b>	<b>84</b>	<b>229</b>	<b>-63%</b>
<b>Net Position</b>			
Net investment in capital assets	110,604	115,232	-4%
Restricted	11,996	7,869	52%
Unrestricted	13,529	10,757	26%
<b>Total Net Position</b>	<b>\$ 136,129</b>	<b>\$ 133,858</b>	<b>2%</b>



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

The Port's combined net position increased \$2.3 million between fiscal years 2016 and 2017, to approximately \$136.1 million. Net Investment in Capital Assets decreased by \$4.6 million to \$110.6 million. Restricted Net Position increased \$4.1 million to \$12 million and Unrestricted Net Position increased \$2.8 million to \$13.5 million.

- Current assets increased \$3 million or 8%
  - Unrestricted cash increased by \$3.3 million which is attributable to the accumulation of an additional \$1.1 million for the March 1, 2018 retirement of FMT cruise terminal one walkway capital lease, the accumulation of an additional \$1.5M for the January 2018 payment of 2017 marketing incentive fees, and other normal timing difference between cash receipts and trade payables.
  - Receivables increased \$979 thousand largely due to timing of December cruise receipts.
  - Restricted cash decreased \$1.3 million, or a 6% decrease from 2016, due to the utilization of restricted cash to fund ongoing capital projects including the cruise terminal one and two improvements.
  - Capital Assets net of depreciation decreased \$4.2 million due to 2017 depreciation expense of \$6.7 million partially offset by ongoing improvements including dock and mooring improvements (\$1 million), various building and structure capital improvements (\$1.3 million), and additions to various technology and equipment (\$188 thousand).
  - Other Non-current Assets decreased \$199 thousand.
  - Deferred Outflows representing the inclusion of GASB 68 increased \$263 thousand, or 23%, to \$1.4 million.
- The Port's total liabilities decreased by approximately \$3.2 million during the year ended December 31, 2017.
  - Current Liabilities increased by \$3.7 million when compared to 2016. Current liabilities increased due to the reclassification for the March 1, 2018 final payment of \$1.8 million on the cruise terminal one passenger walkway (prior year payment was \$279 thousand) from long term debt, and the accrual and timing difference of end of year payment to Carnival Cruise Lines for contract marketing fees of \$1.4 million. All other payables decreased \$174 thousand from 2016. During 2017 the Port incurred major maintenance dredging costs which reduced the dredging equalization reserve by \$401 thousand.
  - Long Term Liabilities decreased by \$7 million. The normal reclassification of long term debt to current liability representing scheduled debt service reduced long term debt \$6.9 million, of which \$1.8 million is reclassification of remaining liability on the cruise terminal one passenger walkway capital lease paid on March 1, 2018. Long term accrued paid time off decreased \$113 thousand from 2016.
  - Deferred inflows decreased \$145 thousand, or 63%, to \$84 thousand.

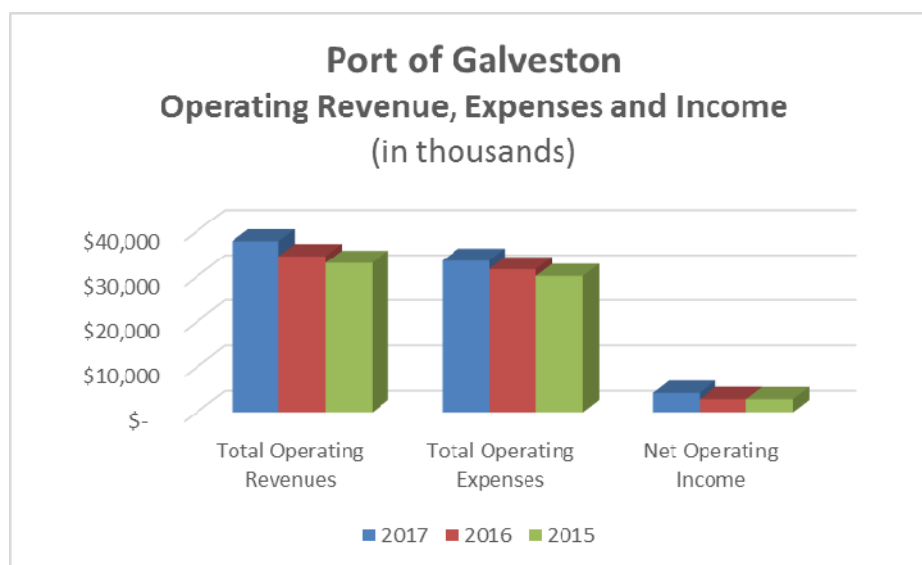
**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Changes in Net Position**

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

	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease) over prior year</b>
<b>Operating Revenues</b>			
Vessels and cargo services	\$ 24,777	\$ 21,326	16%
Building and facilities rental and fees	12,993	13,163	-1%
<b>Total Operating Revenues</b>	<b>37,770</b>	<b>34,489</b>	<b>10%</b>
<b>Operating Expenses</b>			
Personnel services	7,972	8,462	-6%
Maintenance and operations	11,772	10,989	7%
Sales and office	6,866	5,412	27%
Annual City payment	189	189	
Depreciation	6,706	6,549	2%
<b>Total Operating Expenses</b>	<b>33,504</b>	<b>31,600</b>	<b>6%</b>
Net Operating Income	4,266	2,889	48%
<b>Non-Operating Revenue (Expense)</b>			
Earnings on investments	347	289	20%
Interest expense	(1,934)	(2,125)	-9%
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(1,587)</b>	<b>(1,836)</b>	<b>-14%</b>
Income Before Capital Grants and Contributions and Special Items	2,679	1,053	154%
Capital Grants and Contributions	30	3,149	-99%
Extraordinary items	(438)	(553)	-21%
Changes in Net Position	2,271	3,649	-38%
<b>Beginning Net Position</b>	<b>133,858</b>	<b>130,210</b>	<b>3%</b>
<b>Ending Net Position</b>	<b>\$ 136,129</b>	<b>\$ 133,858</b>	<b>2%</b>

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



Net Operating Income increased \$1.4 million from \$2.88 million in 2016 to \$4.3 million in 2017.

**2017 Revenues increased 10% or \$3.3 million.**

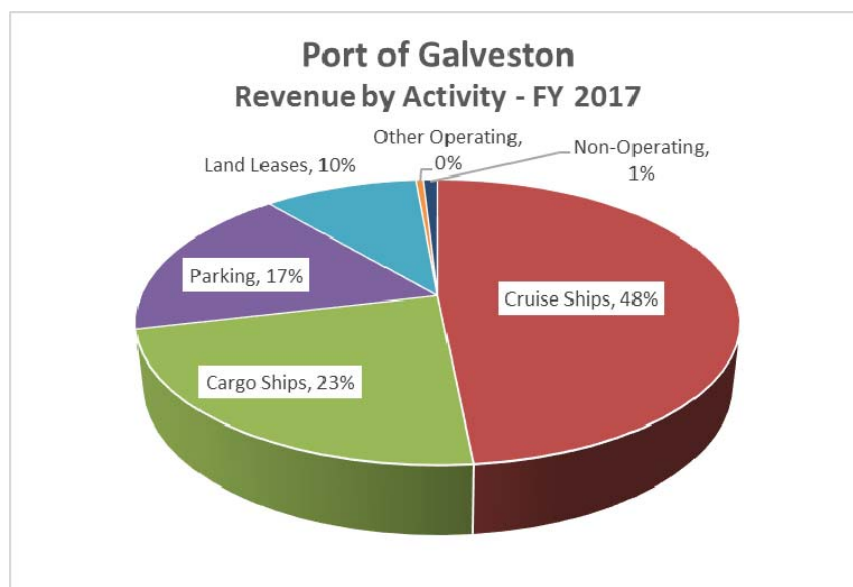
Vessel and Cargo Revenues increase 16% or \$3.5 million.

- Cruise Passenger revenue for the twelve month period ending December 31, 2017 (2017) were \$11.6 million or \$2.63 million, or 29.4%, over revenues for the year ending December 31, 2016 (2016). The increase in revenue is primarily due to the consumer price index (CPI) increases in rates for Royal Caribbean Cruise Lines (RCI), increased rates for Carnival due to an amended marketing incentive agreement, along with an overall 8% increase in passenger revenue movements.
- Ship Services revenue for 2017 of \$4.9 million were \$970 thousand, or 24.9%, over 2016. The increase in revenue is primarily due to Disney's agreement requiring additional services in 2017 that were not required in 2016, along with additional sail dates for Disney and RCI. Ship Service revenue is offset by a related ship service expense included in other operating expenses.
- Wharfage revenue for 2017 of \$3.2 million was \$508 thousand, or 19.1%, over 2016. The increase in revenue is due to increases in wind energy/general cargo of \$226 thousand, wind demurrage of \$37 thousand, Ro-Ro of \$87 thousand, Ro-Ro demurrage of \$179 thousand, and other minor variances of \$9 thousand, offset by decreased fertilizer of \$16 thousand, Del Monte of \$5 thousand, and liquid bulk of \$9 thousand.
- Dockage revenue for 2017 of \$4.2 million was \$453 thousand, or 9.7%, under 2016. The decrease in revenue is due to decreases in grain revenue of \$369 thousand, research vessels of \$232 thousand, liquid bulk of \$66 thousand, Ro-Ro of \$79 thousand, and Del Monte of \$18 thousand, offset by increases in cruise of \$183 thousand, wind energy/general cargo of \$104 thousand, fertilizer of \$36 thousand and a net decrease in other minor variances of \$12 thousand.
- Lay Dockage revenue of \$989 thousand for 2017 was \$160 thousand, or 14%, under 2016. The decrease in revenue is primarily due to decreased lay grain vessels of \$291 thousand, offset by increased lay barge of \$70 thousand and regular lay vessels of \$61 thousand.

Building and Facilities Rental and Fees decreased 1% or \$170 thousand.

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

- Terminal Access Fee revenue for 2017 of \$889 thousand was \$57 thousand, or 7%, over 2016. The increase in revenue is primarily due to an increase in vehicular access to the Port's cruise terminal.
- Licenses, Fees and Miscellaneous revenue for 2017 of \$183 thousand was \$532 thousand, or 74.4%, under 2016. In 2016, the Port recorded a miscellaneous receivable for Tipping Fees (dumping of dredge materials into the Port owned spoils area), causing a spike in 2016 revenues of \$640 thousand. This was partly offset by fees received for security services for the commissioning of the USS Gifford in 2017, and a 2017 workers comp refund of \$57 thousand.
- Real Estate revenue for 2017 of \$3.7 million was \$271 thousand, or 8%, over 2016. The increase in revenue is primarily due to a full quarter of rents from the lease of the Vehicle Processing Center (VPC) in 2017 vs 2016, and the addition of a west end rental of property related to the VPC operations in 2017.
- Switching revenues for 2017 of \$557 thousand were \$373 thousand, or 40%, under 2016. The decrease in revenue is primarily due to the aforementioned decrease in grain cargo movements. Grain cargo is transported to 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.
- Parking revenue for 2017 of \$6.7 million was \$526 thousand, or 9%, over 2016. The increase in revenue is primarily due to the aforementioned overall increases in passenger counts \$209 thousand, along with the addition of the Transit Terminal parking and other non-cruise parking \$317 thousand.
- Security Cost Recovery revenue for 2017 of \$847 thousand were \$102 thousand, or 10.8%, under 2016. The Port's Security Cost Recovery charges are assessed against dockage charges and cargo tonnage. The decrease in revenue is consistent with the aforementioned decreases in dockage and lay dockage.
- Revenue Producing Services revenue for 2017 of \$98 thousand was \$16 thousand or 14% under 2016.

