

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
PORT OF GALVESTON
GALVESTON, TEXAS



ANNUAL COMPREHENSIVE
FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022



GALVESTON WHARVES

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



**Fiscal Year Ended
December 31, 2022**

**Prepared By:
Finance Department**

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Table of Contents

Introductory Section	Page
Directory of officials	iii-iv
Organization chart	v
Port contact information	vi
Letter of transmittal from the Port Director	ix-xix
Profile of the government	x
Budgetary process	xi
Local economic condition and outlook	xi-xvi
Awards	xvii-xviii
Relevant financial policies	xix
Acknowledgments	xix
Financial Section	
Independent auditor's report	3-5
Management's discussion and analysis (Unaudited)	7-20
Basic Financial Statements:	
Statement of net position	22-23
Statement of revenues, expenses and changes in net position	24
Statement of cash flows	25-26
Statement of fiduciary net position	27
Statement of changes in fiduciary net position	28
Notes to financial statements	29-55
Required supplementary information	
Schedule of changes in the Port's net pension liability (asset) and related ratios	58
Schedule of Port contributions	59
Statistical Section	
<i>Condensed statement of net position</i>	64-65
<i>Condensed statement of changes in net position</i>	66-67
<i>Operating revenue statement</i>	68-69
Schedule of ten largest revenue generating customers	70-71
Debt service schedule	72
Schedule of long-term debt	73
Pledged net revenue coverage	74-75
Demographic and economic statistics	76
Principal employers in the City of Galveston	77
Tonnage handled through facilities, port activity, inward/outward	78-79
Cruise traffic	80
Number of employees and gross wages paid	81
Operating facilities	82-83

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Directory of Officials

2022 Board of Trustees, Port Director/CEO and CFO of the Galveston Wharves

		
HARRY D. MAXWELL JR. CHAIRMAN	VICTOR PIERSON VICE CHAIRMAN	DR. CRAIG BROWN TRUSTEE/MAYOR
		
WILLY GONZALEZ TRUSTEE	SHEILA S. LIDSTONE TRUSTEE	JEFF PATTERSON TRUSTEE
		
JAMES D. YARBROUGH TRUSTEE	RODGER REES PORT DIRECTOR / CEO	MARK R. MURCHISON CFO

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Directory of Officials (continued)

BOARD OF TRUSTEES

Harry D. Maxwell Jr., Chairman

Victor Pierson, Vice Chairman

Dr. Craig Brown, Trustee/Mayor

Willy Gonzalez, Trustee

Sheila S. Lidstone, Trustee

Jeff Patterson, Trustee

James D. Yarbrough, Trustee

OFFICERS AND EXECUTIVE STAFF

Rodger Rees, Port Director / CEO

Brett Milutin, Executive Director - Port Operation

Angie Ramirez, Executive Assistant – Board of Trustees/Port Director

Mark R. Murchison, Chief Financial Officer

Erika Barragan, Controller

Jeffrey Thomas, Chief Engineer

Julio De Leon, Director of Port Mobility

Kenneth Campbell, Director of Safety and Security

Kenneth Brown, Chief of Police

William Dell, Director of Cruise Operations

Laura Camcioglu, Director of Special Projects

Brenda Lambright, Human Resource Manager

GENERAL COUNSEL

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

BOND COUNSEL

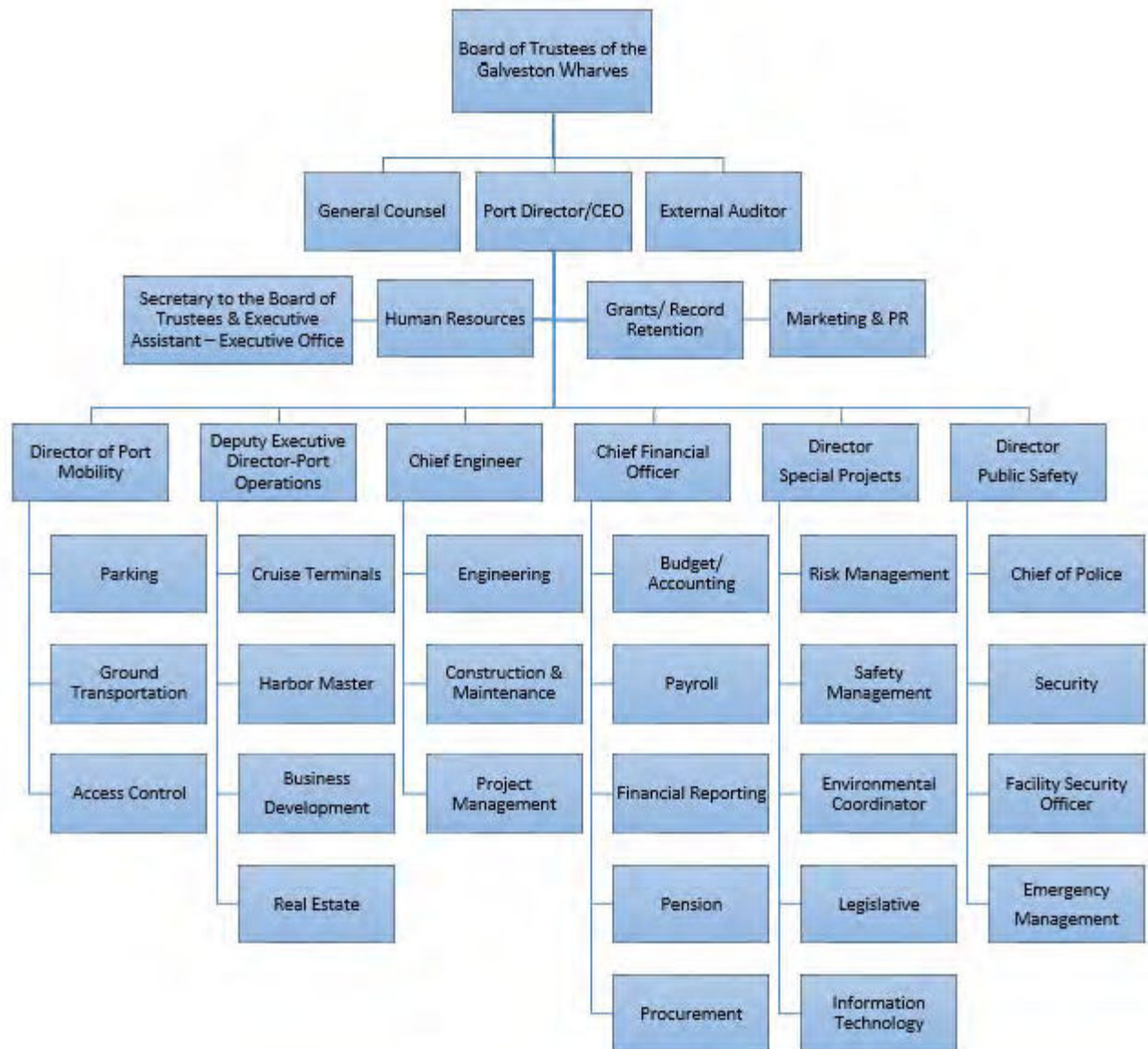
Bracewell & Giuliani, L.L.P.

AUDITORS

FORVIS

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Organizational Chart



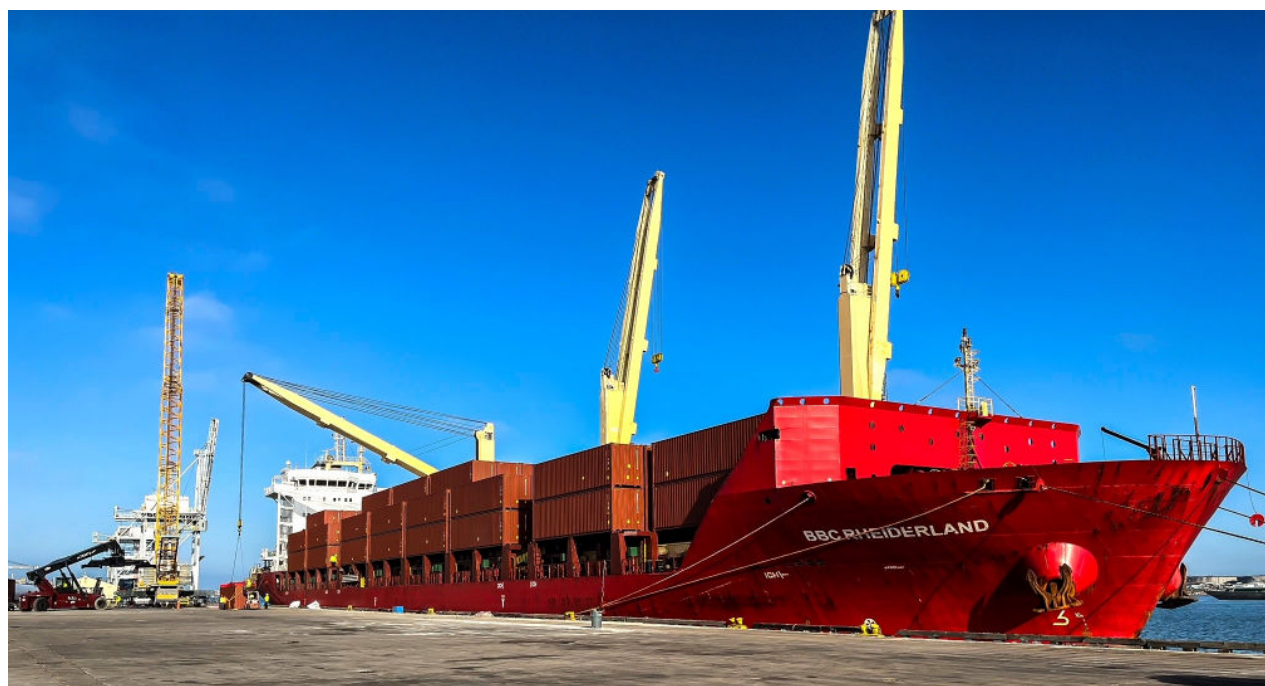
2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Port Contact Information

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123 25th Street, 8th Floor
Galveston, Texas 77550

Telephone: 409-765-9321
Telefax: 409-766-6109
Website: www.portofgalveston.com

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



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

BOARD OF TRUSTEES OF THE GALVESTON WHARVES

Harry D. Maxwell, Jr., Chairman
Victor Pierson, Vice Chairman
Dr. Craig Brown, Mayor/Trustee
Willy Gonzalez, Trustee
Sheila S. Lidstone, Trustee
Jeff Patterson, Trustee
James D. Yarbrough, Trustee

PORT DIRECTOR/CEO
Rodger Rees

Letter of Transmittal

May 31, 2023

Board of Trustees of the Galveston Wharves
Galveston, Texas

We are pleased to submit the Annual Comprehensive Financial Report (ACFR) of the Board of Trustees of the Galveston Wharves (Port of Galveston or the Port) for the year ended December 31, 2022. 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 Port of Galveston. 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 Port of Galveston. All disclosures necessary to enable the reader to gain an understanding of the Port of Galveston's 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 for the year ended December 31, 2022. The Independent Auditors' report is included in front of the financial section of this report.

The audit was designed to meet the requirements of generally accepted auditing standards. When the Port of Galveston meets the requirements of the Federal Single Audit Act of 1984 and related Uniform Guidance, and/or the State of Texas Grants Management Standards and related guidance, the audit is designed to also meet these requirements. The Port met these requirements in 2022, and therefore, an independent report related to the Single Audit Act and State of Texas Grants Management Standards is available for 2022.

A copy of the Independent Auditor's reports may be obtained by contacting the CFO, 123 25th Street, 8th Floor, Galveston, TX 77550. An electronic copy of this report will be posted to the Port's website at 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 this letter.

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Profile of the Government

The Galveston Wharves (Port of Galveston or 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 is primarily recovered through the fees charged to the users of such goods and services. All Port of Galveston properties are located within the limits of the City of Galveston, Texas.

The Galveston Port Facilities Corporation (GPFC) was incorporated on June 17, 2002, under the provisions of the Texas nonprofit corporation to act as a financing facility for the future financing of expansion and renovation of Port's facilities, and GPFC statements were combined with Port of Galveston statements annually. GPFC provides services exclusively for the benefit of the Port. On September 27, 2019, the Board of Trustees approved a resolution to cease operations of GPFC effective December 31, 2019. All operations are being conducted as the Port of Galveston and combining statements were not provided effective in 2021.

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 there from, are 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 Port and such subordinate officers and employees as may be required for the proper conduct of the business 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 Port and the income and revenues, thereof, subject only to the special limitations provided in the Charter. The Galveston Wharves is a self-sustaining city entity whose mission is to generate and reinvest Port revenues to benefit the Galveston community with economic growth, jobs and sales tax revenues.

The Port is located on the Gulf of Mexico on the deep-water Galveston Ship Channel (Federal Channel), which is at the entrance to Galveston Bay and the Houston Ship Channel. The Port occupies 840 acres on Galveston and Pelican islands. Galveston is a barrier island two miles off the Texas coast and 50 miles south of Houston, the nation's fourth largest city. The Port is 45 minutes from open sea. It is also a 10-minute drive from Interstate Highway 45.

Galveston Island is connected to the Texas mainland by two vehicular causeways (I-45) and a railroad bridge on the northwest side of the island, as well as a third highway bridge to the Texas mainland across the San Luis Pass at the southwestern tip of the island. On the island's eastern tip, a free state highway ferry service provides access to Bolivar Peninsula to the northeast.

The Port complex is situated on the north side of the island city with property and facilities also located on adjacent Pelican Island on the north side of the Federal Channel. The Federal Channel is a portion of the Galveston Navigation Harbor maintained by the U.S. Army Corp. of Engineers. The Federal Channel is 22,571 feet in total length beginning at the entrance of the harbor and ending just before the Pelican Island Bridge. The width of the Federal Channel remains nearly constant at 1,200' wide. The Federal Channel depth is authorized and maintained between 41 feet and 46 feet throughout the entire length and includes one turning basin with a 37-foot depth and widths up to

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

1,500 feet. The Alternate Route for the Gulf Intracoastal Waterway (ICWW) runs alongside the Port of Galveston.

As the fourth most popular cruise home port in North America, the Port had 324 sailings and reached more than 1 million cruise passengers in 2022 for only the second time in the Port's history. The Port has three cruise terminals, including the Royal Caribbean International terminal which opened in November 2022. The Port also owns and operates almost 5,000 cruise parking spaces.

The Port leases and maintains a wide range of cargo facilities on the Federal Channel, which is ranked among the top 50 busiest U.S. cargo waterways. In 2022 the Port moved 4 million tons of cargo, including bulk, roll-on/roll-off and general cargoes. Infrastructure includes an internal roadway, two Class 1 rails and one short-line rail. The Port has 13,000 linear feet of developed waterfront and 21 berths. More than 307 acres of Port-owned land are available for development.

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. Should a situation arise where actual results may vary significantly from budgeted results, the Board of Trustees may adopt an amended budget. There was no adoption of an amended budget in 2022.

Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported monthly to the Trustees of the Port of Galveston, 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

Revenues and Profits

Operating revenues of \$52.9 million were \$21.7 million over 2021. Much of the favorable variances is due to full resumption of cruising and the addition of a third cruise terminal in 2022. As a self-supporting enterprise, the Port does not rely on any local tax dollars for operations, and thus must generate income to reinvest in much-needed waterfront improvements to grow the Port's business, support the growth of local jobs and boost the local economy. This is done by operating as a landlord port that facilitates the movement of a diverse mix of domestic and international cargoes through Port facilities and property totaling approximately 840 acres on Galveston Island and the adjacent Pelican Island.

Cargo Growth

One of the top 50 ports in the national and one of the busiest in Texas, the Port rose from 46th to 43rd among the busiest U.S. ports and waterways according to a report by the U.S. Army Corps of Engineers, "The U.S. Coastal and Inland Navigation System 2021 Transportation Facts & Information."

The Port moved 4.0 million tons of cargo in 2022, which is down 17% overall from 2021 due primarily to the loss of grain related to tariffs, fertilizer due to market conditions, and wind energy due to the loss of government subsidies. Following is a comparative chart showing Short Tons by Major Product Line.

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

2022 and 2021 Short Tons by Major Product Line				
Product Line	2022	2021	Increase (Decrease) Tons	Increase/ Decrease %
Bulk Grain	729,203	1,246,542	(517,339)	-42%
Bulk Fertilizer	229,295	390,868	(161,573)	-41%
Liquid Bulk	1,965,982	1,989,260	(23,278)	-1%
Bananas and Other Fruit	559,084	594,012	(34,928)	-6%
RORO (Include BMW Vehicle Processing Center)	461,690	413,214	48,476	12%
Wind and General Cargoes	73,743	212,424	(138,681)	-65%
Total	4,018,997	4,846,320	(827,323)	-17%

Cruise, Cruise Parking and Ground Transportation Growth

Overall, 2022 revenue from cruise was \$19.1 million, cruise parking was \$12.0 million, and ground transportation was \$1.5 million for total cruise-related revenue of \$32.6 million. Comparing the latest full cruise year, 2019, cruise without ship services was \$17.7 million, cruise parking was \$7.6 million and ground transportation was \$1.1 million for total cruise related revenue of \$26.4 million. The Port reached one million cruise passengers on December 22, 2022, for only the second time in the Port's history.