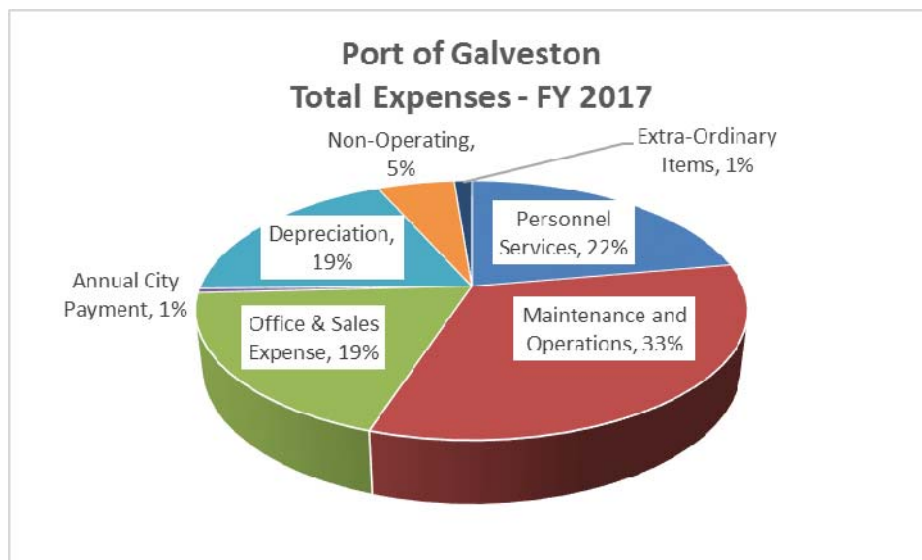




**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Operating Expenses increased \$1.9 million or 6%.**

- Salaries and Related Expenses for 2017 of \$7.9 million were \$534 thousand, or 6%, under 2016. The decrease in expense is due to lower salaries \$410K attributable to temporarily vacant positions from retirements, 10% lower health care cost and 2% lower contract labor costs.
- Maintenance and Operating expenses for 2017 of \$11.8 million were \$784 thousand, or 7%, over 2016. The increase in expense is due to increased maintenance dredging expense partially attributable to Hurricane Harvey and increased ship services expenses, partially offset by lower security grant expenses.
- Office and Sales Expenses for 2017 of \$6.9 million were \$1.5 million, or 27%, higher than in 2016. Marketing incentives paid to the cruise lines increased \$1.7 million in 2017. During 2016 the Port incurred rental expense for a temporary structure while completing cruise terminal two expansion. Not incurring the higher marketing incentives, additional rental expense, and other minor variances contributed to a \$200 reduction in 2017 expenses.
- Depreciation increased 2% to \$6.7 million.



**Other Non-Operating Revenues/Expenses**

- Other Non-Operating Revenues/Expenses include interest income and interest expense. Interest Income increased \$58 thousand or 20% in 2017 due to higher returns, while interest expense decreased \$191 thousand or 9% due to lower outstanding debt balances.

**Total Cargo Tonnage**

- Total Cargo Tonnage for the twelve months ending December 31, 2017 decreased 35% from the 12 months ending December 31, 2016, with 5,205,784 Short Tons in 2016 vs. 3,387,535 Short Tons in 2017, or a decrease of 1,818,249 tons.
  - Bulk Grains movements were 1.7 million tons lower than 2016 from 2.5 million tons in 2016 decreasing to 735 thousand tons in 2017, or 70% lower. The grain terminal contract contains a minimum annual guaranteed annual payment of \$2 million which minimized the impact of the lower tonnage.

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

- Fresh Fruit and Vegetables movements were 2 thousand tons lower in 2017 decreasing from 487 thousand tons in 2016 to 485 thousand tons in 2017.
- Bulk Fertilizer movements were 109 thousand tons lower in 2017 than 2016 decreasing from 565 thousand tons in 2016 to 456 thousand tons in 2017, or 19% lower.
- Liquid Bulk decreased 6% in 2017 from 2016 after having a 44% increase in 2016 over 2015.
- General Cargo increased 22%, or 66 thousand tons.
- Passenger Movements were 131 thousand higher in 2017 increasing from 1.73 million in 2016 to 1.86 million in 2017. (A movement consists of an embarkation or a disembarkation of a passenger.)

**Capital Assets and Debt Administration**

**Capital Assets**

At year-end 2017, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled \$246 million. This is an increase of \$2.5 million over 2016. Accumulated depreciation as of year-end 2017 increased by \$6 million. The net change in Capital Assets was a \$3.5 million decrease from 2016. The following is a comparison of capital assets for the years ended December 31, 2016 and 2017 (in 000's):

	<b>2017</b>	<b>2016</b>
Land	\$ 16,499	\$ 16,499
Channel Deepening	11,207	11,207
Construction in progress	3,437	2,981
<b>Total capital assets, non depreciable</b>	<b>31,143</b>	<b>30,687</b>
 Railway property and buildings	 4,261	 4,261
Wharves property and buildings	199,620	197,757
Operating equipment	8,299	8,189
Office equipment	2,893	2,820
<b>Total capital assets being depreciated</b>	<b>215,073</b>	<b>213,027</b>
Less allowance for depreciation	(98,393)	(91,688)
<b>Total assets being depreciated, net</b>	<b>116,680</b>	<b>121,339</b>
<b>Total capital assets</b>	<b>\$ 147,823</b>	<b>\$ 152,026</b>

Construction work in progress increased \$456 thousand while depreciable assets increased \$2 million. Actual depreciation expense in 2017 is \$6.7 million.

More detailed information on capital assets may be found in Note 4 of the financial statements.

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

**Long-Term Debt**

At year-end the Port had \$27.7 million in bonds and contracts payable and \$15.4 million in notes and leases outstanding, representing a decrease of 10% over the prior year. The notes payable are a Series 2014 Note Payable (\$13M) and a Community Disaster Loan and a Capital Lease. Changes in Long-term debt for the year ended December 31, 2016, and December 31, 2017 are summarized below (in 000's):

<b>Debt Category</b>	<b>2017</b>	<b>2016</b>
Revenue Bonds	\$ 18,973	\$ 20,624
Contracts payable	8,688	11,393
Loans and leases payable	15,400	15,930
<b>Total</b>	<b>\$ 43,061</b>	<b>\$ 47,947</b>

In February of 2018 the Series 2013 Certificate of Obligations issued thought the City of Galveston will be retired leaving the Series 2004 zero coupon bonds as the only City of Galveston issued Certificate of Obligations outstanding. In March 2018 Notes and leases payable will decreases by \$1.8 million as the capital lease for the FMT walkway at cruise terminal one is retired.

**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 Board 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 Board's rates are expected to increase significantly next year.

The vision of The Port of Galveston is to be a premier port that is globally recognized, well capitalized with state-of-the-industry facilities and service, and promote the movement of cruise passengers and a broad range of cargoes. Our passions are people, innovation, continuous improvement, and service to industry and the community.

The mission of the Port of Galveston management and staff is to protect, preserve, and enhance the assets of the City of Galveston's waterfront property by continuing to rebuild and improve facilities to grow opportunities for existing customers and attract new businesses that will promote jobs and economic prosperity for the Port and the community.

Port of Galveston management and staff fully recognize the value of Port property in a global economy and will continue to seek alternative sources of funding and development arrangements to expand and diversify the Port's commercial base with accountability and sensitivity to Port and community stakeholders and the environment.

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

The Port's major tenants continue to grow. Roll-On/Roll-Off (Ro/Ro) cargo carrier activity will continue to increase with the addition of new vehicle manufacturer BMW who is now importing premium automobiles. The Port's trade in fresh fruits and vegetables should continue to expand with improvements to the refrigerated warehouse facilities, the increasing use of refrigerated containers, and the full-time use of a cargo crane to unload and load ships. Cruise ship business continues to bolster the Port's business with the addition of a fourth year round cruise ship in 2017, the homeporting of larger ships as the cruise lines rotate new vessels into Galveston, the return of Disney Cruise Lines for a long-term commitment to seasonal sailings, and ongoing discussions with other cruise lines regarding the addition of other cruise ships utilizing the currently available open cruise terminal days. Due to revisions of the lease agreement with ADM, grain has a minimum annual guaranteed payment beginning in 2015. Even the ship yards that cater to the off shore oil industry are finding additional work not directly tied to off shore oil exploration activity. In 2018 the Port is expecting another record year for wind project cargo. As a result, the Port anticipates increased cargo movement and robust cruise ship activity for year 2018.

**Contacting the Port's Financial Management**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Port's finances and to demonstrate the Port's 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, Port of Galveston, P.O. Box 328, Galveston, TX 77553.

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Basic Financial Statements



Port of Galveston  
Galveston, Texas



**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	<b>2017</b>
<b>Assets</b>	
<b>Current Assets - Unrestricted:</b>	
Cash and cash equivalents	\$ 7,511,560
Accounts receivable, net of allowance for doubtful accounts	14,383,460
Prepaid items	581,835
<b>Current Assets - Restricted:</b>	
Cash and cash equivalents	18,442,889
Current portion of investment in direct financing lease	199,146
<b>Total Current Assets</b>	<u>41,118,890</u>
<b>Non-Current Assets</b>	
<b>Capital Assets:</b>	
Capital assets, non depreciable	31,142,447
Capital assets, net of depreciation	116,677,997
<b>Total Capital Assets</b>	<u>147,820,444</u>
<b>Other Assets:</b>	
Net investment in direct financing lease - less current portion	1,659,551
<b>Total Non-Current Assets</b>	<u>149,479,995</u>
<b>Total Assets</b>	<u>190,598,885</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pension items	<u>1,409,876</u>
<b>Liabilities</b>	
<b>Current Liabilities (payable from current assets):</b>	
Accounts payable	3,131,844
Accrued expenses	2,447,201
Accrued compensated absences	211,520
Payable to other government	188,793
Long term debt due within one year	2,225,409
Interest payable	661,213
<b>Total Current Liabilities (payable from current assets)</b>	<u>8,865,980</u>
<b>Current Liabilities (payable from restricted assets):</b>	
Long term debt due within one year	4,823,336
<b>Total Current Liabilities (payable from restricted assets)</b>	<u>4,823,336</u>
<b>Total Current Liabilities</b>	<u>13,689,316</u>
<b>Long-Term Liabilities:</b>	
Accrued compensated absences	493,547
Unearned revenues and rents	2,075,676
Long term debt due in more than one year	36,012,047
Net pension liability	3,525,318
<b>Total Long-Term Liabilities</b>	<u>42,106,588</u>
<b>Total Liabilities</b>	<u>55,795,904</u>
<b>Deferred inflows of resources</b>	
Deferred gain on refunding	3,854
Deferred pension activities	79,853
<b>Total Deferred inflows of resources</b>	<u>83,707</u>
<b>Net Position</b>	
Net investment in capital assets	110,603,904
Restricted for debt service	11,995,924
Unrestricted	13,529,322
<b>Total Net Position</b>	<u>\$ 136,129,150</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, 2017*

	<b>2017</b>
<b>Operating Revenues</b>	
Charges for services:	
Vessels and cargo services	\$ 24,776,653
Building and facilities rental and fees	12,993,196
<b>Total Operating Revenues</b>	<u>37,769,849</u>
<b>Operating Expenses</b>	
Personnel services	7,972,061
Maintenance and operations	11,772,314
Sales and office	6,865,712
Annual City payment	188,793
Depreciation	6,705,570
<b>Total Operating Expenses</b>	<u>33,504,450</u>
Operating Income	<u>4,265,399</u>
<b>Non-Operating Revenue (Expenses)</b>	
Earnings on investments	347,353
Interest expense	(1,934,675)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,587,322)</u>
Income (Expense) Before Contributions and Extraordinary Items	2,678,077
Capital grants and contributions	30,384
Extraordinary item- clean up and repair- Hurricane Ike	(437,581)
Change in Net Position	2,270,880
<b>Total Net Position - Beginning</b>	<u>133,858,270</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 136,129,150</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, 2017**

*Page 1 of 2*

**Cash flows from operating activities**

Cash receipts from customers	\$ 36,856,944
Cash received from operating grants	(310,383)
Cash payments to employees	(7,591,242)
Cash payments to suppliers for goods and services	(16,820,661)
Cash payments to City of Galveston	(188,793)

<b>Net cash provided (used) by operating activities</b>	<u>11,945,865</u>
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**Cash flows from capital and related financing activities**

Payments received on capital and direct financing leases	199,147
Principal payments, scheduled debt service	(4,949,564)
Payments on extraordinary items, hurricane damage	(437,581)
Receipts from capital grant	30,384
Interest paid, long-term debt	(2,011,209)
Acquisition and construction of capital assets	(3,010,390)

<b>Net cash provided (used) by capital and related financing activities</b>	<u>(10,179,213)</u>
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**Cash flows from investing activities**

Receipts of interest	<u>329,751</u>
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<b>Net cash provided (used) by investing activities</b>	<u>329,751</u>
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Net increase (decrease) in cash and cash equivalents	2,096,403
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<b>Cash and cash equivalents, beginning of year</b>	<u>23,858,046</u>
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<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 25,954,449</u></u>
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**Cash and cash equivalents per statement of net position:**

Unrestricted	\$ 7,511,560
Restricted	<u>18,442,889</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 25,954,449</u></u>

**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2017**

*Page 2 of 2*

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

Operating income	\$ 4,265,399
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,705,570
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(651,336)
(Increase) decrease in grants receivable	(310,383)
(Increase) decrease in prepaid assets	41,501
Increase (decrease) in accounts and wages payable	232,503
Increase (decrease) in accrued expenses	1,543,129
Increase (decrease) in payable to other government	232
Increase (decrease) in unearned revenues and rents	(261,569)
Increase (decrease) in accrued compensated absences	(162,413)
(Increase) decrease in deferred outflows - pension	263,748
Increase (decrease) deferred inflows - pensions	(98,659)
Increase (decrease) in net pension liability	378,143
<b>Total adjustments</b>	<u>7,680,466</u>
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ 11,945,865</u></u>

See notes to the financial statements.

## **THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**

### **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

#### **Note 1 - Summary of Significant Accounting Policies**

The Board of Trustees of the Galveston 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 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 (the “Port”) 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 Port, 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 Port. Except for an annual payment of \$187,000 to the City, all net revenues of the Port shall be retained and used by Port for the betterment and extension of the Galveston Port. For reporting purposes, the Port is 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 Port’s financial reporting entity. Based on these considerations, the following entity has been included in the Galveston Port’s reporting entity as a blended component unit.

#### **Galveston Port Facilities Corporation**

The Galveston Port Facilities Corporation (the “Corporation”) was incorporated on June 17, 2002, under the provisions of the Texas nonprofit corporation act as a financing facility for the future financing of expansion and renovation of Port’s facilities. The Corporation provides services exclusively for the benefit of the Galveston Port 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.

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

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

## **THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

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

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 Port and the 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 Port's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **Implementation of New Standards**

In the current fiscal year, the Port implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The Port did not enter into such agreements and no disclosures are required in the current fiscal year.

GASB Statement No. 82, *Pension Issues-An amendment of GASB Statements No. 67, No. 68 and No. 73*, addresses the presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from the guidance in an actuarial standard of practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

#### **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, Texas Term investment pool, and U.S. Treasury Bills with maturities of one year or less and are reported at cost plus amortized discounts. The Port categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

#### **E. Prepaid Items**

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 Port's policy is to capitalize all capital assets with historical cost of \$5,000 or more. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition 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 Port earn annual vacation and sick leave time at the rate of one-twelfth of the annual days eligible for each month worked. Vacation time is accrued at the rate of 12 to 31.5 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. Pensions**

The fiduciary net position of the Galveston Wharves Pension Plan (the "Plan") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from the Plan's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**K. 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 1 - Summary of Significant Accounting Policies (continued)**

**L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension – Reported for the Port in the government-wide financial statement of net position. One portion of this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, and will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance 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 two items that qualify for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – this deferred inflow 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.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and will be amortized over the expected remaining average service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 3.0 years for the Wharves' plan.

**M. Net Position**

***Net position flow assumption***

Sometimes the Port 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 2004 B, the Series 2011 Revenue Refunding bonds, Series 2013 Certificates of Obligation Bonds, and 2014 Subordinate Revenue Notes Series A and B which require the Port 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 2 - Cash and Temporary Investments**

State statutes and the Port 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 Port's 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.

The cash and temporary investments balances, which were either insured by FDIC or covered held by Port's agent in the Port's name at December 31, 2017 and December 31, 2016 consisted of the following:

	<u>2017</u>
Checking and time deposits	
Cash on hand	\$ 8,300
Deposits with financial institution:	
Checking	11,357,571
Held by City of Galveston	<u>2,641,583</u>
	<u>14,007,454</u>
Temporary investments	
U.S. Treasury bills	4,735,665
Local Government investment pools	<u>7,211,330</u>
	<u>11,946,995</u>
<b>Total cash and temporary investments</b>	<u><u>\$ 25,954,449</u></u>

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

	<u>2017</u>
Unrestricted	
Cash and temporary investments	\$ 7,511,560
Restricted	
Cash and temporary investments	<u>18,442,889</u>
<b>Total cash and temporary investments</b>	<u><u>\$ 25,954,449</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 Port 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, Series 2013, Series 2014, as well as Series 2004 B, require the Port to establish and maintain an interest and sinking fund and a debt service reserve fund.

	<u>2017</u>
Interest and sinking and debt service reserves	
Terminal Revenue Refunding Bonds Series 2011	\$ 2,561,734
Terminal Revenue Bonds Series 2011	
Interest and Sinking Fund	1,932,789
Series 2004B and Series 2013 C.O.	
Interest, Sinking and Reserve Funds	3,658,574
Series 2014 Subordinate Lien Notes	
Interest and Sinking Fund	241,142
City of Galveston franchise payment	182,000
Bond proceeds	5,844,283
Bulkhead improvements	<u>4,022,367</u>
	<u>\$ 18,442,889</u>

**Investment Policies**

State statutes establish investment practices and authorized investments for political subdivisions of the State of Texas. The Port has adopted an investment policy which authorizes the Port 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;
- 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;

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

**Note 2 - Cash and Temporary Investments (continued)**

- 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 Port and deposited with the Port or with a third party selected and approved by the Port and must meet eligibility requirements as defined in the statutes;
- an investment pool that invests exclusively in the obligations authorized in this section and furnishes the Port 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 Port-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, 2017, the Port investments consisted of the following investment types and weighted average maturities:

	<u>Fair Value</u>	<u>Average Maturity (days)</u>	<u>Percentage of Total Portfolio</u>
<b>Investments</b>			
U.S. Treasury bills	\$ 4,735,665	25	40%
Local Government investment pools	7,211,330	36	60%
<b>Total Investments</b>	<u>\$ 11,946,995</u>		<u>100%</u>
<b>Weighted average maturity (days)</b>		<u>32</u>	

The Port invests in TexasTerm which is an individual investment portfolio established by the TexasTerm Advisory Board pursuant to the TexasTerm Common Investment Contract that established the Pool. TexasTerm is a local government investment portfolio that allows governments to pool their funds for investment under the provisions of the Inter Local Cooperation Act, Chapter 791 of the Texas Government Code, the Texas Public Funds Investment Act (PFIA) and other similar cooperative statutes and under the statutes governing investment of funds by those local governments. TexasTerm is directed by an advisory board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. The Port investments in the pool are the same as the value of the pool shares, which are valued based on quoted market rates.

## THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### Note 2 - Cash and Temporary Investments (continued)

The Port also invests in the Texas Short Term Asset Reserve Program ("TEXSTAR") which has been organized in conformity with the Inter local Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"). These two acts provide for the creation of public funds investment pools (including TEXSTAR) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. The business and affairs of TEXSTAR are managed by the Board in accordance with its bylaws (the "Bylaws"). The Bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TEXSTAR is maintained through various reporting requirements. The Bylaws provide for a five-member Board consisting of three representatives of Participants and one member designated by each of the co-administrators. Board members serve for staggered three-year terms. Replacement Board members (other than the co-administrator representatives) are appointed by the Board and may be replaced by directors elected by the Participants in accordance with the Bylaws. The Port investments in the pool are the same as the value of the pool shares, which are valued based on quoted market rates.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency.

The Port reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. In addition, all of the local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The three pools do not impose any liquidity fees or redemption gates.

U.S. Treasury securities are bills, notes, and bonds (collectively known as "Treasuries") issued by the Treasury Department that represent direct obligations of the U.S. government. Treasuries are backed by the full faith and credit of the U.S. government. The Ports U.S Treasury securities are reported at fair value using Level 2 inputs.