The Port of Galveston was thrilled to join Royal Caribbean Group and Ceres Terminals Holdings LLC in celebrating the opening of Royal Caribbean's new, state-of-the-art cruise terminal adjacent to

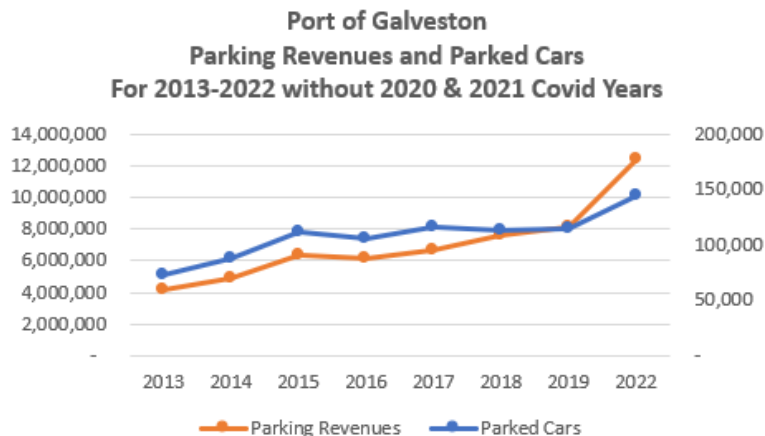
2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Pier 10 on November 9, 2022. Economic growth associated with the Port's third cruise terminal (Cruise Terminal 10) includes \$125 million capital investment, 400 construction jobs, 400 operations jobs, and home port for Oasis Class Allure of the Seas, which is among the world's largest cruise ships. Environmental stewardship associated with the terminal includes 100-percent solar-powered terminal, making it the world's first Leadership in Energy and Environmental Design (LEED) certified zero energy facility with sustainable construction and native landscaping with a Clean Galveston Grant.



The Port added 2,085 cruise parking spaces adjacent to Cruise Terminal 10. The Port Parking and Transportation Department manages parking lots totaling more than 5,600 parking spaces, of which almost 5,000 are cruise parking spaces. Additionally, the Port is adding 28 electrical vehicle charging stations to parking lots in 2023 in conjunction with an environmental grant through the Texas Volkswagen Environmental Mitigation Program (TxVEMP).

The following graph shows the growth in parking revenues and numbers of parked cars over the last 10 years. 2020 and 2021 were omitted because they were partial years due to the COVID-19 pandemic.

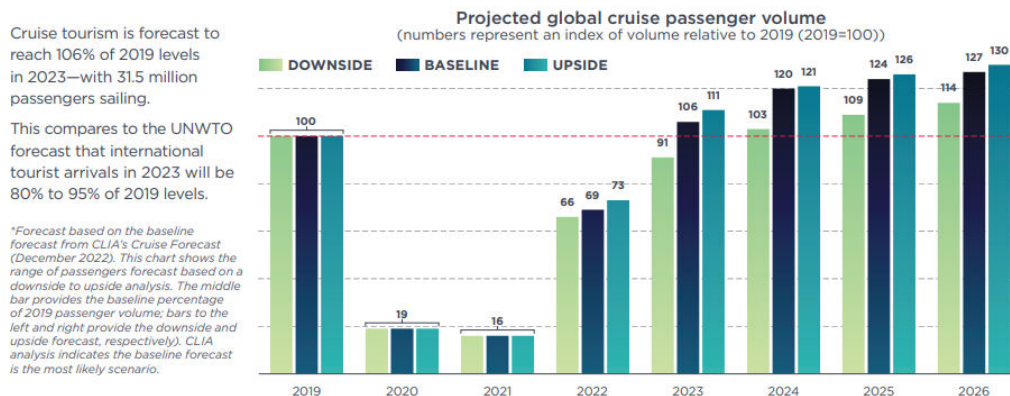


2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Interior roadways were expanded to aid in traffic control at the three cruise terminals in conjunction with Grant Riders 38 and 48 received from the Texas Department of Transportation (TXDOT). Additional interior roadways are included in the Port's strategic master plan.

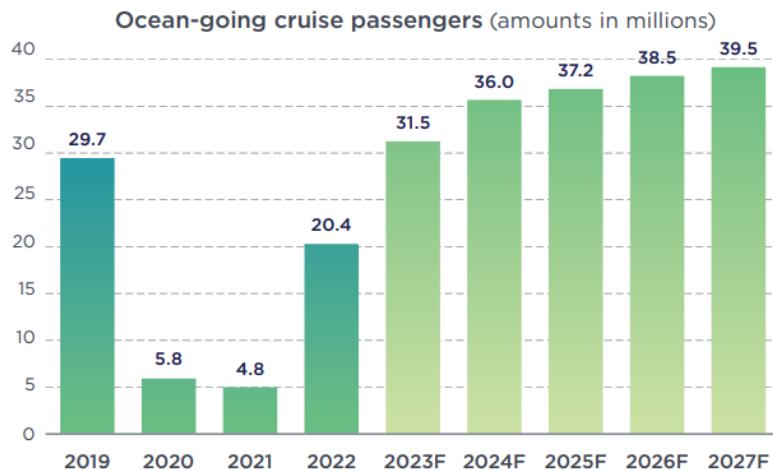
While cruise passengers almost returned to pre-pandemic levels, the increase in cruise revenue is predominately due to GASB 87 implementation (see Note 6). The number of parked cars increased by 29,865, or 26.2%, and parking revenue increased by \$4.3 million, or 52.6%, when compared with pre-pandemic levels.

The outlook of the cruise industry is good. CLIA's *State of the Cruise Industry 2023* states 85 percent of those that have cruised plan to cruise again, which is 6 percent higher than pre-pandemic levels. "Cruise tourism is forecast to reach 106% of 2019 levels in 2023 with 31.5 million passengers sailing."



Source: CLIA Cruise Forecast/Tourism Economics (December 2022)

As is shown in the below graph taken from the same report published by CLIA, "cruise continues to be one of the fastest-growing sectors of tourism."



Source: CLIA Passenger Data, 2019 - 2021 and CLIA Cruise Forecast /Tourism Economics (December 2022)

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

The CLIA report analyzed the rebound of cruise business economic impact following the COVID-19 pandemic. "Strong demand and forecast for passenger volume bodes well for future economic contributions from cruise. Looking ahead, the cruise sector is expected to move closer to 2019 levels in 2023 with passenger volume forecast to reach 27 million to 33 million cruisers globally." The CLIA report showed the cruise industry contributed \$155 billion to the global economy, 1.2 million jobs, and \$50 billion in wages.

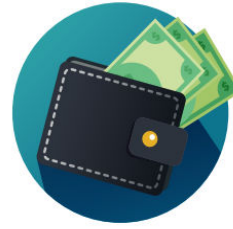
\$155B
TO THE GLOBAL ECONOMY



1.2M
JOBS



\$50B
IN WAGES



Source: CLIA 2019 Economic Impact Study, Oxford Economics

Strategic Planning and Capital Investment

The Board of Trustees of the Galveston Wharves adopted a 20-year strategic master plan in 2019 with the assistance of Bermello Ajamil & Partners, Inc., to guide Port growth. Based on one and one-half years of research, including meetings with stakeholders and the public, this comprehensive business-driven road map is guiding the Port in making business decisions, identifying opportunities and prioritizing capital improvement projects. The strategic master plan will be updated regularly as market demand, business strategies, and funding sources evolve.

Due to the COVID-19 global pandemic of 2020 and 2021, most aspects of the Port's strategic master plan were effectively moved back a year. The Port is full steam ahead with strategic planning projects in 2022. The East Port project related to Cruise Terminal 10 is a great example of a successful public-private partnership. Royal Caribbean built the \$125 million 161,000-square-foot terminal, and the Port spent \$27.7 million for pier repairs, site work, utilities, and additional cruise parking. Additionally, the Port spent \$5.9 million for construction of the East End Cruise Corridor which was partially funded through a TXDOT grant.

The Port spent another \$2.1 million on its turning basin expansion and \$2.4 million in maintenance dredging.



2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Mid Port projects include funding of \$2.5 million to complete a portion of interior roadway, build a beautiful new entrance to the existing cruise terminal areas, and make Cruise Terminal 25 (formerly Cruise Terminal 1) walkway improvements. These active projects account for 13 percent of all Mid Port projects. Still to come is more interior roadway work, parking and pier improvements, and Cruise Terminal 25 improvements to accommodate Carnival Cruise Line's Excel-class cruise ships which accommodate over 5,000 passengers.

The West Port is identified in the master plan as our major cargo area. The Port is seeking an additional \$30 million in funding to maximize the area by filling slips and expanding ground and rail infrastructure.

The Port received approval of a Federal \$1.3 million Port Security Grant related to Video Surveillance Expansion and Training, and a Texas Department of Transportation \$2.0 million grant related to roadway improvements along the Wharf Road. The Port will continue to pursue Federal Port Security Grants, Texas Department of Transportation funding, and local Industrial Development Corporation grants (4B Sales Tax). 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 are 25% Port cost share consisting of in-kind or actual percentage cash contribution. The Port may consider expanding the existing debt program for the purpose of future additions and improvements to its facilities.

City of Galveston Local Impact

The Port's cruise industry has made significant contributions to the City of Galveston and State of Texas. Since reports are not yet available for the post-pandemic year of 2022, 2019 information is being provided, as the number of cruise passengers in 2022 was comparable to 2019 at just over 1 million. CLIA published a report in 2020 entitled *Contribution of the International Cruise Industry to the U.S. Economy* in 2019 showing cruise operations in Galveston drove \$1.61 billion in direct expenditures, accounting for 6.4 percent of the national direct expenditure impact. The cruise industry generated 26,872 jobs and \$1.81 billion income through the Texas economy during 2019. These impacts accounted for 6.2 percent of national employment impact and 7.4 percent of the national wage impact.

Since 2018, the Port has made direct payments of approximately \$47.6 million to vendors located within the City of Galveston, or an average of \$9.5 million local spent annually over the past five years. Removing non-operating payments like insurances, notes and bonds, 32 percent of the Port's annual expenditures on average were paid to local vendors. Additionally, the Port operates cruise parking lots subject to sales tax through which the local government receives 2 percent of parking revenues. The City received \$227,238 from parking in 2022, which is 343 percent higher than the \$51,320 the City received in 2021. Sales taxes paid to the local government increased dramatically with the full resumption of cruise business in 2022 and the increase in parking spaces related to opening the new cruise terminal.

Green Marine Initiative

The Port of Galveston joined Green Marine Initiative in 2019 – a voluntary environmental certification program from the North American marine industry. Participants include ship owners, ports, terminals, and shipyards based in the United States and Canada. Green Marine certification is a part of the Port's long-term commitment to continuously improve its environmental performance. The Port was certified in May of 2021 and is only the second Texas port to gain this certification. The American Association of Port Authorities (AAPA) presented the Port of Galveston the Lighthouse Award of Distinction for its first Green Marine certification. Major environmental initiatives underway include shore power, fleet transition to low emissions, phased approaches to 100 percent clean energy, and installation of electrical vehicle charging stations.

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Finance Reporting to The Board of Trustees of the Galveston Wharves for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended December 31, 2021. This was the 29th 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 ACFR. This report must satisfy both accounting principles accepted in the U.S. and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Port of Galveston staff believe that the 2022 ACFR continues to meet the Certificate of Achievement Program's requirements. The Port will submit the report to the GFOA to determine its eligibility for another certificate.

2022 ANNUAL COMPREHENSIVE 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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2021

Christopher P. Morill

Executive Director/CEO

2022 ANNUAL COMPREHENSIVE 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 ACFR.

The Port of Galveston is fortunate to have entered the COVID-19 pandemic from a position of strength. With strong Board leadership and staff performance, operations were streamlined, and the Port capitalized on opportunities that resulted in increased revenues and build-up of unrestricted cash reserves. This gave the Port cash reserves to draw on as needed during the pandemic, as well as cash needed for capital investments.

Year	Unrestricted Cash Reserves (in millions)
2018	12.7
2019	20.3
2020	23.6
2021	27.5
2022	28.0

The pandemic struck just as the Port was beginning to implement its first-ever 20-Year Strategic Master Plan, and the Port Board and staff remain committed to implementing priority projects identified in this detailed road map. While the pandemic has affected project timelines in ways we still may not fully know, the Port's infrastructure needs, and growth opportunities remain. By using our internal Construction and Maintenance team and seeking millions of dollars in state and federal grants, the Port will follow plans to develop these projects in a fiscally responsible manner. The Port is confident that as the fourth most popular cruise port in America, Galveston will continue to be a top cruise port in the U.S.

Acknowledgments

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 request that you continue to assist us with your advice, efforts and loyalty.

The Port continues to be well positioned for cargo, cruise, and real estate rental growth. With strong cruise, cargo and lay dockage revenues, solid cash flows, and a strategic master plan to guide the way, the Port is well positioned for new opportunities and growth.

Respectfully submitted,



Mark R. Murchison

Chief Financial Officer

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



The Port welcomes the Ruby Princess, Royal Caribbean Allure of the Seas, and Norwegian Prima during the fourth quarter of 2022

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT



**USS Texas, a World War I-Era Battleship,
Is Undergoing a \$35 Million Dollar Repair Effort
At Port of Galveston Customer, Gulf Copper**



GALVESTON WHARVES

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Financial Section



**Port of Galveston
Galveston, Texas**



GALVESTON WHARVES

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the fiduciary activities of The Board of Trustees of the Galveston Wharves (the Port), a component unit of the City of Galveston, Texas, as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the fiduciary activities as of December 31, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Port, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, the Port adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, in fiscal year 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Port's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023 on our consideration of the Port's 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 solely 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 the effectiveness of the Port's 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 Port's internal control over financial reporting and compliance.

FORVIS, LLP

Houston, Texas
May 31, 2023



GALVESTON WHARVES

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Management's Discussion and Analysis



**Port of Galveston
Galveston, Texas**

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

Financial Highlights

The Port saw record-setting revenues in 2022 due to the full return of cruise business. Overall, the Port posted operating revenues of \$52.9 million, with \$19.1 million, \$12.0 million, and \$1.5 million attributable to cruise, cruise parking, and cruise ground transportation. This is up from \$31.2 million in 2021. Cruise and cruise-related revenue were the primary revenue streams in 2022 at 62%. Overall parking revenues of \$12.4 million were \$8.8 million over 2021. Operating income of \$16.0 million was up from operating income of \$3.2 million in 2021. The Port handled 4.0 million tons of cargo, down 0.8 million from 2021, primarily due to the return of cruise business. Cash used for the acquisition and construction of capital assets totaled \$28.3 million and net cash provided by operations was \$10.2 million in 2022.

The Port implemented GASB 87, *Leases*, in 2022, which had a significant impact on the Port's financial statements in 2022. The Port is reporting increases in assets of \$207.4 million, deferred inflows of resources of \$205.7 million, and operating revenues of \$1.7 million, with no significant impact on operating expenses. 2021 comparative information presented herein has not been restated for adoption of GASB 87. Impacts of implementation are described in more detail later in the MD&A section and in Notes to the Financial Statements.

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' (Port of Galveston or 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, 4) statement of fiduciary net position-pension trust fund 5) statement of changes in fiduciary net position- pension trust fund and 6) notes to the financial statements. This report includes other supplementary information in addition to the basic financial statements.

The proprietary fund financial statements presented herein include the operations of the Port using the approach as prescribed by Governmental Accounting Standards Board (GASB) in its publication *Codification of Governmental Accounting and Financial Reporting Standards*. They present the financial statements of the Port from the economic resources measurement focus using the accrual basis of accounting.

The Statement of Net Position presents as of a specific date information on the Port's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four being reported as net position. Increase or decrease 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's 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).

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 Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

Fiduciary Fund-Pension Trust Fund

The fiduciary fund accounts for resources held by the Port in a trustee capacity or as an agent for the benefit of parties outside the Port. The fiduciary fund includes the Pension Trust Fund. The Pension Trust Fund statements allows the Port to present the employee benefit trust fund activities. While the fiduciary fund represents a trust responsibility, the assets are restricted in purpose and do not represent discretionary resources of the government. Therefore, these assets are not presented as part of the Port's financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found beginning on page 29 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (RSI) immediately following the basic financial statements and related notes section of this report. RSI provides trend information related to the Port's benefit plan.