#### 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 follow:

	2017
Accounts receivable, trade	\$ 6,415,932
Grants receivable	8,402,636
Interest receivable	21,702
Less allowance for doubtful accounts	(456,810)
Net accounts receivable	<u>\$ 14,383,460</u>



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

**Note 4 - Capital Assets**

Changes in capital assets during the year ended December 31, 2017, are summarized as follows:

	Balance at December 31, 2016	Additions	Retirements	Transfers / Reclassification	Balance at December 31, 2017
<b>Capital assets not being depreciated:</b>					
Land	\$ 16,499,295	\$	\$	\$	\$ 16,499,295
Channel Deepening	11,206,530				11,206,530
Construction in progress	2,980,865	3,028,769		(2,573,012)	3,436,622
<b>Total capital assets not being depreciated</b>	30,686,690	3,028,769		(2,573,012)	31,142,447
<b>Capital assets being depreciated:</b>					
Railway property and buildings	4,260,563				4,260,563
Wharves property and buildings	197,757,316			1,862,206	199,619,522
Operating equipment	8,189,160	64,449		45,225	8,298,834
Office equipment	2,820,204	51,853		20,492	2,892,549
<b>Total capital assets being depreciated</b>	213,027,243	116,302		1,927,923	215,071,468
<b>Less accumulated depreciation for:</b>					
Railway property and buildings	(2,365,971)	(53,292)			(2,419,263)
Wharves property and buildings	(82,765,901)	(5,492,802)			(88,258,703)
Operating equipment	(4,966,137)	(816,935)			(5,783,072)
Office equipment	(1,589,892)	(342,541)			(1,932,433)
	(91,687,901)	(6,705,570)			(98,393,471)
<b>Total assets being depreciated, net</b>	121,339,342	(6,589,268)		1,927,923	116,677,997
<b>Total capital assets</b>	<u>\$ 152,026,032</u>	<u>\$ (3,560,499)</u>	<u>\$</u>	<u>\$ (645,089)</u>	<u>\$ 147,820,444</u>

Depreciation expense for the year amounted to \$6.7 million.

During the course of the year and prior years, certain project expenditures in the amount of \$645 thousand were charged to the Construction Work in Progress account; upon completion of the projects, these were deemed to be expenditures in nature and were re-classed to an expense account rather than placed into service as capital assets.

Commitments relating to construction in progress as of December 31, 2017, are as follows:

	Total Commitment	Construction in Progress	Remaining Commitment
C/T #2 Wharf & Mooring Improvements	\$ 3,889,616	\$ 2,320,709	\$ 1,568,907
Port security grant 2015 EMW FEMA	815,000	386,171	428,829
Port security grant 2016 EMW FEMA	996,750	15,725	981,025
Projects under \$200,000	1,785,788	714,017	1,071,771
<b>Totals</b>	<u>\$ 7,487,154</u>	<u>\$ 3,436,622</u>	<u>\$ 4,050,532</u>

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

**Note 5 - Long Term Debt**

During the year ended December 31, 2017, the following changes occurred in the Port's general long-term debt issues:

Issue	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2017	Amount Due Within One Year
<b>Revenue Bonds</b>					
Series 2011 Refunding	\$ 20,160,000	\$	\$ (1,600,000)	\$ 18,560,000	\$ 1,680,000
Premium on Series 2011	463,883		(51,070)	412,813	
<b>Contracts Payable</b>					
Series 2013A&B Refunding	5,660,000		(2,820,000)	2,840,000	2,840,000
Premium on 2013 A&B	188,386		(173,895)	14,491	
Series 2004B	2,873,672			2,873,672	
Accreted intrest on Capital Appreciation Bonds	2,671,148	288,300		2,959,448	303,336
<b>Capital Lease Payable</b>					
Capital Lease	2,076,562		(279,078)	1,797,484	1,797,484
<b>Notes Payable</b>					
Series 2014	13,000,000			13,000,000	
Federal Community Disaster Loan	853,370		(250,486)	602,884	427,925
	<u>\$ 47,947,021</u>	<u>\$ 288,300</u>	<u>\$ (5,174,529)</u>	<u>\$ 43,060,792</u>	<u>\$ 7,048,745</u>

Long-term bonded debt at December 31, 2017, was composed of the following issues:

Description	Original Issue	Interest Rates	Maturity Dates Beginning/ Ending	Interest Payment Dates
<b>Revenue Bonds</b>				
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
<b>Contracts Payable</b>				
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 Port.

In February 2004, the Port issued Combination Tax and revenue Certificate of Obligation bonds, Series 2004B in the amount of \$5,163,672 which matures on February 1, 2020. The series contained both current interest and premium capital appreciation bonds with interest rates ranging from 5.09 to 5.18 percent.

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

**Note 5 - Long Term Debt (continued)**

As of December 31, 2017, the annual debt service requirements for bonded debt until maturity are as follows:

<b>Fiscal Year</b>	<b>Revenue Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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>\$ 18,560,000</u>	<u>\$ 4,362,908</u>	<u>\$ 22,922,908</u>

<b>Fiscal Year</b>	<b>Contracts Payable</b>			<b>Total Debt Service</b>
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2018	\$ 2,840,000	\$ 45,900	\$ 2,885,900	\$ 5,432,694
2019	1,483,051	1,676,949	3,160,000	5,705,669
2020	1,390,621	1,769,379	3,160,000	5,705,169
	<u>\$ 5,713,672</u>	<u>\$ 3,492,228</u>	<u>\$ 9,205,900</u>	<u>\$ 16,843,532</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 Port or operating expense for use by lessees or others using the Port facilities. The indentures require that for the duration of the period the bonds are outstanding, the Port 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 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 Port depository bank and are reported as restricted cash and temporary investments in the financial statements. The Port is in compliance with all significant bond covenants.

# THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Note 5 - Long Term Debt (continued)

#### 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 Port. 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 Port. 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 Port relating to these obligations is presented as contracts payable to reflect the agreement between the Port and the City for the repayment of the debt with Port revenues.

On May 2, 2013 \$14,025,000 of the 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. The refunded bonds were called on May 6, 2013.

#### 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 Two addition and expansion. 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 matured on June 30, 2014. Neither principal nor interest payments were 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.

Notes Payable			
Fiscal Year	Principal	Interest	Total
2018	\$ 427,925	\$ 586,936	\$ 1,014,861
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>\$ 13,602,884</u>	<u>\$ 3,308,876</u>	<u>\$ 16,911,760</u>

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

**Note 5 - Long Term Debt (continued)**

**Capital Lease Payable**

On March 30, 2011, the Port entered into a capital lease agreement to finance the purchase of a replacement gangway system for Cruise Ship Terminal One 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 Port 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:

<b>Fiscal Year</b>	<b>Future Minimum Lease Payments</b>
2018	\$ 1,809,389
	1,809,389
Less interest portion	(11,905)
Capital lease payable	\$ 1,797,484

**Compensated Absences**

Compensated absences liability activity for the year is as follows:

<b>Balance at December 31, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2017</b>
\$ 867,480	\$ 457,347	\$ (619,760)	\$ 705,067

The amount due within one year is estimated to be \$211,520.

**Note 6 - Lease Agreements**

**Direct Financing Lease - Dockside Elevator**

The Galveston Port 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 Port 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 Port entered into an amended lease agreement with its present lessee to amend the terms of the lease extending the initial lease period to May 1, 2015, (17 years), with options to extend the lease for four additional successive terms of three years each. On February 13, 2015 the Galveston Port entered into an amended lease agreement with its present lessee whereby lessee exercised all four extensions.

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

**Note 6 - Lease Agreements (continued)**

The Galveston Port accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2017:

	<u><b>2017</b></u>
Minimum lease rental payments receivable:	
Due within one year	\$ 489,106
Due after one year	4,075,888
	<u>4,564,994</u>
Unearned income, direct financing lease:	
Due within one year	289,960
Due after one year	2,416,337
	<u>2,706,297</u>
Net investment in direct financing lease	<u><u>\$ 1,858,697</u></u>

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

**Advance Facility Rental**

In 1977, the Port 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, 2017, the amount that applies to future periods was approximately \$3.3 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:

<u><b>Fiscal Year</b></u>	<u><b>Future Minimum Lease Payments</b></u>
2018	\$ 489,106
2019	489,106
2020	489,106
2021	489,106
2022	489,106
2023-2027	2,119,464
<b>Total</b>	<u><u>\$ 4,564,994</u></u>



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

**Note 6 - Lease Agreements (continued)**

**Railroad Facilities**

Following the favorable settlement in 2006 of a lawsuit filed by the Port over the interpretation of certain language in the lease covering rail facilities owned by the Port, the Port 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 called for the relocation of certain rail track, the cost of which was split 50/50 between the Port 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 Port.

**Operating Leases**

The Port leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2017, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

<b>Fiscal Year</b>	<b>Future Lease Payments</b>
2018	\$ 3,565,487
2019	3,159,459
2020	3,127,503
2021	3,118,931
2022	3,088,841
2023-2027	8,750,605
2028-2032	2,184,595
2033-2037	900,028
<b>Total</b>	<b>\$ 27,895,449</b>

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

Beginning January 1, 2010 the plan is closed to new members.

**Pension Plan Fiduciary Net Position**

Detailed information about the Plan's fiduciary net position is available in a separately-issued Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by requesting such report from the Board of Trustees of the Galveston Wharves, 123 Rosenberg, Galveston TX 77550 or P. O. Box 328, Galveston, Texas 77553.

**Benefits Provided**

*Normal Retirement*

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

*Death benefit*

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

*Late retirement*

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

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

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

*Early retirement*

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

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

*Disability*

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

*Termination*

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

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive plan members and beneficiaries currently receiving benefits	56
Inactive employees entitled to but not yet receiving benefits	65
Active plan members	<u>47</u>
	<u>168</u>

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

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

**Contributions**

The Wharves will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Port may decide. The Port reserves the right to reduce, suspend or discontinue contributions to the plan. Currently the Port is making semi-monthly contributions such that payments equal to the prior year funding requirement is met. In the event that the funding requirement exceeds semi-monthly contributions an additional contribution is normally scheduled to fund the annual required contribution. The Port made contributions for the 2016 and 2017 calendar years of \$420,000 and \$562,160 respectively.

**Actuarial Assumptions**

The annual contribution was determined through an actuarial valuation performed as of January 1, 2017. The actuarial assumptions used are as follows:

**Actuarial Assumptions:**

Valuation Date	December 31, 2016
Actuarial Cost Method	Individual Entry Age Cost Method
Amortization Method	24-Year level dollar (closed)
Asset Valuation Method	Market Value of assets
Interest Rates	7.50%, net of investment expenses, including inflation
Inflation	3.50 %
Annual Pay Increases	3.00%
Ad-hoc Cost-of-living Increases	None
Mortality Rates:	
Healthy	RP 2000 Combined Mortality Table, projected to 2016 with separate tables for males and females.
Disabled	1965 Railroad Board Ultimate Disabled Mortality Table (10 <sup>th</sup> valuation)
Retirement Rates	The latter of attainment of age 65 or the completion of five years of vesting service.
Disability Rates	Graduated Rates
Withdrawal Rates	Graduated Rates
Percent Married	It is assumed that 80% of the male participants and 80% of the female participants will be married at retirement
Spouse Age Difference	It is assumed that the male is three years older than the female if actual ages are not known
Expense Load	None

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on the pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) and developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. Target allocation percentages and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Fixed income equities securities	10%	2.0%
Common stock	60%	4.2%
Domestic equities - large cap	5%	4.2%
Domestic equities - mid cap	3%	5.3%
Domestic equities - small cap	5%	5.3%
International equities	10%	4.3%
Natural resources	1%	5.3%
Emerging markets	1%	5.3%
Cash	5%	0.00%

**Sensitivity of Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.5%) than the current rate:

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.50%)</b>
Net Pension Liability	\$ 4,967,126	\$ 3,525,318	\$ 2,285,019

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

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

**Changes in the Net Pension Liability**

	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
	(a)	(b)	(a) - (b)
<b>Balance at 12/31/2015</b>	\$ 14,902,739	\$ 11,755,564	\$ 3,147,175
Changes for the year:			
Service Cost	137,707		137,707
Interest	1,095,941		1,095,941
Difference between expected and actual experience	84,594		84,594
Changes in assumptions			
Contributions - employer		420,000	(420,000)
Net Investment income		519,420	(519,420)
Benefit payments, including refunds, of employee contributions	(855,811)	(855,811)	
Other changes		679	(679)
Net changes	462,431	84,288	378,143
<b>Balance at 12/31/2016</b>	<u>\$ 15,365,170</u>	<u>\$ 11,839,852</u>	<u>\$ 3,525,318</u>

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2017, the Port recognized pension expense of \$577 thousand.

At December 31, 2017, the Port reported deferred outflows and inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 108,650	\$
Changes in assumptions		79,853
Differences between projected and actual earnings	739,066	
Contributions subsequent to the measurement date	562,160	
<b>Totals</b>	<u>\$ 1,409,876</u>	<u>\$ 79,853</u>

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

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

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of December 31, 2016 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the Port's fiscal year 2018 financial statements). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Years</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2018	\$ 228,259
2019	255,856
2020	214,726
2021	69,022
	<u>\$ 767,863</u>

**Note 8 - Deferred Compensation Plans**

**Deferred Compensation Plan**

The Port 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 Port 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 Port had no employees covered by a collective bargaining plan in the year 2017; therefore, all Port's employees participated in the plan.

According to the original Plan arrangement, the Port's 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 Port's and the employees' contributions must be made on at least a monthly basis.

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

**Note 8 - Deferred Compensation Plans (continued)**

**Employees Retirement Accumulation Plan (continued)**

In January 1995, the Port amended its single employer defined benefit plan. The amendment established a Cash Balance Account that placed 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 replaced the Port's 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 Port 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 Port. At this time the contribution credits to the Cash Balance Plan ceased but account balances continue to receive interest credit based on the five year Treasury Bill rate as of the last day of the year preceding the year of receiving the interest credit on balances held as of December 31 of the interest credit year. 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, 2017, employees contributed \$415,948 and the Port contributed \$299,055 to the plan.

**Defined Contribution Pension Plan**

On January 1, 2010, the Port initiated the 2010 Defined Contribution Pension Plan. Employees hired prior to January 1, 2010 were given the option to remain in the defined benefit plan, or opt for the new plan. Employees hired after January 1, 2010 were automatically enrolled in the 2010 plan. Employees are vested in the plan after 3 years of service. The contribution made by the Port is a percentage of compensation based on years of service as follows:

0 - 4.99 years	3%
5 – 9.99 years	6%
10 + years	9%

Upon termination of employment, employees are eligible for the following benefits:

- Life annuity
- Lump sum payment
- Rollover
- Combination of % direct payment and % rollover

Funds are managed by the International City/County Management Association (ICMA).



**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 Port's 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 Port. 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 Port 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 Port expects such amounts, if any, to be immaterial.

The Port is subject to claims and lawsuits arising from the normal course of business. The Port's 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, 2017 and 2016.

The Port 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 Port 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 Port.

The Port currently owns and leases land from entities for parking lots on a month-to-month basis.

**Note 10 - Risk Management**

The Port 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 Port carries commercial insurance. The Port 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 Port is self-insured. The Port 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 Port also provides for losses ranging from \$1 million to \$75 million by carrying excess/umbrella liability insurance coverage.

The Port provides all active, regular full-time employees with group life, medical and dental insurance coverage and flexible benefit program. Coverage is obtained through the City of Galveston Medical Self Insured Plan. Dental and flexible benefit plans are obtained through third party insurance carriers.

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

**Note 10 - Risk Management (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 December 2017 and therefore does not anticipate associated non-compliance issues.

**Note 11 - Concentration of Credit Risk**

Four customers generating operating revenues in excess of \$19.5 million annually comprise approximately 52 percent of total operating revenues for the year ended December 31, 2017. In the normal course of business, the Port extends unsecured credit to its customers.

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

**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 Port exceeded its total property insurance limits of \$55 million. The Port 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 Port 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 \$8.3 million.

Total Property Insurance Received	\$ 55,000,000
Total Current TDEM/FEMA Project Worksheet Amounts	20,944,569
Estimated Future TDEM/FEMA Projects Amounts	22,867,709
FEMA Reimbursement to Date	(14,355,362)
Total Pending Current and Future FEMA Project Amounts	<u>\$ 29,456,916</u>

**Note 13 - Combining Schedule for Port (POG) and Galveston Port Facilities Corporation (GPFC) for the year ended December 31, 2017**

	<u>POG</u>	<u>GPFC</u>	<u>Eliminations</u>	<u>Totals</u>
Current assets	\$ 33,203,166	\$ 7,915,724	\$	\$ 41,118,890
Capital assets	139,270,511	8,549,933		147,820,444
Other non current assets	1,659,551			1,659,551
<b>Total Assets</b>	<u>174,133,228</u>	<u>16,465,657</u>		<u>190,598,885</u>
<b>Deferred outflows of resources</b>	<u>1,409,876</u>			<u>1,409,876</u>
Current liabilities	11,273,437	2,415,879		13,689,316
Long Term Liabilities	42,106,588			42,106,588
<b>Total Liabilities</b>	<u>53,380,025</u>	<u>2,415,879</u>		<u>55,795,904</u>
<b>Deferred inflows of resources</b>	<u>83,707</u>			<u>83,707</u>
<b>Net Position</b>				
Net investment in capital assets	102,053,971	8,549,933		110,603,904
Restricted	11,995,924			11,995,924
Unrestricted	8,029,477	5,499,845		13,529,322
<b>Total Net Position</b>	<u>\$ 122,079,372</u>	<u>\$ 14,049,778</u>	<u>\$</u>	<u>\$ 136,129,150</u>

# THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Note 13 - Combining Schedule for Port (POG) and Galveston Port Facilities Corporation (GPFC) for the year ended December 31, 2017 (continued)

	<u>POG</u>	<u>GPFC</u>	<u>Eliminations</u>	<u>Totals</u>
<b>Operating Revenues</b>				
Vessels and cargo services	\$ 7,482,681	\$ 17,293,972	\$	\$ 24,776,653
Building and facilities rental and fees	18,163,423	564,675	(5,734,902)	12,993,196
<b>Total Operating Revenues</b>	<u>25,646,104</u>	<u>17,858,647</u>	<u>(5,734,902)</u>	<u>37,769,849</u>
<b>Operating Expenses</b>				
Personnel services	6,915,451	1,056,610		7,972,061
Maintenance and operations	6,340,874	11,166,342	(5,734,902)	11,772,314
Sales and office	3,067,676	3,798,036		6,865,712
Annual city payment	188,793			188,793
Depreciation	6,016,719	688,851		6,705,570
<b>Total Operating Expenses</b>	<u>22,529,513</u>	<u>16,709,839</u>	<u>(5,734,902)</u>	<u>33,504,450</u>
Net Operating Income	3,116,591	1,148,808		4,265,399
<b>Non-Operating Revenue (Expense)</b>				
Earnings on investments	346,968	385		347,353
Interest expense	(1,934,675)			(1,934,675)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,587,707)</u>	<u>385</u>		<u>(1,587,322)</u>
Income Before Capital Grants and Contributions and Extraordinary Items	1,528,884	1,149,193		2,678,077
Capital Grants and Contributions	30,384			30,384
Extraordinary items	(437,581)			(437,581)
Changes in Net Position	1,121,687	1,149,193		2,270,880
<b>Beginning Net Position</b>	<u>120,957,685</u>	<u>12,900,585</u>		<u>133,858,270</u>
<b>Ending Net Position</b>	<u>\$ 122,079,372</u>	<u>\$ 14,049,778</u>	<u>\$</u>	<u>\$ 136,129,150</u>

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Required Supplemental Information



Port of Galveston  
Galveston, Texas

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**REQUIRED PENSION SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**Last three Measurement Years Ended December 31**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total pension liability			
Service Cost	\$ 137,707	\$ 169,079	\$ 183,481
Interest	1,095,941	1,071,934	1,040,307
Change in assumptions		(239,557)	(56,421)
Difference between expected and actual experience	84,594	156,762	
Benefit payments, including refunds, of employee contributions	(855,811)	(757,719)	(704,816)
Net change in total pension liability	462,431	400,499	462,551
Total pension liability - beginning	14,902,739	14,502,240	14,039,689
<b>Total pension liability - ending</b>	<b>\$ 15,365,170</b>	<b>\$ 14,902,739</b>	<b>\$ 14,502,240</b>
Plan Fiduciary Net Position			
Contributions - employer	\$ 420,000	\$ 400,000	\$ 540,004
Net Investment income	519,420	153,997	782,143
Benefit payments, including refunds, of employee contributions	(855,811)	(757,719)	(704,816)
Administrative expense		(65,437)	(89,122)
Other changes	679	1,199	3,203
Net change in plan fiduciary net position	84,288	(267,960)	531,412
Plan fiduciary net position - beginning	11,755,564	12,023,524	11,492,112
<b>Plan fiduciary net position - ending</b>	<b>\$ 11,839,852</b>	<b>\$ 11,755,564</b>	<b>\$ 12,023,524</b>
<b>Wharves' net pension liability - ending</b>	<b>\$ 3,525,318</b>	<b>\$ 3,147,175</b>	<b>\$ 2,478,716</b>
Fiduciary net position as a percentrage of the total pension liability	77%	79%	83%
Covered-employee payroll	\$ 3,174,196	\$ 3,289,226	\$ 3,484,519
Wharves' net pension liability as a percentage of covered employee payroll	111%	96%	71%

Note: GASB 68 was implemented in fiscal year 2015, therefore information for prior years is not available.