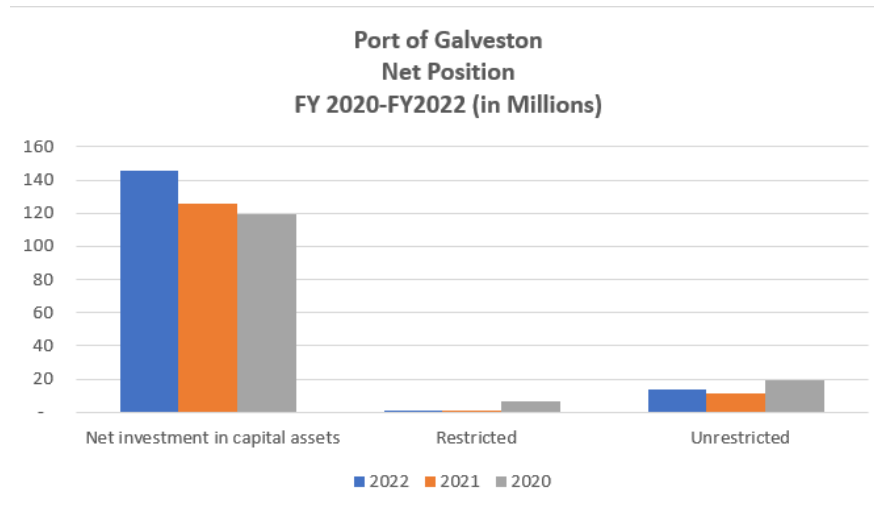
Financial Analysis of the Port

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):

	2022	2021	Increase (Decrease) Over Prior Year
Current assets	\$ 45,052	\$ 43,012	5%
Capital assets	172,743	145,554	19%
Other noncurrent assets	202,394	838	24052%
Total assets	420,189	189,404	122%
Deferred outflows of resources	400	258	55%
Current liabilities	36,416	27,693	31%
Long-term liabilities	16,967	19,676	-14%
Net pension liability	-	1,461	-100%
Total liabilities	53,382	48,830	9%
Deferred inflows of resources	207,791	1,765	11670%
Net position:			
Net investment in capital assets	145,378	126,138	15%
Restricted	589	1,280	-54%
Unrestricted	13,448	11,649	15%
Total net position	\$ 159,415	139,067	15%

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**



Statement of net position: The Port's net position increased by \$20.3 million between fiscal years 2021 and 2022, to approximately \$159.4 million. Net investment in Capital Assets increased from \$126.1 million to \$145.4 million. Restricted Net Position decreased from \$1.3 million to \$0.6 million and Unrestricted Net Position increased from \$11.6 million to \$13.4 million.

Total assets increased by \$230.9 million in 2022.

- **Current assets increased \$2.0 million.**
 - Current unrestricted cash and cash equivalents increased \$0.5 million due to the reduction in restricted cash for the Series 2011 payment.
 - Current receivables net of allowances increased \$0.9 million with a \$0.7 million increase attributable to cruise due to full resumption of cruising and addition of a third cruise terminal in 2022 and the remaining \$0.2 million increase due to miscellaneous other receivables.
 - Current restricted cash and cash equivalents decreased by \$7.8 million due to the usage of all remaining Series 2021 Refunding bond funds (\$7.3 million and the reduction in restricted cash for the Series 2011 payment of \$0.5 million).
 - Short term lease receivable increased \$8.4 million due to lease asset added as a result of GASB 87 implementation.
- **Non-current assets increased \$228.7 million**
 - Capital assets, net of depreciation, increased \$27.2 million (see Note 4)
 - Additions from capital assets were \$35.1 million
 - Retirements from capital assets were \$3.0 million
 - Accumulated depreciation increased \$4.9 million due to normal depreciation of \$7.9 million less retirements of \$3.0 million
 - A non-current lease receivable in the amount of \$201.5 million was added to non-current assets due to GASB 87 implementation.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

Deferred outflows of resources related to pension increased \$0.2 million.

Total liabilities increased \$210.6 million in 2022.

- **Current liabilities increased \$8.7 million**

- Trade accounts payable and other accrued expenses increased \$6.6 million; \$6.8 million was due to capital related payables and a \$0.2 million decrease in non-capital and trade related payables.
- Customer deposits and payable increased \$1.1 million primarily due to the Cruise line incentive fees of \$0.6 million due to the full resumption of cruise business in 2022 and other smaller customer payable increases of \$0.5 million.
- A lease liability in the amount of \$1.0 million was added to current liabilities due to GASB 87 implementation.

- **Long-term liabilities decreased \$4.2 million**

- Long-term debt decreased by \$4.6 million due to scheduled payments made on the Series 2021 Refunding debt.
- A lease liability in the amount of \$1.9 million was added to long-term liabilities due to GASB 87 implementation.
- Net pension liability decreased by \$1.5 million primarily due to differences in expected and actual experience and changes in assumptions from the prior year to the current year.

Deferred inflows of resources-pension increased \$0.4 million.

Deferred inflows of resources-leases in the amount of \$205.7 million were added due to GASB 87 implementation.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

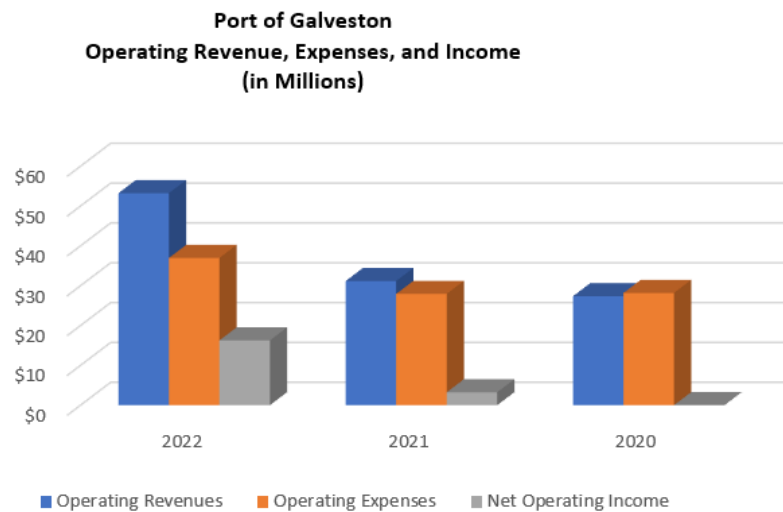
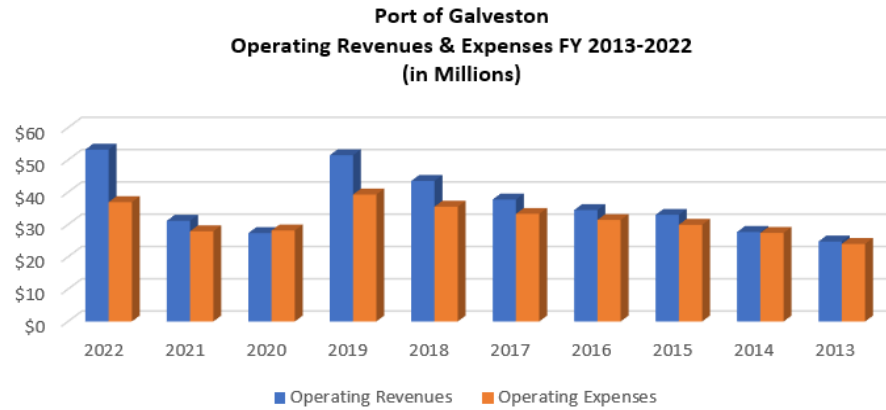
**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

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 (in 000's):

	2022	2021	Increase (Decrease) Over Prior Year
Operating revenues:			
Vessels and cargo services	\$ 28,734	\$ 18,943	52%
Building and facilities rental and fees	24,177	12,229	98%
Total operating revenues	52,911	31,172	70%
Operating expenses:			
Personnel services	9,927	9,600	3%
Maintenance and operations	14,179	7,281	95%
Sales and office	4,959	4,043	23%
Depreciation	7,889	7,012	13%
Total operating expenses	36,955	27,936	32%
Net operating income	15,957	3,236	393%
Nonoperating revenues (expenses):			
Earnings on investment	511	71	620%
Other income	29	319	-91%
Loss on sale of assets	(48)	(792)	-94%
Interest expense	(225)	(698)	-68%
Costs of bond issuance	-	(270)	-100%
Annual City payment	(198)	(198)	0%
Hurricane-related income (expenses)	(21)	23	-190%
FEMA/TDEM Claims-IKE	(140)	(10,745)	-99%
Total nonoperating revenues (expenses)	(92)	(12,290)	-99%
Income (loss) before capital grants and contributions	15,865	(9,054)	-275%
Capital grants and contributions	4,483	2,827	59%
Changes in net position	20,348	(6,227)	-427%
Beginning net position	139,067	145,294	-4%
Ending net position	\$ 159,415	\$ 139,067	15%

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**



Total operating revenues increased by \$21.6 million from \$31.2 million in 2021 to \$52.9 million in 2022. Total operating expenses increased by \$9.1 million from \$27.9 million in 2021 to \$37.0 million in 2022. Net operating income increased by \$12.7 million from \$3.3 million in 2021 to \$16.0 million in 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

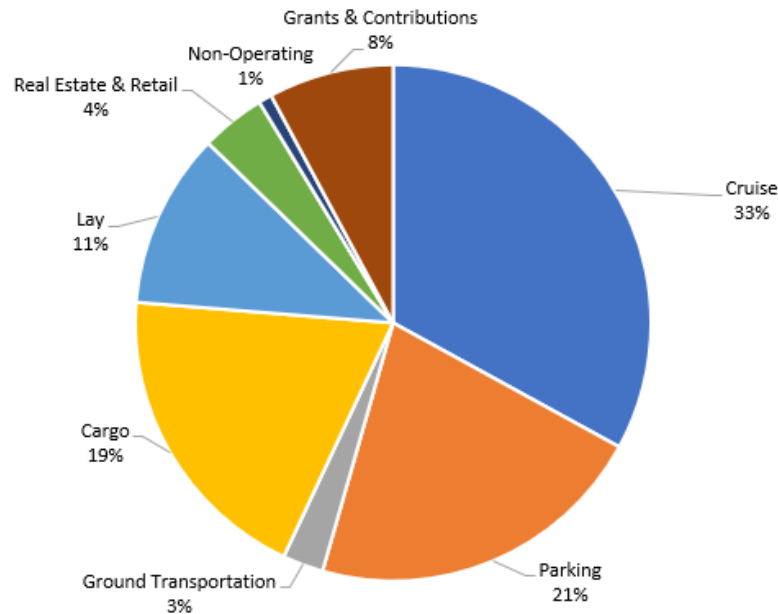
**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

- Vessels and cargo services increased 52%, or \$9.8 million, from \$18.9 million in 2021 to \$28.7 million in 2022.
 - 2022 passenger revenues increased \$11.8 million from \$4.1 million in 2021 to \$15.9 million in 2022 due to the full resumption of cruise business in 2022 and the opening of the third cruise terminal in November 2022. The number of cruise ship calls increased from 127 in 2021 to 324 in 2022, and the number of cruise passengers increased from 282,545 in 2021 to 1,041,407 in 2022. \$1.5 million of the increase is due to interest income related to leases.
 - Lay dockage decreased \$0.8 million, or 14%, due to the full return of cruise business. The number of lay ship calls decreased from 472 in 2021 to 318 in 2022.
 - Wharfage decreased \$1.2 million, or 34%, led by wind towers and blades decrease of \$1.6 million, with other product lines showing smaller variances for an overall increase of \$0.1 million.
- Building and facilities rental and fees increased 98% or \$11.9 million increase from \$12.2 million in 2021 to \$24.2 million in 2022.
 - Rail switching decreased \$0.3 million or 30% from \$0.8 million to \$0.5 million due primarily to the decrease in wind of \$0.1 million, grain of \$0.1 million, and other product lines of \$0.1 million.
 - Parking revenues increased by \$8.8 million from \$3.6 million in 2021 to \$12.4 million in 2022 due to the full resumption of cruise business in 2022 and the opening of the third cruise terminal in November 2022. The number of vehicles parked related to cruise increased from 37,679 in 2021 to 143,907 in 2022.
 - Real estate increased \$1.6 million, or 33%, primarily due to the addition of GASB 87 lease interest income of \$1.2 million, and other various lease increases of \$0.4 million.
 - Security cost recovery increased \$0.8 million, or 51%, from \$1.5 million in 2021 to \$2.2 million in 2022 due primarily to the full return of cruise business in 2022.
 - Terminal access fees increased \$1.0 million, or 223%, from \$0.4 million in 2021 to \$1.4 million in 2022 due to the full return of cruise business in 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

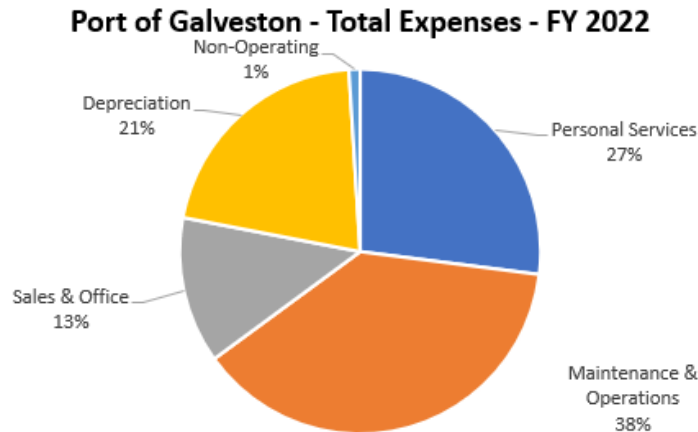
**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

Port of Galveston - Total Revenue by Major Activity - FY 2022



Operating expenses increased \$9.0 million, or 32%, in 2022

- Personnel Related Expenses increased \$0.3 million, or 3%, due to an increase of \$0.9 million in Salaries and Wages related to unfilled positions from 2021 being filled following the full return of cruise business in 2022, related increased payroll taxes, employee insurances and other employee benefits of \$0.4 million, and contracted police and security of \$0.3 million due to the full return of cruise business, offset by a decrease in the defined benefit plan of \$1.3 million due to differences between projected and actual earnings on pension plan investments.
- Maintenance and Operations expense increased \$6.9 million or 95%. Cruise related expenses increased due to cruise lines incentives of \$2.4 million due to the full return of cruise business in 2022, utilities of \$0.5 million, cruise shuttles of \$1.2 million, and credit card fees related to cruise parking of \$0.2 million due to the full return of cruise business in 2022, maintenance dredging increased by \$1.9 million due to the dredging of the Federal Channel, insurance \$0.3 million, janitorial services \$0.2 million, and equipment repairs and building maintenance \$0.2 million.
- Sales and Office Expense, excluding salaries and related expense, increased \$0.9 million, or 23% due to \$0.7 million increase in IT and software expense, \$0.2 million due to GASB 87 implementation.
- Depreciation expense increased \$0.9 million, or 13%, when compared with 2021 due to the capitalization of a significant number of projects in 2022.



Other non-operating revenues/expenses netted a revenue increase of \$13.9 million, or 99%, in 2022.

- Revenue increase of \$1.8 million—Interest Income increased by \$0.5 million due mainly to increased rates, Capital Grants and Contribution Income increased by \$1.6 million primarily due to an increase in Texas Department of Transportation grant income, offset by a decrease in Ordinary Insurance Proceeds of \$0.3 million. 2021 included reimbursement for Hurricane Harvey of \$1.0 million.
- Expense decrease of \$12.1 million—The decrease in non-operating expenses reflects a reduction to non-operating revenues and expenses of \$10.5 million. In 2021, the Port recorded \$10.7 million due to a demand notice from TDEM for Hurricane Ike. A significant portion of the amount in the TDEM Demand Notice is still in FEMA's review and appeals process. The Port recorded the full amount of the Demand Notice as a current liability and as a non-operating expense. Additionally, the Port had Retirement of obsolete equipment decreased by \$0.8 million and bond interest and bond issuance expenses decreased by \$0.8 million.

2022 Tonnage, Passengers and Vehicles

- 2022 Cargo tonnage decreased 17% from 4.8 million tons to 4.0 million tons.
 - Grain shipments decreased by 42% from 1.2 million tons to 0.7 million tons due to grain tariffs.
 - Bulk fertilizer decreased 41% from 390,868 tons to 229,295 tons due to market conditions.
 - Liquid bulk remained consistent at 2.0 million tons as draft limitations in the Federal Channel were reduced.
 - Fresh Fruit and Vegetables decreased 6% from 594,012 tons to 559,084 tons.
 - RoRo increased 12% from 413,214 tons to 461,690 tons primarily because production in foreign manufacturing countries resumed following 2020 COVID-19 shutdowns.
 - Wind and General Cargoes decreased 65% from 212,424 tons to 74,743 tons due to the loss of government subsidies.
 - Cruise passenger movements increased 269% from 282,545 to 1,041,407 due to full resumption of cruise business in 2022 and the opening of the third cruise terminal in November 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

- Parking increased 282% from 37,679 vehicles to 143,907 vehicles due to the full resumption of cruise business in 2022 and the opening of the third cruise terminal in November 2022.