**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**REQUIRED PENSION SUPPLEMENTARY INFORMATION (UNAUDITED)**

**SCHEDULE OF WHARVES' PENSION CONTRIBUTIONS**

**Last 10 fiscal years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 562,160	\$ 415,085	\$ 377,727	\$ 398,283	\$ 540,004
Contributions in relation to the actuarially determined contribution	<u>562,160</u>	<u>420,000</u>	<u>400,000</u>	<u>540,004</u>	<u>540,004</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (4,915)</u>	<u>\$ (22,273)</u>	<u>\$ (141,721)</u>	<u>\$ -</u>
Covered-employee payroll	2,659,786	3,174,196	3,289,226	3,484,519	3,627,781
Contributions as a percentage of covered-employee payroll	21.14%	13.23%	12.16%	15.50%	14.89%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 669,776	\$ 595,057	\$ 595,057	\$ 541,408	\$ 319,782
Contributions in relation to the actuarially determined contribution	<u>669,776</u>	<u>595,057</u>	<u>595,057</u>	<u>541,408</u>	<u>319,782</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	3,921,729	3,889,073	3,990,184	4,146,487	4,096,280
Contributions as a percentage of covered-employee payroll	17.08%	15.30%	14.91%	13.06%	7.81%

**Actuarial Assumptions:**

Valuation Date	December 31, 2016
Actuarial Cost Method	Individual Entry Age Cost Method
Amortization Method	24-Year level dollar (closed)
Asset Valuation Method	Market Value of assets
Interest Rates	7.50%, net of investment expenses, including inflation
Inflation	3.50 %
Annual Pay Increases	3.00%



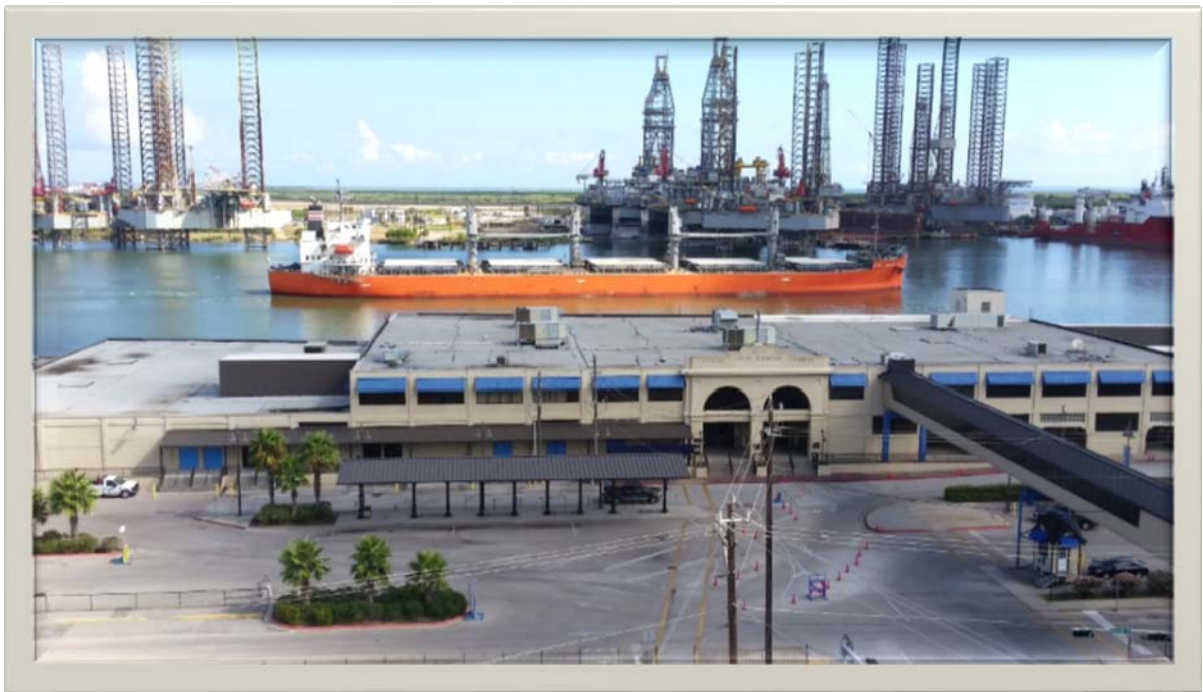
# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Statistical Section



Port of Galveston  
Galveston, Texas

# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT



# 2017 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## Statistical Section Categories

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These schedules contain trend information to help the reader understand how the Port's financial performance and well-being have changed over time.	
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<b>Revenue Capacity Data:</b>	
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**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**

**CONDENSED STATEMENT OF NET POSITION**

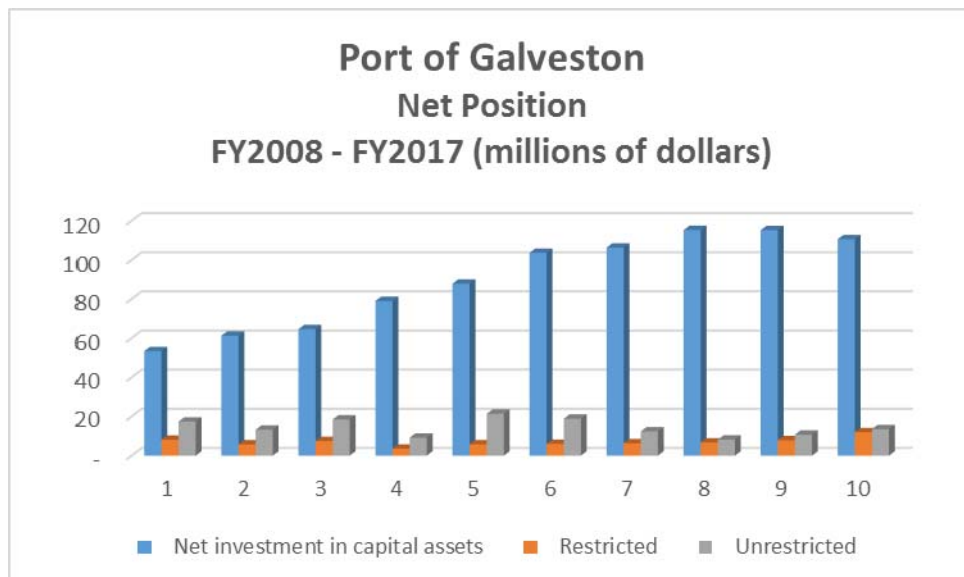
*Last Ten Fiscal Years*

Description	2017	2016	2015	2014
<b>Assets</b>				
Unrestricted Current Assets	\$ 22,476,855	\$ 18,183,941	\$ 20,584,656	\$ 21,289,662
Restricted Current Assets	18,642,035	19,900,725	27,796,300	34,491,857
Properties and Facilities, Net	147,820,444	152,026,032	147,901,820	136,548,043
Other Assets	1,659,551	1,858,698	2,057,844	2,256,990
<b>Total Assets</b>	<b>190,598,885</b>	<b>191,969,396</b>	<b>198,340,620</b>	<b>194,586,552</b>
<b>Deferred outflow of resources</b>	<b>1,409,876</b>	<b>1,146,128</b>	<b>451,726</b>	<b>540,004</b>
<b>Liabilities</b>				
Current Liabilities (payable from non-restricted assets)	8,865,980	5,414,459	10,558,641	7,900,565
Current Liabilities (payable from restricted assets)	4,823,336	4,420,000	4,250,000	4,115,000
Long Term Debt (net of current portion)	36,505,594	43,709,763	48,638,548	52,707,229
Unearned revenues	2,075,676	2,337,245	2,522,265	2,665,129
Net Pension Liability	3,525,318	3,147,175	2,478,716	2,547,577
<b>Total Liabilities</b>	<b>55,795,904</b>	<b>59,028,642</b>	<b>68,448,170</b>	<b>69,935,500</b>
<b>Deferred inflows of resources</b>	<b>83,707</b>	<b>228,612</b>	<b>133,961</b>	<b>142,594</b>
<b>Net Position</b>				
Net investment in capital assets	110,603,904	115,231,634	115,312,854	106,323,197
Restricted	11,995,924	7,869,709	6,704,602	6,321,160
Unrestricted	13,529,322	10,756,927	8,192,759	12,404,105
<b>Total Net Position</b>	<b>\$ 136,129,150</b>	<b>\$ 133,858,270</b>	<b>\$ 130,210,215</b>	<b>\$ 125,048,462</b>

Effective January 1, 2015 the Wharves implemented GASB 68 and 71. The 2014 ending balance has been restated for comparison purposes.

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.

2013	2012	2011	2010	2009	2008
\$ 23,855,430	\$ 26,711,814	\$ 15,432,593	\$ 25,064,376	\$ 21,687,683	\$ 41,213,126
21,643,798	22,538,833	22,812,482	33,752,774	32,014,012	37,456,831
137,638,530	127,239,959	118,050,502	101,418,433	100,546,191	92,136,296
2,456,136	2,655,282	2,904,883	11,607,319	11,809,757	12,012,194
185,593,894	179,145,888	159,200,460	171,842,902	166,057,643	182,818,447
5,109,981	5,836,253	8,789,144	8,636,926	7,275,344	25,723,976
5,324,294	3,780,000	1,355,000	2,815,000	2,685,000	3,210,000
43,566,405	51,255,689	52,359,120	64,215,178	69,185,320	71,099,866
2,844,814	3,149,585	4,842,624	5,648,989	6,583,319	3,890,466
56,845,494	64,021,527	67,345,888	81,316,093	85,728,983	103,924,308
188,841					
103,644,735	87,905,458	79,080,947	64,626,839	61,322,438	53,395,029
6,020,683	5,782,618	3,572,747	7,422,212	5,732,986	8,106,371
18,894,141	21,436,285	9,200,878	18,477,758	13,273,236	17,392,739
\$ 128,559,559	\$ 115,124,361	\$ 91,854,572	\$ 90,526,809	\$ 80,328,660	\$ 78,894,139



# THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

## CHANGES IN NET POSITION

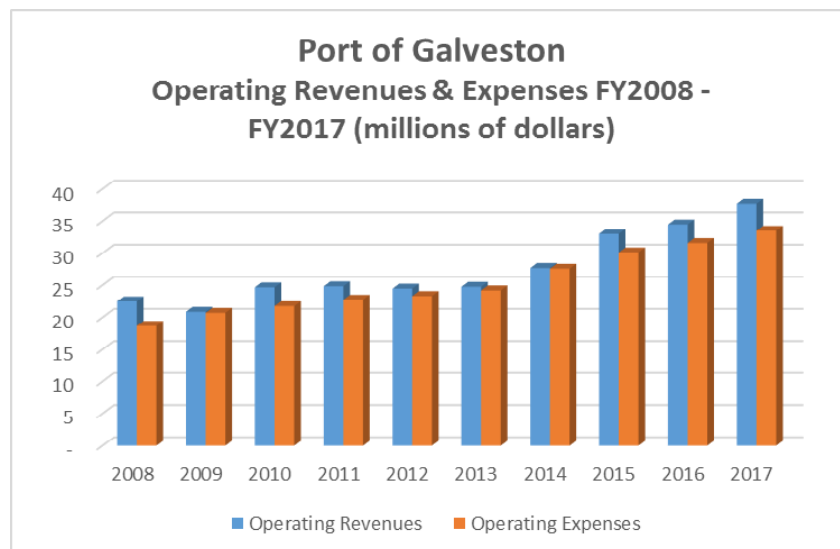
Last Ten Fiscal Years

Description	2017	2016	2015	2014
<b>Operating Revenues:</b>	\$ 37,769,849	\$ 34,488,872	\$ 33,015,643	\$ 27,711,092
<b>Operating Expenses:</b>				
Personnel Services	7,972,061	8,462,458	8,891,974	8,858,156
Maintenance and Operations	11,772,314	10,987,938	9,040,972	8,911,837
Office & Sales Expense	6,865,712	5,412,002	6,010,986	3,804,123
Annual City Payment	188,793	188,561	188,076	187,302
Depreciation	6,705,570	6,549,259	6,005,248	5,837,831
<b>Total Operating Expenses</b>	<b>33,504,450</b>	<b>31,600,218</b>	<b>30,137,256</b>	<b>27,599,249</b>
Net operating Income (Loss)	4,265,399	2,888,654	2,878,387	111,843
<b>Non-Operating Revenue (Expenses):</b>				
Direct Financing Lease				
Earnings on Investments	347,353	288,856	232,073	225,801
Income from Capital Lease				
Interest Expense	(1,934,675)	(2,125,727)	(2,275,468)	(1,970,803)
Bond issuance costs				
Other Debt Expense				(170,521)
Net Gain/(Loss) on Disposal of Equipment			3,279	
Operating Grants				
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(1,587,322)</b>	<b>(1,836,871)</b>	<b>(2,040,116)</b>	<b>(1,915,523)</b>
<b>Income (Expense) Before Contributions and Special Items</b>	<b>2,678,077</b>	<b>1,051,783</b>	<b>838,271</b>	<b>(1,803,680)</b>
Capital Grants and Contributions	30,384	3,149,100	4,893,290	2,263,814
Extra-Ordinary Items due to Hurricane Ike (Net)	(437,581)	(552,828)	(569,808)	(1,963,657)
<b>Changes in Net Position</b>	<b>\$ 2,270,880</b>	<b>\$ 3,648,055</b>	<b>\$ 5,161,753</b>	<b>\$ (1,503,523)</b>

Effective January 1, 2015 the Wharves implemented GASB 68 and 71. The 2014 ending balance has been restated for comparison purposes.

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.

<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$ 24,767,493	\$ 24,482,964	\$ 24,843,317	\$ 24,678,500	\$ 20,870,753	\$ 22,489,156
8,845,314	8,819,701	8,281,209	7,657,539	6,945,120	6,664,020
7,105,943	6,990,167	7,329,099	7,101,626	6,440,171	5,564,899
2,428,240	2,333,548	2,869,070	2,595,201	3,195,543	2,774,130
187,302	187,302	182,000	182,000	182,000	182,000
5,640,607	4,999,706	4,112,167	4,212,567	3,942,434	3,500,057
24,207,406	23,330,424	22,773,545	21,748,933	20,705,268	18,685,106
560,087	1,152,540	2,069,772	2,929,567	165,485	3,804,050
		428,542	467,500	467,500	467,500
201,126	122,618	81,193	375,976	344,028	982,330
(2,115,837)	(2,500,263)	(2,991,863)	(3,157,474)	(3,304,340)	(3,081,362)
		(432,241)			(747,438)
(225,146)		(24,366)	(40)	(67,706)	
1,840		1,962,345	3,421,521	540,163	5,909,385
(2,138,017)	(2,377,645)	(976,390)	1,107,483	(2,020,355)	3,530,415
(1,577,930)	(1,225,105)	1,093,382	4,037,050	(1,854,870)	7,334,465
15,958,039	11,154,694	716,170		6,092	123,938
(944,908)	13,340,200	(481,789)	6,161,099	3,283,299	3,772,990
\$ 13,435,201	\$ 23,269,789	\$ 1,327,763	\$ 10,198,149	\$ 1,434,521	\$ 11,231,393



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

<b>Description</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Switching	\$ 556,646	\$ 929,527	\$ 1,067,920	\$ 763,624
Wharfage	3,169,750	2,661,602	2,577,208	2,659,003
Passenger Charge	11,580,016	8,946,032	8,647,317	6,157,648
Parking Fees	6,669,561	6,143,976	6,312,896	4,851,414
Dockage	5,165,419	5,826,700	6,479,532	5,683,806
Equipment Rental				
Ship Service Revenues	4,861,472	3,891,550	3,195,913	3,449,474
Shed Hire				
Revenue Producing Svcs.	98,497	114,358	120,388	114,505
Rentals	3,748,981	3,478,455	3,051,766	3,049,244
Security Cost Recovery	847,632	949,909	979,811	658,078
Terminal Access Fees	889,170	832,440	526,823	283,566
Miscellaneous	182,710	714,323	56,067	40,730
<b>Total Operating Revenues</b>	<b>\$ 37,769,854</b>	<b>\$ 34,488,872</b>	<b>\$ 33,015,641</b>	<b>\$ 27,711,092</b>

\* Footnote: Due to litigation with certain private parking lots, the Wharves recorded a reserve which reduced Terminal Access Fees in 2015 by \$214,880 and in 2014 by \$36,028, Please refer to Footnote 9 for additional information.



<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
\$ 496,996	\$ 629,707	\$ 968,353	\$ 1,089,685	\$ 878,609	\$ 998,713
2,304,942	2,927,094	2,113,569	1,873,470	1,583,092	1,615,490
5,271,205	4,854,694	3,760,158	3,438,848	3,032,155	2,348,848
4,117,693	4,203,115	3,307,542	3,208,581	3,132,854	2,910,778
5,345,099	4,715,107	6,580,882	7,084,880	5,451,920	5,926,759
2,892,874	2,471,125	2,064,344	1,703,452	1,474,313	1,646,860
	4,216			38,756	33,433
119,137	124,191	146,204	467,740	349,995	371,812
3,446,461	3,718,048	5,098,394	4,703,380	4,365,053	5,799,238
558,984	494,919	647,018	602,437	460,443	471,416
148,554	122,430	102,410	101,020	79,476	100,447
65,547	218,318	54,444	405,008	24,086	262,893
<u>\$ 24,767,492</u>	<u>\$ 24,482,964</u>	<u>\$ 24,843,318</u>	<u>\$ 24,678,501</u>	<u>\$ 20,870,752</u>	<u>\$ 22,486,687</u>

**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES****SCHEDULE OF TEN LARGEST REVENUE GENERATING CUSTOMERS***Current Year and Nine Years Ago*

<b>2017</b>			
<b>Rank</b>	<b>Customer Name</b>	<b>Amount</b>	<b>Percent of Total Operating Revenues</b>
1.	Carnival Cruise Lines	\$ 9,661,631	26%
2.	Royal Caribbean, Int'l.	6,823,619	18%
3.	ADM Grain Co.	1,564,660	4%
4.	Wallenius Wilhelmsen	1,494,600	4%
5.	Del Monte Fresh Fruit	1,291,813	3%
6.	Disney Cruise Line	1,086,572	3%
7.	Galveston Railroad	677,701	2%
8.	Gulf Copper	652,611	2%
9.	Malin Int'l.	587,111	2%
10.	Agrilance,LLC/CHS	562,140	1%
<b>Total Ten Largest Customers</b>		<u>24,402,458</u>	<u>65%</u>
Others		<u>13,367,396</u>	<u>35%</u>
<b>Total Operating Revenues</b>		<u><u>\$ 37,769,854</u></u>	<u><u>100%</u></u>

Source: Port of Galveston Records

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**2008**

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<b>Customer Name</b>	<b>Amount</b>	<b>Percent of Total Operating Revenues</b>
Gulf Copper	\$ 3,690,095	16%
Royal Caribbean, Int'l.	2,375,836	11%
Carnival Cruise Lines	2,031,061	9%
ADM Grain Co.	1,426,236	6%
Galveston Railroad, L.P.	1,101,948	5%
Wallenius Wilhelmsen	1,009,538	4%
Biehl & Company	479,648	2%
Del Monte Fresh Fruit Co.	459,016	2%
Kerr Strachan/Norton Lilly	370,990	2%
Central Dispatch, Inc	360,330	2%
<b>Total Ten Largest Customers</b>	<b>13,304,698</b>	<b>59%</b>
Others	<b>9,184,458</b>	<b>41%</b>
<b>Total Operating Revenues</b>	<b>\$ 22,489,156</b>	<b>100%</b>

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

<b>Fiscal Year</b>	<b>Special Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Contracts Payable</b>	<b>Notes Payable</b>
2008	8,500,000	36,735,000	19,323,672	8,515,073
2009	8,500,000	34,170,000	19,323,672	8,565,751
2010	8,500,000	31,485,000	19,323,672	8,831,619
2011	-	25,925,000	20,753,455	6,626,054
2012	-	25,925,000	18,552,189	3,739,399
2013	-	25,187,093	19,072,664	1,339,294
2014	-	23,726,023	16,571,412	14,339,294
2015	-	22,204,953	14,013,026	14,180,080
2016	-	20,623,883	11,393,206	13,853,370
2017	-	18,972,813	8,687,611	13,602,884

<b>Capital Leases</b>	<b>Total</b>	<b>Percentage of Personal Income</b>	<b>Dollars Per Capita</b>
1,498,772	74,572,517	7%	4,197
1,376,280	71,935,703	8%	4,048
1,246,569	69,386,860	7%	3,905
3,316,379	56,620,888	5%	2,401
3,087,814	51,304,402	4%	2,176
2,849,937	48,448,988	4%	1,952
2,602,368	57,239,097	4%	2,167
2,344,712	52,742,771	4%	2,016
2,076,562	47,947,021	4%	1,798
1,797,486	43,060,794	3%	1,574

**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**

**PLEDGED NET REVENUE COVERAGE**

*Last Ten Fiscal Years*

<b>Description</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating Revenues:</b>	\$ 37,769,854	\$ 34,488,872	\$ 33,015,643	\$ 27,711,092
Operating Expenses	<u>33,504,448</u>	<u>31,600,218</u>	<u>30,137,256</u>	<u>27,599,249</u>
Net Operating Income (Loss)	4,265,406	2,888,654	2,878,387	111,843
<b>Add:</b>				
Income from Capital Lease				
Miscellaneous Income				
Interest Income	347,353	288,856	232,073	225,801
Depreciation	<u>6,705,572</u>	<u>6,549,259</u>	<u>6,005,248</u>	<u>5,837,831</u>
<b>Total Net Revenues</b>	<u>\$ 11,318,331</u>	<u>\$ 9,726,769</u>	<u>\$ 9,115,708</u>	<u>\$ 6,175,475</u>
<b>Annual Debt Service</b>	<u>\$ 6,447,362</u>	<u>\$ 6,444,562</u>	<u>\$ 6,450,236</u>	<u>\$ 5,513,294</u>
Debt Service Coverage	<u>1.76</u>	<u>1.51</u>	<u>1.41</u>	<u>1.12</u>