Fiduciary Fund

Fiduciary fund: The Galveston Wharves Pension Plan (the Plan) is sponsored by the Port. The Plan is a component unit of the Port and is reported as a fiduciary pension trust fund in the basic financial statements of the Port in accordance with GASB No. 84, *Fiduciary Activities*.

Fiduciary Fund Financial Highlights and Analysis

- Net position restricted for pensions is available for payment of monthly retirement benefits and other qualified distributions to the Plan's participants. Net position restricted for pensions decreased by approximately \$3.8 million, or 22.59% in 2022. Investment income decreased in 2022 when compared to 2021.
- Employer contributions totaled \$399,996 and \$255,702 in 2022 and 2021.
- The amount of benefits paid to participants decreased by \$0.1 million or 6.09% during 2022.
- The Plan's rate of return on investments for the year ended December 31, 2022, was -17.72%, which was lower than the return of 15.37% for 2021. The actuarial assumed rate of return remained the same at 7.25%.

	2022	2021	Percentage Change
Assets			
Cash and cash equivalents	\$ 80,553	\$ 652,013	-87.65%
Prepaid benefits	106,975	110,276	-2.99%
Investments	12,835,355	16,061,166	-20.08%
Total assets and net position	13,022,883	16,823,455	-22.59%
Additions:			
Employer contributions	\$ 399,996	\$ 255,702	56.43%
Net investment income	-	2,305,982	-100.00%
Total additions	399,996	2,561,684	-84.39%
Deductions:			
Benefits paid to participants	1,283,191	1,366,375	-6.09%
Net investment loss	2,876,194	-	100.00%
Administrative expenses	41,183	39,843	3.36%
Total deductions	4,200,568	1,406,218	198.71%
Net increase/(decrease) in net position	\$ (3,800,572)	\$ 1,155,466	-428.92%

Investments decreased by \$3.2 million or 20.08%, from 2021 to 2022. This was primarily due to a decrease in the fair value of investments.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

The Port had a net investment loss of \$2.9 million in 2022 compared to net investment income of \$2.3 million in 2021. This decrease was primarily due to unfavorable market conditions in 2022 compared to 2021.

Employer contributions increased by \$144,294 from 2021 to 2022. The Plan's actuary prepares an annual valuation. As part of this valuation, the Plan actuary calculates the annual required contribution and the Plan sponsor contributes at a minimum or in excess in accordance with this calculation.

Capital Assets and Debt Administration

Capital assets: As of December 31, 2022, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled \$293.4 million, an increase of \$32.1 million over 2021. Accumulated depreciation as of year-end is \$120.7 million, an increase of \$4.9 million over 2021. The following is a comparison of capital assets for the years ended December 31 (in 000's):

	2022	2021
Land	\$ 18,185	\$ 18,086
Channel deepening	18,388	15,132
Construction in progress	4,994	7,290
Total capital assets, nondepreciable	41,567	40,508
Railway property and buildings	3,490	3,490
Wharves property and buildings	232,371	202,480
Operating equipment	10,422	10,302
Office equipment	4,723	3,760
Intangible assets	856	795
Total capital assets being depreciated	251,862	220,827
Less allowance for depreciation	(120,687)	(115,781)
Total assets being depreciated, net	131,176	105,046
Total capital assets, net	\$ 172,743	\$ 145,554

Non-depreciable capital assets of \$41.6 million increased \$1.0 million, with a \$3.3 million increase related to channel deepening, partially offset by a \$2.3 million decrease related primarily to work completed and transferred to respective capital asset category related to third cruise terminal. Total capital assets being depreciated, net, of \$131.2 million increased \$26.1 million, which is the net of an increase in capital assets being depreciated of \$31.0 million and accumulated depreciation increase of \$4.9 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
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

Bond ratings: The underlying ratings assigned to the Port's Series 2021A and Series 2021B (AMT) Revenue Refunding Bond issues are as follows:

- Standard and Poor's: A-/Stable
- Moody's Investor's Services: Baa1/Stable

The Port is the Local Sponsor for the Federal Channel. As the Local Sponsor it is responsible for the local cost share of the previously deepening of the federal channel. In addition to the cost share paid to the U.S. Army Corps of Engineers on previously constructed general navigation features the Port is responsible for an additional 10 percent of the cost of the Federal Channel deepening to 45 mean lower low water. The estimated cost is \$3.9 million payable over a period not to exceed 30 years. These costs are being capitalized and the liability is being accrued.

Issue	Balance at December 31,		Decreases	Balance at December 31,		Amounts Due Within One Year
	2021	Increases		2022		
Series 2021 Refunding	\$ 20,548,879		\$ (5,896,515)	\$ 14,652,364	\$	4,555,664
U.S. Corps of Engineers	3,532,211	-	(130,394)	3,401,817		130,367
	<u>\$ 24,081,090</u>	<u>\$ -</u>	<u>\$ (6,026,909)</u>	<u>\$ 18,054,181</u>	<u>\$</u>	<u>4,686,031</u>

More detailed information on long-term debt may 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 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
A Component Unit of the City of Galveston**

**Management's Discussion and Analysis (Unaudited)
December 31, 2022**

The Port welcomed over 1 million cruise passengers for only the second time in its history due to the strong return of cruise business in 2022 and the opening of the third cruise terminal in November of 2022. Projected 2023 cruise revenue of over \$19 million is expected as the Port is on track to set new records with more than 350 cruise sailings scheduled in 2023, increased passenger counts due to larger ships, and increased rates. Parking recorded a record of 143,907 cars, or a 24% increase over the second highest year on record. Parking revenues of \$12.4 million were 52% over the second highest year on record. Parking revenues are expected to remain strong with over \$20 million in revenues expected in 2023. Cargo business remained strong. While cruise brought 200 more ships to the Port in 2022 as compared to 2021, or an increase of 161%, cargo showed a decrease of 64 ships, or 18%, during the same time, for an overall tonnage decrease of 827,324. The Port had all-time record setting revenues of \$52.7 million, which was \$1.3 million above the second highest revenue setting year of 2019. When removing the revenue impact of GASB 87 implementation on revenues, 2022 revenue was \$0.3 million below 2019 revenue.

The Port received approval for a Federal Port Security Grant and a Texas Department of Transportation Grant in 2022. Work is expected to be completed on two previously approved Port Security Grants in 2023. The Port also underwent dredging improvements at the north and south turning basin in order to deepen the Federal Channel to the official minimum depth required. While construction of the third cruise terminal was originally delayed due to the COVID-19 pandemic, completion of the terminal took place in November of 2022, with a first sailing on November 8, 2022.

Contacting the Port's Financial Management

This financial report is designed to provide our 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 Chief Financial Officer, Port of Galveston, 123 25th Street, 8th Floor, Galveston, Texas 77550.

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Basic Financial Statements



**Port of Galveston
Galveston, Texas**

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Net Position
December 31, 2022**

Assets

Current assets-unrestricted:	
Cash and cash equivalents	\$ 27,978,450
Accounts receivable, net	7,189,659
Prepaid items	810,859
Short term lease receivables	8,381,325
Current assets-restricted	
Cash and cash equivalents	588,537
Net pension asset	102,861
	<hr/>
Total current assets	45,051,691
	<hr/>
Noncurrent assets:	
Capital assets:	
Capital assets, nondepreciable	41,566,112
Capital assets, net of depreciation	131,176,788
	<hr/>
Total capital assets	172,742,900
	<hr/>
Other assets:	
Lease assets, net of amortization	3,373,898
Lease receivables	199,020,560
	<hr/>
Total other assets	202,394,458
	<hr/>
Total noncurrent assets	375,137,358
	<hr/>
Total assets	420,189,049
	<hr/>
Deferred outflows of resources-pension items	399,996
	<hr/>
Total assets and deferred outflows of resources	\$ 420,589,045
	<hr/>

(Continued)

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Net Position (Continued)
December 31, 2022**

Liabilities

Current liabilities:

Accounts payable	\$ 14,153,120
Accrued expenses	2,934,312
Payable to other governments	376,194
Accrued compensated absences	534,315
Unearned revenues and rents	2,279,472
Due to FEMA/TDEM-IKE	10,885,347
Long-term liabilities due within one year	697,273
Long-term liabilities due within one year (payable from restricted assets)	<u>4,555,664</u>

Total current liabilities	<u>36,415,697</u>
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Noncurrent liabilities:

Accrued compensated absences	758,145
Long-term liabilities due in more than one year	<u>16,209,584</u>

Total noncurrent liabilities	<u>16,967,729</u>
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Total liabilities	<u>53,383,426</u>
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Deferred inflows of resources:

Deferred inflows of resources - gain on refunding	73,162
Deferred inflows of resources - pension items	2,025,260
Deferred inflows of resources - lease related	<u>205,692,632</u>

Total deferred inflows of resources	<u>207,791,054</u>
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Total liabilities and deferred inflows of resources	<u>261,174,480</u>
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Net Position:

Net investment in capital assets	145,377,881
Restricted for debt service	588,537
Unrestricted	<u>13,448,147</u>

Total net position	<u>159,414,565</u>
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Total liabilities, deferred inflows of resources and net position	<u><u>420,589,045</u></u>
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See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2022**

Operating revenues:	
Charges for customers services:	
Vessels and cargo services	\$ 28,734,490
Building and facilities rental and fees	24,176,942
	<hr/>
Total operating revenues	52,911,432
	<hr/>
Operating expenses:	
Personnel services	9,926,696
Maintenance and operations	14,179,348
Sales and office	4,959,402
Depreciation	7,889,262
	<hr/>
Total operating expenses	36,954,708
	<hr/>
Operating income	15,956,724
	<hr/>
Nonoperating revenues (expenses):	
Investment income	511,255
Other income	29,330
Loss on sale of capital assets	(48,143)
Interest expense	(225,470)
Annual city payment	(198,125)
FEMA/TDEM Claims-IKE	(160,668)
	<hr/>
Total nonoperating revenues (expenses)	(91,821)
	<hr/>
Income before capital grants and contributions	15,864,903
	<hr/>
Capital grants and contributions	4,483,075
	<hr/>
Change in net position	20,347,978
	<hr/>
Net position at beginning of year	139,066,587
	<hr/>
Net position at end of year	\$ 159,414,565
	<hr/>

See accompanying notes to financial statements

The Board of Trustees
A Component Unit of the City of Galveston

Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities:	
Cash receipts from customers	\$ 38,953,768
Cash payments to employees	(10,964,084)
Cash payments to suppliers for goods and services	(17,815,952)
Net cash provided by operating activities	<u>10,173,732</u>
Cash flows from noncapital financing activities:	
Annual city payment	(198,124)
Proceeds from FEMA/TDEM	77,013
Net cash used in noncapital financing activities	<u>(121,111)</u>
Cash flows from capital and related financing activities:	
Principal and interest payments received on leases	11,950,361
Principal and interest payments on leases	(124,772)
Principal payments on revenue bonds and other long-term liabilities	(6,053,794)
Receipts from capital grants and contributions	4,881,571
Interest paid—long-term debt	(225,538)
Acquisition and construction of capital assets	(28,302,659)
Net cash used in capital and related financing activities	<u>(17,874,831)</u>
Cash flows from investing activities:	
Receipts of interest	511,256
Net cash provided by investing activities	<u>511,256</u>
Net decrease in cash and cash equivalents	(7,310,954)
Cash and cash equivalents at beginning of year	<u>35,877,941</u>
Cash and cash equivalents at end of year	<u>\$ 28,566,987</u>
Cash and cash equivalents per statement of net position:	
Unrestricted	\$ 27,978,450
Restricted	<u>588,537</u>
Cash and cash equivalents at end of year	<u>\$ 28,566,987</u>

(Continued)

**The Board of Trustees
A Component Unit of the City of Galveston**

**Statement of Cash Flows (Continued)
Year Ended December 31, 2022**

Reconciliation of operating income to net cash provided by operating activities

Operating Income	\$ 15,956,724
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	8,377,852
Accrual for bad-debt expense	139,963
Lease expense	68,727
Lease revenue	(12,605,461)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(1,605,866)
Increase in prepaid items	(15,124)
Increase in accounts payable	603,416
Increase in accrued expenses	215,927
Increase in unearned revenues and rents	86,532
Increase in wages payable and accrued compensated absences	296,522
Increase in deferred outflows—pension items	(244,655)
Increase in deferred inflows—pension items	359,972
Decrease in net pension liability	<u>(1,460,796)</u>
Net cash provided by operating activities	<u>\$ 10,173,732</u>
Noncash investing, capital and financing activities:	
Payables that result in capital assets related to construction	<u>\$ 7,546,320</u>
Retainage payable	<u>\$ 1,691,356</u>

See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Fiduciary Net Position
December 31, 2022**

	Pension Trust Fund
Assets	
Cash and cash equivalents	\$ 80,553
Prepaid pension benefits	106,975
Investments at fair value:	
Common stock—domestic	5,374,809
Common stock—international	330,249
Mutual funds—domestic	2,615,770
Mutual funds—international	1,990,235
U.S. government agency securities	138,594
Municipal bonds	93,350
Corporate bonds	2,099,658
Foreign bonds	192,690
Total investments	<u>12,835,355</u>
Total assets	<u>\$ 13,022,883</u>
Net position restricted for pension	<u>\$ 13,022,883</u>

See accompanying notes to financial statements.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

**Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2022**

	Pension Trust Fund
Additions:	
Employer contributions	<u>\$ 399,996</u>
Total additions	<u>399,996</u>
Deductions:	
Benefits paid to participants and beneficiaries	1,283,191
Net depreciation in fair value of investments	2,876,194
Administrative expense	<u>41,183</u>
Total deductions	<u>4,200,568</u>
Net decrease in fiduciary net position	(3,800,572)
Net position restricted for pension at beginning of year	<u>16,823,455</u>
Net position restricted for pension at end of year	<u><u>\$ 13,022,883</u></u>

See accompanying notes to financial statements

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of The Board of Trustees of the Galveston Wharves (the Port) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the Port's significant policies.

A. Reporting Entity

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

The Board consists of seven members; one member is the ex-officio representative of the City of Galveston City Council and is elected from the City Council (the Council) by council members. The Council appoints the six remaining members for three-year staggered terms. The Board has 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 Port and the income and revenue thereof. The Board has no power to contract in the name of the City and no action or inaction by the Board of Trustees shall render the City liable for damages or shall be binding other than on the properties, income and revenues of the Port. Except for the annual payment of approximately \$198,000, a cruise passenger fee, and cruise parking fees passed through to the City, all net revenues of the Port shall be retained and used by the Port for the betterment and extension of the Port. For reporting purposes, the Port is considered a component unit of the City, a state and local government. Accordingly, the Port is exempt from taxes.

As required by GAAP, these financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations or functions, as part of the Port's financial reporting entity. Based on these considerations, the following entity has been included in the Port's reporting entity as a fiduciary component unit.

Galveston Wharves Pension Plan: The Galveston Wharves Pension Plan (the Pension Plan) is sponsored by the Board of the Port. Based on the criteria of GASB Codification Section 2100 *Defining the Reporting Entity*, there are no other entities required to be combined with the Pension Plan; however, the Pension Plan is a component unit of the Port and is reported as a fiduciary pension trust fund in the basic financial statements in accordance with GASB Statement No. 84, *Fiduciary Activities*.

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

The Port uses a single enterprise fund for the presentation of its financial statements. Proprietary fund (which includes enterprise funds) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation (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 are charges to customers for services. Operating expenses include personnel services, maintenance and operations, sales and office and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Port reports the Pension Plan as a fiduciary pension trust fund. The Pension Plan is a defined benefit plan. The fiduciary pension trust fund financial statements are prepared using the accrual basis of accounting. Employer contributions to the Pension Plan are recognized when due. Benefit payments and expenses are recognized when due and payable in accordance with the terms of the Pension Plan.

C. Cash and Cash Equivalents

The Port's cash and cash equivalents, including restricted cash and cash equivalents, are considered to be cash on hand and include demand deposits, external investment pools and short-term investments with original maturities of three months or less from the date of acquisition, if any. Restricted cash and cash equivalents represent amounts restricted through debt covenants and the annual payment to the City. External investment pools are valued at amortized cost, as applicable.

D. Investments

The Pension Plan's investment policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. There were no significant modifications to the investment policy during 2022. The following is the Board accepted asset allocation mix as of December 31, 2022:

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

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

E. Accounts Receivables

The Port considers most accounts receivables to be fully collectible; however, the Port has created an allowance, where based upon historical attempts at collection, it deems collection to be unlikely. It is the Port's practice to set a reserve of 30.0% for receivables over 90 days, 20.0% for receivables over 60 days and 2.5% for receivables under 60 days. The Port specifically reserved for other receivables that were deemed to be uncollectible, including an amount in litigation with court deposits with a parking lot, and there was sufficient reserve when the Port received payment in February of 2023. The allowance for the year ended December 31, 2022, including special reserves, totaled \$503,019.

F. Prepaid Items

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

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 over \$10,000, movable equipment under \$10,000, and equipment purchased with federal or state funds over \$5,000. 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, if any. Construction in progress is depreciated when placed in service.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes:

Railway 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 Absences

Compensated absences, which include unpaid accrued vacation and sick leave, are accumulated during employment. 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 12.0 to 31.5 working days per year and may accumulate up to a maximum of 320 hours measured on employee's hire anniversary date. Full-time employees accumulate sick leave time at the rate of one day per month, not to exceed 960 hours. Upon termination, employees are paid for accumulated vacation time, as well as accumulated sick leave, with sick time being paid up to a maximum of 720 hours. Liabilities for compensated absences are recognized on the Port's financial statements as they accumulate based on employees' current rate of pay as of December 31, 2022.

I. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plan and additions to/deductions from the Pension Plan's net position have been determined on the same basis as they are reported by the Pension Plan. For this purpose, 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.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

J. Use of Estimates

The financial statements prepared in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows (inflows) of resources 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, the allowance for doubtful accounts and actuarial assumptions relative to net pension liabilities (assets). Although not expected by management, actual results could differ from those estimates.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

The Port has the following that qualify for reporting in these categories:

- The Port reports deferred outflows and inflows of resources calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. They consist of actuarial gains and losses due to the difference between expected and actual experience, the effect of changes in actuarial assumptions and the net difference between actual and projected investment earnings. Deferred outflows of resources also includes contributions to the Pension Plan subsequent to the measurement date.
- A deferred outflow on refunding results when the carrying value of refunded debt was lower than its reacquisition price. This difference is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- A deferred inflow of resources for leases results when the Port recognizes a lease receivable and a deferred inflow of resources which are initially measured as the amount of lease receivable and adjusted for lease payments received at or before the lease commencement date pursuant to GASB 87 guidance. Subsequently, the deferred inflows of resources are recognized as revenues over the life of the lease terms.

L. Net Position

Net investment in capital assets: The net investment in capital assets component of net position consists of unspent bond proceeds, capital assets, net of accumulated depreciation, lease assets, net of accumulated amortization, deferred outflows related to debt, reduced by the outstanding balance of bonds, deferred inflows related to debt, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

Restricted: Restricted net position represents those portions of net position segregated pursuant to the provisions of the 2021 Revenue Refunding bonds, wherein the Port transfers each month's payment at the end of the prior month.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

L. Net Position (Continued)

Unrestricted: This is the residual component of net position. It consists of net position that does not meet the definition of restricted or net investment in capital assets.

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.

M. Revenues and Expenses

Operating revenues and expenses: Operating revenues are recorded when earned and expenses are recorded when incurred. Revenues and expenses relating to the Port's vessel and cargo operations include cruise passenger fees, wharfage, dockage and lay dockage. Revenues and expenses relating to the Port's building and facilities rental operations include terminal access fees, real estate fees, switching fees, license fees and parking fees. All other revenues and expenses are classified as non-operating.

Capital grants and contributions: Grants restricted for capital acquisition and construction are recorded as capital contributions. Grant revenue that can be used for operating purposes, if any, is recognized when earned. Both are considered earned when all applicable eligibility requirements have been met by the Port.

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

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

Pension Plan's payment of benefits: Benefit payments are recognized as expenses when due and payable in accordance with the terms of the Plan.

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

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

N. Actuarial Valuation

The Pension Plan has an actuarial valuation performed annually for financial reporting purposes in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*. The most recent actuarial valuation was performed as of December 31, 2022.

O. Pension Plan Risk and Uncertainties

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

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

P. GASB Pronouncements:

Adopted Pronouncements:

The Port adopted GASB Statement No. 87, *Leases*, issued June 2017, effective January 1, 2022. Leases were recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. GASB Statement No. 87 established a single approach to accounting for and reporting leases by state and local governments. Under this statement, the Port, as a lessee, must recognize (1) a lease liability, (2) an intangible asset representing the lessee's right to use the leased asset, (3) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (4) interest expense on the lease liability and (5) include note disclosures about the lease. The Port, as a lessor, must recognize (1) a lease receivable (measured at the present value of lease payments expected to be received during the lease term), (2) deferred inflow of resources, (3) interest revenue on the lease receivable and (4) include note disclosures of leasing arrangements and the total inflows of resources recognized from leases. This statement provides exceptions for leases of assets held as investments, certain regulated leases, short-term leases and leases that transfer ownership of the underlying asset. A lessor should not de-recognize the asset underlying the lease. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-leased components embedded in lease contracts (such as service agreements) and leases with related parties.

There was no impact to beginning net position as a result of adoption of GASB Statement No. 87. There was a significant impact on the Port's financial statements as is shown in the following schedule:

Year Ending December 31	Port as Lessee	Port as Lessor
Assets	\$ 3,373,898	\$ 207,401,884
Liabilities	(3,408,340)	(205,692,631)
Assets/Liabilities Net Change	\$ (34,442)	\$ 1,709,253
Revenues	-	1,709,253
Expenses	(34,442)	-
Operating Income	\$ (34,442)	\$ 1,709,253

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

P. GASB Pronouncements (Continued)

Additional information related to GASB Statement No. 87 may be found in Note 6.

The Port adopted GASB Statement No. 92, *Omnibus 2021*, issued January 2020, effective for the Port's fiscal year ended December 31, 2022. This statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases*, and Implementation Guide No. 2020-3, *Leases, for interim financial reports*
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit OPEB plan
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of GASB Statement No. 84 to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The adoption did not have an impact on the Port's financial statements.

Future GASB implementations:

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (P3) and Availability Payment Arrangements (APA)*, issued in March 2020, will be effective for the Port for fiscal year ending December 31, 2023. This statement provides guidance for P3 arrangements, including those that are outside of the scope of the GASB's existing literature for those transactions—namely GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 87, *Leases*. The statement also makes certain improvements to the guidance previously included in GASB Statement No. 60 and provides accounting and financial reporting guidance for APAs.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020, will be effective for the Port for fiscal year ending December 31, 2023. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government-end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)
P. GASB Pronouncements (Continued)

disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*, as amended.

GASB Statement No. 99, *Omnibus 2022*, issued April 2022, establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP) (formerly, food stamps), nonmonetary transactions, pledges of future revenues, the focus of government-wide financial statements, and terminology. The requirements of this statement apply to the financial statements of all state and local governments and will be effective as follows:

- The requirements in paragraphs 26–32 related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements in paragraphs 11–25 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements in paragraphs 4–10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections*, an amendment of GASB Statement No. 62, issued June 2022, will be effective for the Port for fiscal year ending December 31, 2024. This Statement prescribes the accounting and financial reporting for (1) certain changes in accounting principles, (2) certain changes in accounting estimates, and (3) error corrections. This Statement requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods, and changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position be displayed in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

P. GASB Pronouncements (Continued)

GASB Statement No. 101, *Compensated Absences*, issued June 2022, effective for the Port's fiscal year ending 2024. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

Management is currently evaluating the impact, if any, these pronouncements will have on the Port's financial statements. GASB Statement No. 96 could have a material impact on the Port's financial statements.

Note 2. Cash and Cash Equivalents and Investments

Cash and cash equivalents as of December 31, 2022, are classified in the accompanying financial statements as follows:

Unrestricted:		
Cash and cash equivalents	\$	27,978,450
Restricted:		
Cash and cash equivalents		588,537
Pension trust fund—cash and cash equivalents		80,553
Total cash and cash equivalents	\$	<u>28,647,540</u>

Cash and cash equivalents as of December 31, 2022, consist of the following:

Checking and time deposits:		
Cash on hand	\$	1,000
Deposits with financial institutions:		
Cash on demand - Moody Bank		27,803,845
Cash in investment accounts		390,412
Pension Trust Fund - cash held with financial institution		80,553
		<u>28,275,810</u>
Investments:		
Local government investment pools		371,730
Total cash and cash equivalents	\$	<u>28,647,540</u>

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Deposits: State statutes and the Port's depository agreement require all deposits and investment balances in depository institutions be covered by federal depository insurance and/or to be collateralized at the lower of par or current fair value by the following:

- Obligations of the United States (U.S.) 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
- 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

Investments: The Port is required by Government Code Chapter 2256, the Public Funds Investment Act (PFIA), to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable instruments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for certificates of deposit (CDs). PFIA determines the types of investments which are allowable for the Port. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies and state of Texas; (2) CDs; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts; and (10) common trust funds.

Public funds investment pools: Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of PFIA, Chapter 2256 of the Texas Government Code. In addition to other provisions of PFIA designed to promote liquidity and safety of principal, it requires Pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, (2) maintain a continuous rating of no lower than AAA or AA+ or an equivalent rating by at least one nationally recognized rating service and (3) maintain the fair value of its underlying investment portfolio within one half of one percent of the value of its shares.

These two acts provide for the creation of public funds investment pools and authorize eligible governmental entities (Participants) to invest their public funds and funds under their control through the investment pools.

The Port invests in the Texas Short Term Asset Reserve Program (TexStar) which has been organized in accordance with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and PFIA. The fund seeks to maintain a constant dollar objective and fulfills all requirements of PFIA for local government investment pools. The portfolio is a government-repurchase agreement (REPO) pool, utilizing primarily U.S. Treasury securities, U.S. agency securities and REPO collateralized obligations, the principal and interest of which are unconditionally guaranteed or insured by the full faith and credit of the U.S. or its agencies or its instrumentalities. The Port's investments managed through TexStar are valued and recorded at amortized cost in accordance with GASB Statement No.79, *Certain External Investment Pools and Pool Participants*.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

As of December 31, 2022, the Port had the following investments:

Type	Amount	Weighted-Average Maturity Days	Percentage Invested	Fair Value Hierarchy	Credit Rating
Investments measured at amortized cost:					
TexStar investment pool	371,730	5	100%	n/a	AAAm
Total investments	<u>\$ 371,730</u>		<u>100%</u>		
Weighted-average maturity days		<u>5</u>			

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Port has a formal investment policy with a maximum allowable stated maturity of investments of three years.

Credit risk: In accordance with state statutes, PFIA and the Port's investment policy, the Port's investments require at a minimum a rating of "A" by a nationally recognized rating agency. TexStar was rated AAAm by Standard and Poor's.

Concentration of credit risk: The Port is required to disclose investments in any one issuer that represent 5% or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. The Port's investment policy does not specifically address the concentration of credit risk, as this is accomplished through diversity of its holdings.

Custodial credit risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Port will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Port's investment pools are not exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Port's deposits may not be returned to it. The Port's deposits held at financial institutions were entirely covered by the Federal Deposit Insurance Corporation or were secured by collateral at December 31, 2022.

Restricted cash, cash equivalents and investments: Restricted cash, cash equivalents and investments at December 31, 2022, consist of the following:

Interest and sinking:

Revenue Refunding Bonds Series 2021	\$ 390,413
City of Galveston franchise payment	<u>198,124</u>
	<u>\$ 588,537</u>

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of common stocks and mutual funds are based on quoted market prices (Level 1). The fair value of United States (U.S.) government securities, municipal, corporate and foreign bonds are based on quotes from broker-dealers or are valued using interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and considering the counterparty rating (Level 2).

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Fiduciary Fund – Pension Trust Fund

As of December 31, 2022, the fiduciary pension trust fund had the following investments:

Investment Type	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Fair Value
Common stock—domestic	\$ 5,374,809	\$ -	\$ -	\$ 5,374,809
Common stock—international	330,249	-	-	330,249
Mutual funds—domestic	2,615,770	-	-	2,615,770
Mutual funds—international	1,990,235	-	-	1,990,235
U.S. government agency securities	-	138,594	-	138,594
Municipal bonds	-	93,350	-	93,350
Corporate bonds	-	2,099,658	-	2,099,658
Foreign bonds	-	192,690	-	192,690
	<u>\$ 10,311,063</u>	<u>\$ 2,524,292</u>	<u>\$ -</u>	<u>\$ 12,835,355</u>

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The investment policy does not specifically address the quality rating of the investments. The Board is responsible for determining the risks and commensurate returns of the portfolio. The following table lists Moody's credit rating by investment type at fair value at December 31, 2022, that are subject to credit risk.

Moody's	U.S. Government Agency Securities	Municipal Bonds	Corporate Bonds	Foreign Bonds	Fair Total
Quality Ratings					
Aaa	\$ 138,594	\$ -	\$ -	\$ -	\$ 138,594
Aa1	-	-	-	-	-
Aa2	-	93,350	-	-	93,350
Aa3	-	-	117,723	-	117,723
A1	-	-	635,413	98,627	734,040
A2	-	-	615,530	-	615,530
A3	-	-	481,771	94,063	575,834
Baa1	-	-	-	-	-
Baa2	-	-	249,220	-	249,220
	<u>\$ 138,594</u>	<u>\$ 93,350</u>	<u>\$ 2,099,658</u>	<u>\$ 192,690</u>	<u>\$ 2,524,292</u>

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

Notes to Financial Statements

Note 2. Cash and Cash Equivalents and Investments (Continued)

Fiduciary Fund – Pension Trust Fund (Continued)

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer. The investment policy does not specifically address concentration of credit risk. As of December 31, 2022, there were no concentrations of investments with individual institutions equaling or exceeding 5% of fiduciary net position.

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

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Pension Plan does not have a formal policy regarding interest rate risk. The Board monitors credit exposure using segmented time distribution. The following is a listing of the fixed income investments and related maturity schedule (in years) as of December 31, 2022. The maturity schedule is based on the average maturity of the fund, as noted by the fund manager.

	Less Than			
	1 Year	1-5 Years	6-10 Years	Fair Value
U.S. government agency securities	\$ -	\$ 138,594	\$ -	\$ 138,594
Municipal bonds	-	93,350	-	93,350
Corporate bonds	348,327	1,116,317	635,014	2,099,658
Foreign bonds	-	192,690	-	192,690
	<u>\$ 348,327</u>	<u>\$ 1,540,952</u>	<u>\$ 635,014</u>	<u>\$ 2,524,292</u>

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

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 as of December 31, 2022, are as follows:

Accounts receivable—trade	\$ 7,657,678
Grants receivable	<u>35,000</u>
Less allowance for doubtful accounts	<u>(503,019)</u>
Net accounts receivable	<u>\$ 7,189,659</u>

Note 4. Capital Assets

Changes in capital assets during the year ended December 31, 2022, are summarized as follows:

	Balance at January 1, 2022	Additions	Retirements	Transfers/ Reclassification	Balance at December 31, 2022
Capital assets not being depreciated/amortized:					
Land	\$ 18,086,389	\$ -	\$ -	\$ 98,215	\$ 18,184,604
Channel deepening	15,131,996	-	-	3,255,694	18,387,690
Construction in progress	7,290,031	35,126,003	-	(37,422,216)	4,993,818
Total capital assets not being depreciated/amortized	40,508,416	35,126,003	-	(34,068,307)	41,566,112
Capital assets being depreciated/amortized:					
Railway facilities	3,490,460	-	-	-	3,490,460
Wharves, docks and buildings	202,479,842	-	(2,968,220)	32,859,418	232,371,040
Machinery and equipment	10,301,719	-	(30,221)	150,552	10,422,050
Furniture and office equipment	3,760,263	-	(28,223)	991,391	4,723,431
Intangible assets	794,890	-	-	61,600	856,490
Total capital assets being depreciated/amortized	220,827,174	-	(3,026,664)	34,062,961	251,863,471
Less accumulated depreciation/amortization for:					
Railway facilities	(1,815,755)	-	-	-	(1,815,755)
Wharves, docks and buildings	(102,813,566)	(6,624,683)	2,935,675	(593,015)	(107,095,590)
Machinery and equipment	(7,732,946)	(596,742)	14,622	(154,462)	(8,469,529)
Furniture and office equipment	(3,313,035)	(547,280)	28,222	752,824	(3,079,269)
Intangible assets	(105,985)	(120,556)	-	-	(226,541)
Total accumulated depreciation/amortization	(115,781,287)	(7,889,261)	2,978,519	5,346	(120,686,683)
Total capital assets, being depreciated/amortized, net	105,045,887	(7,889,261)	(48,145)	34,068,307	131,176,788
Capital assets, net	\$ 145,554,303	\$ 27,236,742	\$ (48,145)	\$ -	\$ 172,742,900

Depreciation expense for the year ended December 31, 2022, totaled \$ 7,889,261.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 4. Capital Assets (Continued)

Commitments relating to capital construction in progress as of December 31, 2022, are as follows:

	Total Commitment	Total Capitalized	Construction in Progress	Remaining Commitment
Port security grant 2019 Security System	\$ 684,500	\$ -	\$ 675,655	\$ 8,845
Port security grant 2020 Cybersecurity	806,000	-	159,974	646,026
Port security grant 2021 License Plate Reader	682,000	-	-	682,000
Port security grant 2022 Video Surveillance & Cybersecurity	836,500	-	-	836,500
Cruise Terminal 10	28,350,119	25,413,175	1,389,712	1,547,232
Old Port Industrial Road	2,214,044	2,054,936	125,984	33,124
East End Cruise Corridor	6,289,576	5,781,355	104,704	403,517
Parking Access and Revenue Control System	982,826	808,553	-	174,273
Galveston Harbor Channel Extension	1,904,972	-	-	1,904,972
Cruise Terminal 25 Improvements	8,598,168	-	1,215,187	7,382,981
Wharf Road Improvements	3,129,723	-	-	3,129,723
West End Port Redevelopment	2,850,570	-	417,480	2,433,090
Pier 35 Storm Induced Erosion	559,687	-	559,687	-
Projects under \$200,000	353,389	7,954	345,435	-
Totals	<u>\$ 58,242,074</u>	<u>\$ 34,065,973</u>	<u>\$ 4,993,818</u>	<u>\$ 19,182,283</u>

The Port plans to finance construction commitments with the use of existing bond proceeds and proceeds from operations.