\* - Adversely effected 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 effected 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>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 24,767,493	\$ 24,482,964	\$ 24,843,317	\$ 24,678,500	\$ 20,870,753	\$ 22,489,156
<u>24,207,406</u>	<u>23,330,424</u>	<u>22,773,545</u>	<u>21,748,933</u>	<u>20,705,268</u>	<u>18,685,106</u>
560,087	1,152,540	2,069,772	2,929,567	165,485	3,804,050
201,126	122,618	81,193	375,976	344,028	982,330
<u>5,640,607</u>	<u>4,999,706</u>	<u>4,112,167</u>	<u>4,212,567</u>	<u>3,942,435</u>	<u>3,500,056</u>
<u>\$ 6,401,820</u>	<u>\$ 6,274,864</u>	<u>\$ 6,263,132</u>	<u>\$ 7,518,110</u>	<u>\$ 4,451,948</u>	<u>\$ 8,286,436</u>
<u>\$ 5,693,844</u>	<u>\$ 2,521,208</u>	<u>\$ 4,695,925</u>	<u>\$ 4,682,086</u>	<u>\$ 4,696,288</u>	<u>\$ 3,207,889</u>
<u>1.12</u>	<u>2.49</u>	<u>1.33</u>	<u>1.61</u>	<u>0.95</u> *	<u>2.58</u>

**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**DEBT SERVICE SCHEDULE**

<b>Year Ending Dec. 31</b>	<b>Revenue Bonds, Series 2011</b>	<b>Certificate of Obligations</b>	<b>Notes Payable</b>	<b>Total Principal And Interest Requirements</b>
2018	2,546,794	2,885,900	1,014,861	6,447,555
2019	2,545,669	3,160,000	753,784	6,459,453
2020	2,545,169	3,160,000	2,350,950	8,056,119
2021	2,545,044		2,511,362	5,056,406
2022	2,549,919		2,511,572	5,061,491
2023	2,545,169		2,517,388	5,062,557
2024	2,549,647		2,519,634	5,069,281
2025	2,548,375		2,522,023	5,070,398
2026	2,547,124		210,186	2,757,310
	<u>\$ 22,922,908</u>	<u>\$ 9,205,900</u>	<u>\$ 16,911,760</u>	<u>\$ 49,040,568</u>



**THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Per Capita Personal Income (1)</b>	<b>Personal Income (in \$000's) (1)</b>	<b>Median Age (1)</b>	<b>Education Level in Years of Formal Schooling (1)</b>	<b>School Enrollment (2)</b>	<b>Unemployment Rate (3)</b>
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%
2015	49,608	\$26,164	\$1,297,944	37.3	12	6,813	6.3%
2016	50,180	\$26,665	\$1,338,050	36.3	12	6,976	4.8%
2017	50,550	\$27,366	\$1,383,351	37.0	12	6,914	3.8%

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

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

# THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

## PRINCIPAL EMPLOYERS IN THE CITY OF GALVESTON

*Current Year and Nine Years Ago*

Employer	2017		
	Employees	Rank	Percent of total employment
University of Texas Medical Branch	8,254	1	41.70%
Landry's Restaurants	2,788	2	14.08%
Galveston County	1,340	3	6.77%
Galveston Independent School District	1,100	4	5.56%
Moody Gardens	1,027	5	5.19%
American National Insurance Company	845	6	4.27%
City of Galveston	744	7	3.76%
Fertitta Hospitality	566	8	2.86%
Galveston College	543	9	2.74%
Schlitterbahn	500	10	2.53%
Walmart	475	11	2.40%
ILA (Local 20, 1665, 15048, 1443	470	12	2.37%
U.S. Army Corps of Engineers	390	13	1.97%
Mitchell Historic Properties	379	14	1.91%
Texas A&M University at Galveston	375	15	1.89%
<b>Total</b>	<b>19,796</b>		<b>100.00%</b>

**2008**

<b>Employees</b>	<b>Rank</b>	<b>Percent of total employment</b>
9,000	1	51.94%
1,300	4	7.50%
460	9	2.65%
1,361	3	7.85%
922	5	5.32%
1,600	2	9.23%
780	6	4.50%
566	7	3.27%
543	8	3.13%
0	n/a	0.00%
0	n/a	0.00%
0	n/a	0.00%
400	10	2.31%
0	n/a	0.00%
397	11	2.29%
<b>17,329</b>		<b>100.00%</b>

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

<b>Description</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Bulk Grain	734,932	2,466,931	3,073,498	1,553,860
Bulk Fertilizer	455,945	565,277	620,731	721,562
Bulk Liquid	1,225,701	1,303,459	904,659	1,666,465
Bulk Cement				
Other Bulk Cargoes				
Bananas & Other Fruit	484,661	486,797	520,697	504,542
Other General & Ro RoCargo	486,296	383,320	483,722	495,067
Livestock				
<b>Total Tons Handled</b>	<b>3,387,535</b>	<b>5,205,784</b>	<b>5,603,307</b>	<b>4,941,496</b>
Inward	2,484,730	2,631,508	5,296,181	3,103,258
Outward	902,805	2,574,276	307,126	1,838,238
<b>Total Inward &amp; Outward</b>	<b>3,387,535</b>	<b>5,205,784</b>	<b>5,603,307</b>	<b>4,941,496</b>
Number of Vessels				
(Includes ships & barges)	734	752	810	846

<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
914,099	1,088,386	3,592,228	4,361,157	3,037,793	3,696,415
542,121	700,104	413,890	376,278	370,384	335,687
2,127,632	2,080,702	2,518,378	2,753,381	1,820,621	1,213,185
	10,818	20,362			
439,178	337,912	369,234	358,953	275,617	267,042
429,382	548,476	439,734	369,891	345,362	399,553
11,897	20,178	5,043			
<b>4,464,309</b>	<b>4,786,576</b>	<b>7,358,869</b>	<b>8,219,660</b>	<b>5,849,777</b>	<b>5,911,882</b>
3,314,967	3,404,705	3,493,545	3,610,312	2,628,434	2,088,040
1,149,342	1,381,871	3,865,324	4,609,348	3,221,343	3,823,842
<b>4,464,309</b>	<b>4,786,576</b>	<b>7,358,869</b>	<b>8,219,660</b>	<b>5,849,777</b>	<b>5,911,882</b>
912	803	774	1,078	944	1,064

# THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

## CRUISE TRAFFIC

*Last Ten Fiscal Years*

<b>Year</b>	<b>Cruise Ship Calls</b>	<b>Cruise Passengers</b>	<b>Vehicles Parked</b>
<b>2008</b>	133	376,815	53,162
<b>2009</b>	139	394,640	56,786
<b>2010</b>	152	434,524	58,378
<b>2011</b>	152	459,448	59,466
<b>2012</b>	174	604,272	77,624
<b>2013</b>	179	604,994	73,395
<b>2014</b>	181	641,650	87,422
<b>2015</b>	232	834,616	112,363
<b>2016</b>	235	868,923	105,108
<b>2017</b>	255	938,198	116,211

Source: Port of Galveston Records

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

<b>Year</b>	<b>Average No. Employees (Maintenance)</b>	<b>Average No. Employees (Security)</b>	<b>Average No. Employees (Administration)</b>	<b>Total Average Number of Employees (b)</b>	<b>Gross Wages Paid (a)</b>
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
2015	19	43	34	96	5,683,543
2016	21	43	40	104	5,956,898
2017	20	41	32	93	5,437,350

(a) Includes straight time and overtime.

(b) Based on quarterly workers compensation reports.

**BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**OPERATING FACILITIES**  
**December 31, 2017**

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East End Ro-Ro Cargo Terminal and VPC at Pier 9-15 (Pier 10 Terminal)	Services major Roll-On Roll-Off (RO-RO) cargo ship ocean lines. Major RO-RO Hub Port on Gulf Coast. Total 40.1 acres, including 19.7 acres leased in 2016 to an operator for a Vehicle Processing Center (VPC) for BMW. Additional 5.44 acres for Caterpillar EPC. Also transloading military household goods for ARC.
Vehicle Processing Center (Pier 10 Terminal)	Vehicle Processing Center (VPC) for BMW located on 19.7 acres in Foreign Trade Zone Number 36. The VPC services 42 BMW and Mini Cooper Dealers in the states of Texas, Oklahoma, Louisiana and Arkansas.
Refrigerated Warehouse and Distribution Center / 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 in 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 acreage expanded (2 acres) in 2015. Additional land added under lease in August 2017.
Pier 21 Harborside Development	Retail/wholesale waterfront commercial development of outlets for the sale and provision of goods and services to the public: hotel, restaurants, 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 pertinent, to these operations.
Texas Cruise Ship Terminals On Galveston Island®	Home Port to Carnival Cruise Line and Royal Caribbean International (RCI). Seasonal Home Port to Disney Cruise Line. Highest cruise passenger volume on the Gulf Coast. Fourth largest (by volume) cruise port in North America. Parking available for passengers on all cruises. Ability to take on additional cruise ships and passengers. Expansion of Cruise Terminal No. One to handle higher volume cruise vessels completed in October 2011. Expansion of Cruise Terminal No. two to accommodate larger cruise vessels completed in 2016. Royal Caribbean ship added capacity in 2017. Larger Carnival ship in Fall 2018.
Export Grain Elevator at Pier 30-32	Operated by ADM Grain Company. Handles grain exports from U.S. Midwest and Southwest regions, serviced by BNSF Railway and Union Pacific Railroad. Storage capacity 3,200,000 bushels. Railcar unloading capacity of 1,600 MT per hour; Vessel loading capacity of 2,000 MT per hour. Facility rail expansion completed in 2012 to allow handling of three shuttle trains of 100 rail cars each.



**BOARD OF TRUSTEES OF THE GALVESTON WHARVES**  
**OPERATING FACILITIES (continued)**  
**December 31, 2017**

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Pier 34 Project and General Cargo Terminal	General cargo terminal 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 unloading of rail cars with energy-related and over-dimensional cargo completed March 2012.
Pier 35 Bulk Cargo Terminal-Fertilizer	Operated by CHS, Inc. a major importer of bulk urea fertilizer. Facility has storage capacity of 80,000 Short Tons. Serviced by BNSF and UP Railroads. Facility rail track expansion to handle shuttle trains completed in 2012.
West End Roll-On/Roll-Off and General Cargo Piers 37-40	Serves three major Roll-On/Roll-Off (RO-RO) cargo ocean shipping lines. Miscellaneous Breakbulk, rolling stock, remarketed vehicles for export and IMO Class One cargoes. Piers also used for docking vessels for 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 support services including salvage and emergency pollution response solutions for worldwide deployment.
Shipyard Operation on adjacent Pelican Island	Property is 110 acre plus docks, piers 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, Inc.	Liquid bulk terminal operated by Port tenant moving carbon black and heavy fuels. Tank storage capacity expanded 100% completed in 2012. Further expansion of tankage and diversification of products is expected.

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