Note 5. Long-Term Liabilities

During the year ended December 31, 2022, the following changes occurred in the Port's long-term liabilities:

Issue	Balance at January 1, 2022 (as restated)	Increases	Decreases	Balance at December 31, 2022	Amounts Due Within One Year
Revenue bonds:					
Series 2021 Refunding	20,548,879	-	(5,896,515)	14,652,364	4,555,664
Other long-term liabilities:					
Lease Liability	2,502,367	1,360,122	(454,149)	3,408,340	566,906
U.S. Corps of Engineers	3,532,211	-	(130,394)	3,401,817	130,367
Compensated absences	997,370	768,748	(473,658)	1,292,460	534,315
Net pension liability	1,460,796	-	(1,460,796)	-	-
	<u>\$ 29,041,623</u>	<u>\$ 2,128,870</u>	<u>\$ (8,415,512)</u>	<u>\$ 22,754,981</u>	<u>\$ 5,787,252</u>

Long-term bonded debt at December 31, 2022, was comprised of the following issues:

Description	Original Issue	Interest Rates	Maturity Dates Beginning/ Ending	Interest Payment Dates
Revenue bonds:				
City of Galveston, Texas Wharves and Terminal			February 1,	
Revenue Refunding Bonds Series 2021A and 2021B	\$ 22,700,000	1.30%	2021/2026	Monthly

As of December 31, 2022, the annual debt service requirements for revenue bonds and revenue notes payable until maturity are as follows:

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 5. Long-Term Liabilities (Continued)

	Revenue Bonds		
	Principal	Interest	Total
Years ending December 31:			
2023	4,555,664	163,403	4,719,067
2024	4,624,035	103,766	4,727,801
2025	4,689,303	43,263	4,732,566
2026	783,362	1,273	784,635
	<u>\$ 14,652,364</u>	<u>\$ 311,705</u>	<u>\$ 14,964,069</u>

Revenue bonds: The Port issued \$22,700,000 of Wharves and Terminal Revenue Refunding Bonds, Series 2021A and 2021B, dated August 26, 2021 to refund \$22,654,699 of Series 2011 Wharves and Terminal Refunding Bonds and Series 2014 Revenue Notes (AMT). The Port reduced its total debt service payments over the next five years by \$1,522,968 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,764,585. The reacquisition price exceeded the net carrying amount of the old debt by \$100,116. This amount is recorded as a deferred outflow and amortized over the life of the refunded debt. The balance was \$73,162 as of December 31, 2022.

The Series 2021 bonds were used to finance the construction of cruise terminal improvements. Gross revenues are pledged for repayment of these bonds. The Series 2021 bonds bear interest at a fixed rate of 1.30% per annum. Payments are structured so that the Port makes four payments of \$1.1 million from November 1, 2021 through February 1, 2022, followed by payments averaging \$0.4 million per month beginning March 1, 2022 with final payment occurring February 1, 2026. The Series 2021 bonds are subject to redemption prior to their respective dates of maturity, at any time at the option of the Port, in whole or in part, at redemption price equal to 100% of the principal amount of the bonds to be redeemed, plus accrued interest to the redemption date. Commencing with the fiscal year beginning on January 1, 2022 and while the series 2021 bonds remaining outstanding, in any fiscal year, such fees, tolls and charges will be fixed, charged and collected in order that net revenues will equal an amount not less than 125% of the debt service on all parity obligations in such fiscal year. In 2022, the debt service coverage was 398%. The indentures require that for the duration of the period the series 2021 bonds are outstanding, the Port maintain at least one long term unenhanced credit rating above BBB or Baa2 or the senior lien parity obligations with either Moody's or Standard and Poor's.

U.S. Army Corps of Engineers: The Port received billing from the U.S. Army Corps of Engineers for payback on previously constructed general navigation features. Based on the billing, the Port is responsible for an additional 10% of the cost of the Galveston Harbor Channel deepening to 45 mean lower low water. The estimated cost is \$3,925,466 payable over a period not to exceed 30 years. These costs are being capitalized and the liability is being accrued. As of December 31, 2022 the balance is \$3,401,817.

Note 6. Lease Arrangements

A. Lease Arrangements With the Port as the Lessor

Lease Receivable: The Port of Galveston leases a portion of its property to various third parties, the terms of which expire 2023 through 2065, and recognizes a lease receivable and a deferred inflow of resources in the statement of net position pursuant to GASB 87. The Port has 27 leases of this type with a lease receivable balance of \$120,619,117 and deferred inflow of resources balance of \$119,801,950 as of December 31, 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 6. Lease Arrangements (Continued)

A. Lease Arrangements With the Port as the Lessor (Continued)

The Port also has contracts with customers that contain minimum annual guarantees (MAGs), the terms of which expire 2024 through 2039, and recognizes a lease receivable and a deferred inflow of resources in the statement of net position pursuant to GASB 87. The Port has 6 leases of this type with a lease receivable balance of \$86,782,768 and deferred inflow of resources balance of \$85,890,681 as of December 31, 2022.

The payment, principal, and interest under the leases/MAGS for 2022 is as follows:

Year Ending December 31	Principle	Interest	Total Principal and Interest
2022	\$ 7,319,883	\$ 3,204,980	\$ 10,524,863

The Port had customers with fixed and variable lease/MAG payments in 2022 as is shown on the below table:

Year Ending December 31	Fixed Payments	Variable Payments	Total Payments
2022	\$ 12,419,080	\$ 15,529,197	\$ 27,948,277

The following is a schedule by year of payment, principal, and interest under the leases/MAGs for future years as of December 31, 2022.

Year Ending December 31	Principle	Interest	Total Principal and Interest
2023	\$ 8,381,325	\$ 7,073,659	\$ 15,454,984
2024	8,256,214	6,882,008	15,138,221
2025	7,713,947	6,691,867	14,405,814
2026	7,917,982	6,498,027	14,416,009
2027	6,643,861	6,302,853	12,946,714
2028 - 2032	34,113,056	28,580,714	62,693,770
2033 - 2037	41,032,914	22,648,067	63,680,981
2038 - 2042	11,873,950	17,965,889	29,839,839
2043 - 2047	12,732,775	15,747,237	28,480,012
2048 - 2052	16,472,932	12,749,895	29,222,826
2053 - 2057	22,471,038	8,726,614	31,197,651
2058 - 2062	29,188,791	3,213,857	32,402,649
2063 - 2065	603,100	22,826	625,926
Grand Total	\$ 207,401,885	\$ 143,103,513	\$ 350,505,398

At the commencement of a lease, the Port of Galveston initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Port of Galveston determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Port of Galveston uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 6. Lease Arrangements (Continued)

B. Lease Arrangements with the Port as Lessee

The Port of Galveston monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Lease Liabilities: The Port leases property and equipment from third parties, the terms of which expire 2023 through 2061, and recognizes a lease liability in the statement of net position. The Port has 12 leases of this type with a lease liability balance of \$3,408,340 as of December 31, 2022.

Lease Assets: The Port's 12 leases have a lease asset balance of \$3,373,898 in the statement of net position as of December 31, 2022. The following table is a summary of the leases for the year-ended December 31, 2022.

	January 1, 2022 (as restated)	Additions	Reductions	Amortization	December 31, 2022
Land	1,948,898	1,287,412	-	276,472	2,959,837
Buildings	473,730	-	-	177,987	295,743
Equipment	79,740	72,710	-	34,132	118,318
Grand Total	2,502,367	1,360,122	-	488,591	3,373,898

The payment, principal, and interest under the leases for 2022 are as follows:

Year Ending December 31,	Principal	Interest	Total Principal and Interest
2022	\$ 432,545	\$ 68,727	\$ 501,272

The following is a schedule by year of principal, interest, and total payments for future years as of December 31, 2022:

Year Ending December 31,	Principal	Interest	Total Principal and Interest
2023	\$ 566,907	\$ 67,527	\$ 634,433
2024	523,295	58,531	581,826
2025	408,920	51,208	460,129
2026	390,539	44,360	434,899
2027	230,889	38,327	269,216
2028 - 2032	640,578	139,276	779,854
2033 - 2037	406,317	55,261	461,578
2038 - 2042	36,579	35,995	72,574
2043 - 2047	43,002	29,572	72,574
2048 - 2052	50,554	22,020	72,574
2053 - 2057	59,431	13,143	72,574
2058 - 2061	51,327	3,104	54,431
Grand Total	\$ 3,408,340	\$ 558,324	\$ 3,966,663

At the commencement of a lease, the Port of Galveston initially measures the lease liability at the present value of payments expected to be made during the lease term pursuant to GASB 87. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date. Subsequently, the ROU asset is recognized as expense over the life of the lease term.

Key estimates and judgments include how the Port of Galveston determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 6. Lease Arrangements (Continued)

B. Lease Arrangements with the Port as Lessee (Continued)

- The Port of Galveston uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease including any renewal clauses if the Port is reasonably certain to exercise the renewal option. Lease payments included in the measurement of the lease liability are composed of fixed payments by the Port.

The Port of Galveston monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease liability and lease asset if certain changes occur that are expected to significantly affect the amount of the lease liability.

Note 7. Pension Plan

Pension Plan description: The Port's Pension Plan is a single-employer defined benefit pension plan created by the City ordinance to provide retirement and incidental benefits to substantially all 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 Pension 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 Pension 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. Beginning January 1, 2010, the Pension Plan is closed to new members.

Pension Plan administration: The Plan is administered by the Port. Frost Bank is the Trustee for the Plan.

Pension Plan fiduciary net position: Detailed information about the Pension 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 25th Street, 8th Floor, Galveston Texas 77550 or may be viewed at <https://www.portofgalveston.com/156/Reports>.

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

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

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

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

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

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

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

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

Disability: A participant who suffers a disability prior to termination of employment and who has completed 10 or more years of vesting service will be entitled to receive a monthly amount which will be computed in the same manner as his or her normal retirement benefit considering his or her average monthly compensation and years of benefit service as of the date of his or her disability. Such benefit shall commence at the time the participant is eligible or would have been eligible (if the participant was a full-time employee) for benefits under the employer's long-term disability plan and has met the definition of disability, as defined in the Pension 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.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Cash balance benefits: Prior to October 1, 2005, a cash balance account was established for each participant. No further contribution credits will be credited to a participant's cash balance account on or after September 30, 2005. An employee who is eligible for normal or late retirement will receive a lump sum payment or monthly amount equal to the actuarial equivalent of the balance of the participant's cash balance account as of the end of the month prior to the annuity starting date. The cash balance payable upon death will be determined as a single lump-sum amount equal to the participant's cash balance account as of the last day of the month coinciding with or preceding his or her date of death. However, at the option of the participant's beneficiary, such amount may be paid in the form of an actuarially equivalent benefit. The cash balance payable upon termination of employment will be payable to a participant who terminated prior to his or her normal retirement age and will be a lump sum payment or monthly life annuity equal to the actuarial equivalent of the balance of the participant's cash balance account as of the end of the month preceding his or her annuity starting date (or alternatively, the actuarial equivalent of the annuity that could be provided at normal retirement age based upon an accumulation of the cash balance at the interest rate used to determine lump-sum benefits), but no less than the participant's cash balance account.

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

At the December 31, 2021, measurement date, the following employees were covered by the benefit terms:

Inactive plan members and beneficiaries currently receiving benefits	77
Inactive employees entitled to, but not yet receiving benefits	40
Active plan members	<u>17</u>
	<u><u>134</u></u>

Contributions: The Port will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Port may decide. Employees do not make contributions under this Pension Plan. All contributions under the Pension Plan shall be paid or transferred into the Trust Fund to be held, managed, invested and distributed in accordance with the provisions of the Pension Plan. The Port reserves the right to reduce, suspend or discontinue contributions to the plan. Currently, the Port is making monthly contributions such that payments equal to the prior-year funding requirement is met. Contributions made after the measurement date of the net position liability but before the end of the reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. In the event the funding requirement exceeds monthly contributions, an additional contribution is normally scheduled to fund the annual required contribution. The Port's contribution for 2022 was \$399,996.

Net pension liability: The Port's net pension liability was measured as of December 31, 2021, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The net pension liability was determined through an actuarial valuation performed as of December 31, 2021. The actuarial assumptions used are as follows:

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Valuation date	December 31, 2021
Actuarial cost method	Individual entry age cost method
Asset valuation method	Market value of assets
Interest rates	Discount rate 7.25%
	Expected long-term rate of return 7.25%
	Municipal bond rate N/A
Inflation	2.75%
Annual pay increases	3.00%
Mortality rates:	PubG-2010 Mortality Tables Projected Generationally from 2010 with the Mortality Improvement Scale MP-2021
Retirement rates	The latter of attainment of age 65 or the completion of five years of vesting service
Experience study	The most recent experience study was completed in 2017 to review the interest rate and mortality assumption. There has not been a recent experience study to review the demographic assumptions. As the Pension Plan is not large enough to have credible experience, demographic assumptions are determined based on the results of broad population trends.

The following changes in actuarial assumptions occurred since the last actuarial valuation:

- The mortality table has been updated from the PubG-2010 Mortality Table with Scale MP-2020 to the PubG-2010 Mortality Table with Scale MP-2021. This change results in an increase in liability and normal cost.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Discount rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer 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.

Long-term rate of return on assets: The long-term rate of return on the Pension Plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation.

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, 2021, are summarized in the following table:

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income equities securities	10%	2.40%
Common stock	60%	7.10%
Domestic equities—large cap	5%	7.80%
Domestic equities—mid cap	3%	7.80%
Domestic equities—small cap	5%	7.60%
International equities	10%	1.50%
Natural resources	1%	7.30%
Emerging markets	1%	6.70%
Cash	5%	0.00%

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

	1.00% Decrease (6.25)%	Current Discount Rate (7.25)%	1.00% Increase (8.25)%
Net pension (asset) liability	\$ 1,456,020	\$ (102,861)	\$ (1,433,117)

Changes in the net pension (asset) liability: The following presents the changes in net pension asset as of December 31, 2022.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance at December 31, 2021	\$ 17,021,629	\$ 15,560,833	\$ 1,460,796
Changes for the year:			
Service cost	71,422	-	71,422
Interest	1,189,715	-	1,189,715
Change in benefit terms	34,009	-	34,009
Changes in assumptions	(340,081)	-	(340,081)
Contributions—employer	-	258,325	(258,325)
Net investment income	-	2,277,865	(2,277,865)
Benefit payments, including refunds of employee contributions	(1,366,375)	(1,366,375)	-
Administrative expenses	-	(39,843)	39,843
Other changes	-	22,375	(22,375)
	(411,310)	1,152,347	(1,563,657)
Balance at December 31, 2022	\$ 16,610,319	\$ 16,713,180	\$ (102,861)

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 7. Pension Plan (Continued)

Pension expense: For the year ended December 31, 2022, the Port recognized a reduction in pension expense of \$945,483 due to GASB 67 & 68 adjustments.

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension asset for the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Years	Net Deferred Outflows (Inflows) of Resources
2023	\$ (533,692)
2024	(839,018)
2025	(409,288)
2026	(243,262)
	<u>\$ (2,025,260)</u>

Deferred inflows and outflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over the average expected remaining service life for all active, inactive and retired members. Deferred outflows related to the net difference between projected and actual earnings are amortized over a five-year period.

Note 8. Deferred Compensation Plan and Defined Contribution Plans

Deferred Compensation Plan—Section 457 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 employees 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. Active plan members contributed \$50,760 to the 457 Plan as of December 31, 2022.

Defined Contribution Plan—Employees Retirement Accumulation Plan:

A. Plan Description

The Employees Retirement Accumulation Plan, a defined contribution plan was established under Internal Revenue Service (IRS) section 401(a) and is administered by International City/County Management Association (ICMA) for the employees' of the Port. The plan is employee-directed, whereby employees may choose among various investment options available to plan participants.

The Port and employee contributions are immediately vested. Contributions required under the plan by both the employee and employer are established by the plan document.

Amounts in the defined contribution plan are available to participants in accordance with IRS guidelines for such plans.

B. Plan Funding Policy

Active plan members must contribute 7.65% of his/her earnings and the Port is required to contribute 5.42% of participant earnings. The plan members contributed \$529,663 and the Port contributed \$376,493 during the year ended December 31, 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 8. Deferred Compensation Plan and Defined Contribution Plans (Continued)

Defined Contribution Plan—Galveston Wharves 2010 Plan:

A. Plan Description

On January 1, 2010, the Port initiated the Galveston Wharves 2010 Plan (the 2010 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. The 2010 Plan, a defined contribution plan was established under IRS section 401(a) and is administered by ICMA for the employees' of the Port. The 2010 Plan is employee-directed, whereby employees may choose among various investment options available to participants.

Employees are vested in the plan after three years of service. Upon termination of employment, employees are eligible for the following benefits:

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

B. Plan Funding Policy

The contributions 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 plus years	9%

The Port contributed \$232,441 during the year ended December 31, 2022. The employees do not have a required contribution rate.

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 it operates, a risk of possible fines, penalties and liability claims exists. Management believes 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 to the financial statements of the Port.

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 provisions for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2022.

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 9. Commitments, Contingencies and Uncertainties (Continued)

The Port is a defendant in a lawsuit filed by a private cruise parking lot. This parking lot is contesting the 2014 rate increase in private parking lot cruise terminal access fees. By order of the court, the defendant is 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, and as of February 23, 2023, the matter was fully resolved through a nonbinding mediation settlement.

Currently, a specific reserve based on Accounts Receivable, payments made by the litigant to the court requestor, and the settlement reached with the other litigants is included in the allowance for doubtful accounts. The parking lot made payment to the Port in settlement of the lawsuit and the reserve booked at year end was sufficient. Additionally, a specific reserve is included in the Allowance for doubtful accounts for one customer who filed for bankruptcy.

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 \$50 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. Medical, dental and flexible benefit plans are obtained through third-party insurance carriers.

Note 11. Concentration of Credit Risk

One customer generated operating revenues of \$10.7 million and another customer generated \$6.5 million, which comprised approximately 20% and 12% respectively of total operating revenues for the year ended December 31, 2022. In the normal course of business, the Port extends unsecured credit to its customers.

Note 12. Related Party

In the ordinary course of business, the Port has paid a vendor affiliated with a Trustee, who was on the Port Board through September of 2022, an amount totaling \$1,967,765 for the year ended December 31, 2022.

The Port made payments to the City of Galveston and affiliates in the ordinary course of business in the amount of \$1,053,943 in 2022.

In the ordinary course of business, the Port has held deposits at Moody National Bank. The President and CEO of Moody National Bank is a member of the Board of Trustees for the Port. As of December 31, 2022, deposits at Moody National Bank totaled \$27,803,844.

Note 13. Arbitrage Compliance

Per section 148 of the Internal Revenue Code of 1986 as amended (the Code), the Port 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 U.S. 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

**The Board of Trustees of the Galveston Wharves
A Component Unit of the City of Galveston**

Notes to Financial Statements

Note 13. Arbitrage Compliance (Continued)

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 Port's 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).

Note 14. Due to FEMA/TDEM-IKE

Texas Hurricane IKE—Public Assistance Grant 1791

On January 10, 2022, the Port was issued notice from the Texas Department of Emergency Management (TDEM) of a FEMA Administrative Closeout on Grant Number 1791 (Texas Hurricane IKE). This notice is essentially a "call" of several Hurricane Ike disaster related projects that are still under FEMA review. In consultation with legal counsel, management of the Port believes it is allowed certain statutory rights under the Stafford Disaster Relief and Emergency Assistance Act and FEMA regulations promulgated thereunder. The Port recorded this liability in 2021. The notice from TDEM continues to proceed through FEMA review and final closeout.

The requested information has been provided to FEMA several times over the past 12 years in compliance with FEMA's appeal and project closeout requirements. The Port consulted with its legal counsel and believes TDEM's unilateral action prohibits its legal rights to pursue the FEMA appeal and project closeout process.

The Port has provided documentation related to these projects within the times specified in its regulations. These regulations outline FEMA's review process. The TDEM demand notice requiring the Port replicate submittal documents in a period of less than 30 days circumvents the FEMA review process which gives the Port the right to complete the FEMA review process for these projects.

Based on management's review of the notice, the claims consist of \$5,954,943 pending FEMA close-out review, \$2,688,516 under appeal and non-recognition of FEMA closeouts in progress, and \$2,102,014 which the Port concurred. The total of these demands is \$10,745,473 and was recognized as a reduction to non-operating income section of the Statement of Revenues, Expenses and Changes in Net Position and a short-term liability reflected in the Statement Net Position in 2021.

In addition to the afore mentioned projects, the Port still has Direct Administrative Cost for Public Assistance Grant 1791 pending outcome of the appeal process, totaling \$1,973,854. Another future project under this Grant is the West End Erosion Alternate Project totaling \$10,301,161 with expected completion dates in 2025. Additionally, continuing Erosion Project work at Pier 28, 34 and 35 totaling \$1,753,284 are projected to be completed during 2024 - 2025 the same time frame. These items represent \$14,028,299 in potential future claims against Grant Number 1791. Various other named disasters including the Covid Pandemic caused delays in receiving approval and completion of work for the alternate West End Erosion Projects.

Note 15. Subsequent Events

The Port has evaluated subsequent events through May 31, 2023, the date the financial statements were available to be issued.



GALVESTON WHARVES

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Required Supplemental Information



**Port of Galveston
Galveston, Texas**

The Board of Trustees of the Galveston Wharves

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Last Seven Measurement Years Ended December 31 Required Supplementary Information (Unaudited)

	2021	2020	2019	2018	2017	2016	2015
Total pension liability:							
Service cost	\$ 71,422	\$ 77,202	\$ 101,967	\$ 149,366	\$ 138,712	\$ 137,707	\$ 169,079
Interest	1,189,715	1,148,818	1,145,698	1,135,048	1,119,970	1,095,941	1,071,934
Changes in benefit terms	-	-	206,256	-	-	-	-
Change in assumptions	34,009	762,991	(96,477)	88,955	762,720	-	(239,557)
Difference between expected and actual experience	(340,081)	(63,634)	-	41,613	(134,857)	84,594	156,762
Benefit payments, including refunds of employee contributions	(1,366,375)	(1,344,635)	(1,234,638)	(1,206,729)	(1,141,887)	(855,811)	(757,719)
Net change in total pension liability	(411,310)	580,742	122,806	208,253	744,658	462,431	400,499
Total pension liability at beginning of year	17,021,629	16,440,887	16,318,081	16,109,828	15,365,170	14,902,739	14,502,240
Total pension liability at end of year	\$ 16,610,319	\$ 17,021,629	\$ 16,440,887	\$ 16,318,081	\$ 16,109,828	\$ 15,365,170	\$ 14,902,739
Plan fiduciary net position:							
Contributions—employer	\$ 258,325	\$ 365,585	\$ 575,000	\$ 575,000	\$ 562,160	\$ 420,000	\$ 400,000
Net investment income	2,277,865	1,831,353	3,021,496	(560,928)	2,475,326	519,420	153,997
Benefit payments, including refunds of employee contributions	(1,366,375)	(1,344,635)	(1,234,638)	(1,206,729)	(1,141,887)	(855,811)	(757,719)
Administrative expense	(39,843)	(50,083)	(42,883)	(62,705)	(69,370)	-	(65,437)
Other changes	22,375	28,776	(769)	(368)	1,280	679	1,199
Net change in plan fiduciary net position	1,152,347	830,996	2,318,206	(1,255,730)	1,827,509	84,288	(267,960)
Plan fiduciary net position at beginning of year	15,560,833	14,729,837	12,411,631	13,667,361	11,839,852	11,755,564	12,023,524
Plan fiduciary net position at end of year	\$ 16,713,180	\$ 15,560,833	\$ 14,729,837	\$ 12,411,631	\$ 13,667,361	\$ 11,839,852	\$ 11,755,564
Plan net pension liability (asset) at end of year	\$ (102,861)	\$ 1,460,796	\$ 1,711,050	\$ 3,906,450	\$ 2,442,467	\$ 3,525,318	\$ 3,147,175
Fiduciary net position as a percentage of the total pension liability	101%	91%	90%	76%	85%	77%	79%
Covered payroll	\$ 1,031,885	\$ 1,144,464	\$ 1,527,483	\$ 2,017,084	\$ 2,659,786	\$ 3,174,196	\$ 3,289,226
Plan net pension liability (asset) as a percentage of covered payroll	-10%	128%	112%	194%	92%	111%	96%

Per GASB 68, until a 10-year trend is compiled, pension plans may present information for those years for which information available; information is not available under the GASB 68 methodologies for the fiscal years prior to 2014.

The Board of Trustees of the Galveston Wharves

Schedule of Plan Pension Contributions Last Ten Years Required Supplementary Information (Unaudited)

	2022	2021	2020	2019	2018
Actuarially determined contribution	\$ 130,460	\$ 242,382	\$ 292,252	\$ 515,856	\$ 421,327
Contributions in relation to the actuarially determined contribution	399,996	255,702	365,585	575,000	575,000
Contribution excess	\$ (269,536)	\$ (13,320)	\$ (73,333)	\$ (59,144)	\$ (153,673)
Covered payroll	\$ 1,041,242	\$ 1,031,885	\$ 1,144,464	\$ 1,527,483	\$ 2,017,084
Contributions as a percentage of covered payroll	38.42%	24.78%	31.94%	37.64%	28.51%
	2017	2016	2015	2014	2013
Actuarially determined contribution	\$ 562,160	\$ 415,085	\$ 377,727	\$ 398,283	\$ 540,004
Contributions in relation to the actuarially determined contribution	562,160	420,000	400,000	540,004	540,004
Contribution excess	\$ -	\$ (4,915)	\$ (22,273)	\$ (141,721)	\$ -
Covered payroll	\$ 2,659,786	\$ 3,174,196	\$ 3,289,226	\$ 3,484,519	\$ 3,627,781
Contributions as a percentage of covered payroll	21.14%	13.23%	12.16%	15.50%	14.89%

Methods and assumptions used to determine contribution for 2022:

Valuation date	December 31, 2021
Actuarial cost method	Individual entry age cost method
Amortization method	19-year level dollar (closed)
Asset valuation method	Market value of assets
Interest rates	7.25%, net of investment expenses, including inflation
Inflation	2.75%
Annual pay increases	3.00%
Final average pay load	7.5% load to the final average pay of active employees eligible to retire as of December 31, 2018, was added to anticipate the impact of accrued vacation and sick time pay
Mortality rates	Pub-G-2010 Mortality Table Projected Generationally from 2010 with the Mortality Improvement Scale MP-2021
Retirement rates	The latter of the attainment of age 65 or the completion of five years of vesting service



GALVESTON WHARVES

2022 ANNUAL COMPREHENSIVE FINANCIAL REPORT

Statistical Section



**Rodger Rees, Port Director & CEO, named
Chamber of Commerce Galvestonian of the Year of 2022**

Port of Galveston
Galveston, Texas



GALVESTON WHARVES

2022 Annual Comprehensive Financial Report

Statistical Section Categories

Financial Trend	Page
<i>These schedules contain trend information to help the reader understand how the Port's financial performance and well-being have changed over time.</i>	
Condensed statement of net position	64-65
Condensed statement of changes net position	66-67
Operating revenue statement	68-69
Revenue Capacity Data	
<i>This schedule contains information regarding the largest contributors to operating revenues.</i>	
Schedule of ten largest revenue generating customers	70-71
Debt Capacity Data	
<i>These schedules contain information for the reader to assess the affordability of the Port's current levels of outstanding debt and the ability to issue additional debt in the future.</i>	
Debt service schedule	72
Schedule of long-term debt	73
Pledged net revenue coverage	74-75
Demographic and Economic Information	
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the Port's financial activities take place.</i>	
Demographic and economic statistics	76
Principal employers in the City of Galveston	77
Operating Information	
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the Port's financial report relates to the services the Port provides and the activities it performs.</i>	
Tonnage handled through facilities, port activity, inward/outward	78-79
Cruise traffic	80
Number of employees and gross wages paid	81
Operating facilities	82-83

The Board of Trustees

Condensed Statement of Net Position Last Ten Fiscal Years

Description	2022	2021	2020	2019
Assets				
Unrestricted current assets	\$ 44,360,293	\$ 34,652,944	\$ 30,012,668	\$ 31,810,238
Restricted current assets	691,398	8,358,880	15,327,609	17,400,813
Properties and facilities, net	172,742,900	145,554,303	142,291,681	145,631,402
Other assets	202,394,458	838,008	1,062,113	1,261,259
Total assets	420,189,049	189,404,135	188,694,071	196,103,712
Deferred outflows of resources	399,996	258,202	363,085	1,177,383
Liabilities				
Current liabilities—payable from nonrestricted assets	31,860,033 (b)	21,796,198 (b)	8,859,598	10,219,523
Current liabilities—payable from restricted assets	4,555,664	5,896,515	3,885,000	6,773,387
Long term debt, net of current portion	16,967,729	18,597,202	26,597,547	28,948,200
Unearned revenues	-	1,079,635	1,282,067	1,484,498
Net pension liability	-	1,460,796	1,711,050	3,906,450
Total liabilities	53,383,426	48,830,346	42,335,262	51,332,058
Deferred inflows of resources	207,791,054	1,765,404	1,427,451	-
Net position				
Net investment in capital assets	145,377,881	126,137,940	119,342,702	117,664,207
Restricted	588,537	1,279,821	6,487,326	8,563,972
Unrestricted	13,448,147	11,648,826	19,464,415	19,720,858
Total net position	\$ 159,414,565	\$ 139,066,587	\$ 145,294,443	\$ 145,949,037

- Effective January 1, 2022, the Wharves implemented GASB Statement No. 87. Prior periods presented above were not restated.
- Effective January 1, 2015, the Wharves implemented GASB Statements No. 68 and No. 71. The 2014 ending balance has been restated for comparison purposes.

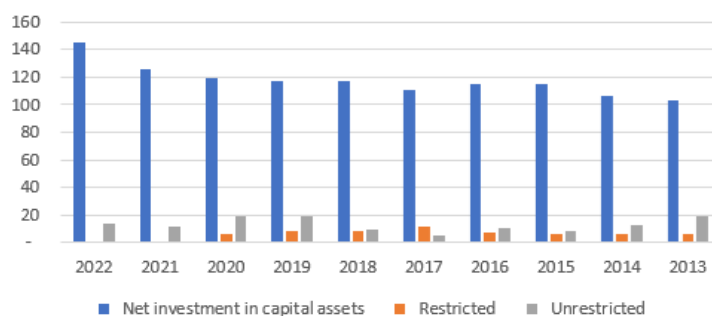
- Restated
- Includes \$10.7 million Demand Notice on Federal Public Assistance Grant 1791 (Hurricane IKE) received from TDEM under review by FEMA.

The Board of Trustees

Condensed Statement of Net Position Last Ten Fiscal Years

2018	2017	2016	2015	2014	2013
\$ 19,731,195	\$ 14,197,722	(a) \$ 18,183,941	\$ 20,584,656	\$ 21,289,662	\$ 23,855,430
17,099,839	18,642,035	19,900,725	27,796,300	34,491,857	21,643,798
149,793,852	147,820,443	152,026,032	147,901,820	136,548,043	137,638,530
1,460,406	1,659,552	1,858,698	2,057,844	2,256,990	2,456,136
188,085,292	182,319,752	191,969,396	198,340,620	194,586,552	185,593,894
984,558	1,409,876	1,146,128	451,726	540,004	-
8,688,028	8,865,980	5,414,459	10,558,641	7,900,565	5,109,981
4,971,216	4,823,336	4,420,000	4,250,000	4,115,000	5,324,294
35,535,886	36,505,594	43,709,763	48,638,548	52,707,229	43,566,405
1,686,930	2,075,676	2,337,245	2,522,265	2,665,129	2,844,814
2,442,467	3,525,318	3,147,175	2,478,716	2,547,577	0
53,324,527	55,795,904	59,028,642	68,448,170	69,935,500	56,845,494
846,633	83,707	228,612	133,961	142,594	188,841
116,705,066	110,603,904	115,231,634	115,312,854	106,323,197	103,644,735
8,408,718	11,995,924	7,869,709	6,704,602	6,321,160	6,020,683
9,784,906	5,250,189	(a) 10,756,927	8,192,759	12,404,105	18,894,141
\$ 134,898,690	\$ 127,850,017	\$ 133,858,270	\$ 130,210,215	\$ 125,048,462	\$ 128,559,559

**Port of Galveston
Net Position
FY 2013-FY2022 (in Millions)**



The Board of Trustees of the Galveston Wharves

Condensed Statement of Changes in Net Position Last Ten Fiscal Years

Description	2022	2021	2020	2019
Operating revenues	\$ 52,911,432	\$ 31,172,106	\$ 27,358,135	\$ 51,474,109
Operating expenses:				
Personnel services	9,926,696	9,600,288	8,650,301	9,494,870
Maintenance and operations	14,179,348	7,281,110	8,678,974	15,019,177
Sales and office	4,959,402	4,042,791	4,175,833	8,413,703
Depreciation	7,889,262	7,011,940	6,677,873	6,370,852
Total operating expenses	36,954,708	27,936,129	28,182,981	39,298,602
Net operating income (loss)	15,956,724	3,235,977	(824,846)	12,175,507
Nonoperating revenue (expenses):				
Investment income	511,255	70,519	205,620	519,163
Miscellaneous Income	29,330	319,089	45,917	18,011
Annual city payment (b)	(198,125)	(198,124)	(189,245)	(189,245)
Interest expense	(225,470)	(698,376)	(1,236,305)	(1,499,143)
Bond issuance costs	-	(269,754)	-	-
Other debt expense	-	-	-	-
Net gain (loss) on bad debts and disposal of equipment	(48,143)	(792,012)	(23,710)	(400,102)
U.S. Army COE-related expenses	-	-	-	-
Hurricane-related income (expenses) (c)	-	23,053	(63,359)	(227,224)
Other expenses	(160,668)	(10,745,473)	(d)	-
Total nonoperating revenues				
(expenses)	(91,821)	(12,291,078)	(1,261,082)	(1,778,540)
Income (expense) before contributions	15,864,903	(9,055,101)	(2,085,928)	10,396,967
Capital grants and contributions	4,483,075	2,827,245	1,431,334	653,380
Changes in net position	<u>\$ 20,347,978</u>	<u>\$ (6,227,856)</u>	<u>\$ (654,594)</u>	<u>\$ 11,050,347</u>

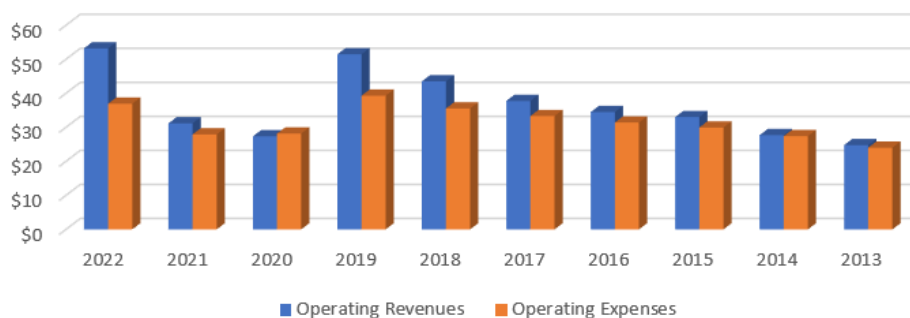
- Effective January 1, 2022, the Wharves implemented GASB Statement No. 87. Prior periods presented above were not restated.
 - Effective January 1, 2015, the Wharves implemented GASB Statements No. 68 and No. 71. The 2014 ending balance has been restated for comparison purposes.
- a. Restated.
 - b. Effective in 2018, annual City payments for all years are being shown as nonoperating expenses rather than operating expenses.
 - c. Effective in 2018, hurricane-related expenses for all years are being shown as nonoperating expenses rather than extraordinary items.
 - d. Includes \$10.7 million Demand Notice on Federal Public Assistance Grant 1791 (Hurricane IKE) received from TDEM under review by FEMA.

The Board of Trustees of the Galveston Wharves

Condensed Statement of Changes in Net Position Last Ten Fiscal Years

2018	2017	2016	2015	2014	2013
\$ 43,514,516	\$ 37,769,849	\$ 34,488,872	\$ 33,015,643	\$ 27,711,092	\$ 24,767,493
8,281,310	7,972,059	8,462,458	8,891,974	8,858,156	8,845,314
12,773,845	11,772,312	10,987,938	9,005,438	8,911,837	7,105,943
7,935,356	6,865,712	5,412,002	6,046,520	3,804,123	2,428,240
6,546,854	6,705,570	6,549,259	6,005,248	5,837,831	5,640,607
35,537,365	33,315,653	31,411,657	29,949,180	27,411,947	24,020,104
7,977,151	4,454,196	3,077,215	3,066,463	299,145	747,389
280,987	347,353	288,856	232,073	225,801	201,126
-	-	-	-	-	-
(189,169)	(188,793)	(188,561)	(188,076)	(187,302)	(187,302)
(1,742,546)	(1,934,675)	(2,125,727)	(2,275,468)	(1,970,803)	(2,115,837)
-	-	-	-	-	-
-	-	-	-	(170,521)	(225,146)
-	-	-	3,279	-	1,840
(487,983)	-	-	-	-	-
(459,194)	(811,434) (a)	(552,828)	(569,808)	(1,963,657)	(944,908)
-	-	-	-	-	-
(2,597,905)	(2,587,549)	(2,578,260)	(2,798,000)	(4,066,482)	(3,270,227)
5,379,246	1,866,645	498,955	268,463	(3,767,337)	(2,522,838)
1,669,423	30,384	3,149,100	4,893,290	2,263,814	15,958,039
\$ 7,048,669	\$ 1,897,029	\$ 3,648,055	\$ 5,161,753	\$ (1,503,523)	\$ 13,435,201

Port of Galveston
Operating Revenues & Expenses FY 2013-2022
(in Millions)



The Board of Trustees of the Galveston Wharves

Operating Revenue Statement Last Ten Fiscal Years

Description	2022	2021	2020	2019
Switching	\$ 577,768	\$ 828,455	\$ 961,886	\$ 724,899
*Wharfage	3,400,091	4,538,197	3,555,727	4,061,884
*Passenger charge	15,902,648	4,093,695	3,527,539	16,011,250
Parking fees	12,390,711	3,608,502	1,877,896	8,118,181
*Dockage	9,431,750	10,311,012	8,356,276	8,204,487
Ship service revenues	-	-	1,462,701	6,238,691
Revenue producing services	1,046,528	1,098,407	947,618	873,759
*Real Estate	6,384,155	4,728,063	4,827,199	4,685,762
Security cost recovery	2,249,296	1,485,559	1,214,248	1,401,845
Terminal access fees	1,444,449	447,079	254,700	1,059,105
Miscellaneous	84,035	33,137	372,345	94,246
Total operating revenues	\$ 52,911,432	\$ 31,172,106	\$ 27,358,135	\$ 51,474,109

- Effective January 1, 2022, the Wharves implemented GASB Statement No. 87, resulting in adjustments to wharfage, passenger charge, dockage, and real estate revenues (indicated by asterisks above).

The Board of Trustees of the Galveston Wharves

Operating Revenue Statement Last Ten Fiscal Years

2018	2017	2016	2015	2014	2013
\$ 664,519	\$ 556,646	\$ 929,527	\$ 1,067,920	\$ 763,624	\$ 496,996
4,491,912	3,169,750	2,661,602	2,577,208	2,659,003	2,304,942
12,200,846	11,580,016	8,946,032	8,647,317	6,157,648	5,271,205
7,607,603	6,669,561	6,143,976	6,312,896	4,851,414	4,117,693
6,719,542	5,165,419	5,826,700	6,479,532	5,683,806	5,345,099
5,336,560	4,861,472	3,891,550	3,195,913	3,449,474	2,892,874
343,467	98,497	114,358	120,388	114,505	119,137
3,787,582	3,748,981	3,478,455	3,051,766	3,049,244	3,446,461
1,191,123	847,632	949,909	979,811	658,078	558,984
888,442	889,170	832,440	526,823	283,566	148,554
282,920	182,710	714,323	56,067	40,730	65,547
<u>\$ 43,514,516</u>	<u>\$ 37,769,854</u>	<u>\$ 34,488,872</u>	<u>\$ 33,015,641</u>	<u>\$ 27,711,092</u>	<u>\$ 24,767,492</u>

The Board of Trustees of the Galveston Wharves

**Schedule of Ten Largest Revenue Generating Customers
Current Year and Nine Years Ago**

2022				
		Percent of Total		
Rank	Customer Name	Amount	Operating Revenues	
1	Carnival Cruise Lines	\$ 10,676,979	20%	
2	Royal Caribbean, Int'l.	6,496,745	12%	
3	Wallenius Wilhelmsen	1,984,143	4%	
4	ADM Grain Co.	1,953,477	4%	
5	Disney Cruise Line	1,736,023	3%	
6	Metro Ports Suderman Contracting	1,697,755	3%	
7	Del Monte Fresh Produce	1,064,924	2%	
8	American Roll-on Roll-off Carrier	931,465	2%	
9	Gulf Copper	800,393	2%	
10	Host Agency	791,183	1%	
Total ten largest customers		28,133,087	53%	
Others		24,778,345	47%	
Total operating revenues		\$ 52,911,432	100%	

Source: Port of Galveston Records

- Effective January 1, 2022, the Wharves implemented GASB Statements No. 87. The prior period presented was not restated.

The Board of Trustees of the Galveston Wharves

**Schedule of Ten Largest Revenue Generating Customers
Current Year and Nine Years Ago**

2013				
Rank	Customer Name	Amount	Percent of Total Operating Revenues	
1	Carnival Cruise Lines	\$ 3,116,444	13%	
2	Intercruises Shoreside Svc.(Disney)	2,395,536	10%	
3	Royal Caribbean, Int'l.	2,360,558	10%	
4	Gulf Copper	1,414,587	6%	
5	Del Monte Fresh Produce	1,107,590	4%	
6	Wallenius Wilhelmsen	940,874	4%	
7	ADM Grain Co.	923,001	4%	
8	Malin Int'l.	723,698	3%	
9	Pelican Island Storage Terminal Inc.	638,612	3%	
10	Agrilliance/CHS	619,594	3%	
Total ten largest customers		14,240,494	60%	
Others		10,527,000	43%	
Total operating revenues		\$ 24,767,494	103%	

The Board of Trustees of the Galveston Wharves

Debt Service Schedule

Year Ending December 31	Revenue Bonds, Series 2021	* US Army Corps of Engineers Debt	Total Principal and Interest Requirements
2023	4,719,067	130,367	4,849,434
2024	4,727,801	130,409	4,858,210
2025	4,732,566	130,450	4,863,016
2026	784,635	130,492	915,127
2027-2031	-	653,086	653,086
2032-2036	-	654,132	654,132
2037-2041	-	655,179	655,179
2042-2046	-	656,228	656,228
2047-2051	-	261,543	261,543
	<u>\$ 14,964,069</u>	<u>\$ 3,401,886</u>	<u>\$ 18,365,955</u>

* Debt from the US Army Corps of Engineers represents 10% of the cost of previously constructed Galveston Harbor and Federal Channel Deepening to 45 mean lower low water. Estimated cost was \$3,295,466 payable over a period not exceed 30 years.

The Board of Trustees of the Galveston Wharves

Schedule of Long-Term Debt Last Ten Fiscal Years

Fiscal Year	Special	Revenue Bonds	Contracts Payable	Notes Payable	Capital Leases	US Army Corps of Engineers	Total	Percentage	Dollars Per Capita
	Obligation Bonds					Debt		of Personal Income	
2013	-	25,187,093	19,072,664	1,339,294	2,849,937	-	48,448,988	4%	1,952
2014	-	23,726,023	16,571,412	14,339,294	2,602,368	-	57,239,097	4%	2,167
2015	-	22,204,953	14,013,026	14,180,080	2,344,712	-	52,742,771	4%	2,016
2016	-	20,623,883	11,393,206	13,853,370	2,076,562	-	47,947,021	4%	1,798
2017	-	18,972,813	8,687,611	13,602,884	1,797,486	-	43,060,794	3%	1,574
2018	-	17,241,744	6,136,456	13,174,959	-	-	36,553,159	3%	1,295
2019	-	15,425,674	3,144,637	13,000,000	-	-	31,570,311	2%	1,062
2020		13,519,604	-	13,000,000	-		26,519,604	2%	872
2021*	-	20,548,879	-	-	-	3,532,211	24,081,090	1%	642
2022	-	14,652,364	-	-	-	3,401,817	18,054,181	1%	481

The Board of Trustees of the Galveston Wharves

Pledged Net Revenue Coverage Last Ten Fiscal Years

Description	2022	2021	2020	2019	2018
Operating revenues	\$ 52,911,432	\$ 31,172,106	\$ 27,358,135	\$ 51,474,109	\$ 43,514,516
Operating expenses	36,954,708	27,936,129	28,182,981	39,298,602	35,537,365
Net operating income (loss)	15,956,724	3,235,977	(824,846)	12,175,507	7,977,151
Add:					
Miscellaneous income	29,330	342,142	45,917	18,011	-
Interest income	511,255	70,519	205,620	519,163	280,987
Depreciation	7,889,262	7,011,940	6,677,873	6,370,852	6,546,854
Total net revenues	\$ 24,386,571	\$ 10,660,578	\$ 6,104,564	\$ 19,083,533	\$ 14,804,992
Annual debt service	\$ 6,120,923	\$ 5,470,772	\$ 5,397,680	\$ 6,459,743	\$ 6,549,453
Debt service coverage	3.98	1.95	1.13	2.95	2.26

- Effective January 1, 2022, the Wharves implemented GASB Statement No. 87. Prior periods presented above were not restated.

The Board of Trustees of the Galveston Wharves

Pledged Net Revenue Coverage Last Ten Fiscal Years

Description	2017	2016	2015	2014	2013
Operating revenues	\$ 37,769,849	\$ 34,488,872	\$ 33,015,643	\$ 27,711,092	\$ 24,767,493
Operating expenses	33,504,448	31,600,218	30,137,256	27,599,249	24,207,406
Net operating income (loss)	4,265,401	2,888,654	2,878,387	111,843	560,087
Add:					
Miscellaneous income	-	-	-	-	-
Interest income	347,353	288,856	232,073	225,801	201,126
Depreciation	6,705,572	6,549,259	6,005,248	5,837,831	5,640,607
Total net revenues	\$ 11,318,326	\$ 9,726,769	\$ 9,115,708	\$ 6,175,475	\$ 6,401,820
Annual debt service	\$ 6,447,362	\$ 6,444,562	\$ 6,450,236	\$ 5,513,294	\$ 5,693,844
Debt service coverage	1.76	1.51	1.41	1.12	1.12

The Board of Trustees of the Galveston Wharves

Demographic and Economic Statistics Last Ten Years

Fiscal Year	Estimated Population (1)	Per Capita Personal Income (1)	Personal Income (in \$000's)		Education Level in Years of Formal Schooling (1)	School Enrollment (2)	Unemploy- ment Rate (3)
				Median Age (1)			
2013	47,762	24,822	1,185,548	38.8	12	6,450	7.7%
2014	48,733	26,410	1,287,039	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	6,884	5.0%
2018	50,497	28,227	1,425,379	36.6	12	7,017	4.5%
2019	50,457	29,733	1,500,238	39.4	12	7,015	3.6%
2020	50,446	30,406	1,533,861	37.8	12	7,041	3.9%
2021	53,695	30,406	1,632,650	38.2	12	6,648	5.4%
2022	53,219	37,530	1,997,309	39.4	12	6,691	4.5%

Data Sources (all obtained from the City of Galveston and City-Data.com):

Source: (1) U.S. Census Bureau
 (2) Galveston Independent School District
 (3) United States Census Bureau and Texas Workforce Commission

Note: Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average

The Board of Trustees of the Galveston Wharves

Principal Employers in the City of Galveston Current Year and Nine Years Ago

Employer	2022			2013		
	Employees	Rank	Percent of Total Employment	Employees	Rank	Percent of Total Employment
University of Texas Medical Branch	8,937	1	32.62%	7,500	1	39.72%
Landry's Restaurants	1,930	2	7.04%	1,300	3	6.88%
Galveston Independent School District	1,358	3	4.96%	1,366	2	7.23%
Schlitterbahn - 2	1,100	4	4.02%	-		
American National Insurance Company	934	5	3.41%	866	4	4.59%
Galveston County (on Island only)	855	6	3.12%	864	5	4.58%
City of Galveston	804	7	2.94%	722	7	3.82%
Texas A&M University at Galveston	696	8	2.54%	423	9	2.24%
Moody Gardens - 1	605	9	2.21%	810	6	4.29%
Shriners Children's Texas	377	10	1.38%	-		0.00%
Mitchell Historic Properties	-		0.00%	460	8	2.44%
Galveston College	-		0.00%	300	10	1.59%
All others	9,795		35.76%	4,272		22.62%
	<u>27,391</u>		<u>100.00%</u>	<u>18,883</u>		<u>100.00%</u>

Source: City of Galveston 2022 Annual Comprehensive Financial Report

1. This includes peak employment total. Year round employment is 572.
2. This includes peak employment totals.

The Board of Trustees of the Galveston Wharves

Tonnage Handled Through Facilities, Port Activity, Inward/Outward Last Ten Fiscal Years

Description	2022	2021	2020	2019
Bulk grain	729,203	1,246,542	1,473,271	647,328
Bulk fertilizer	229,295	390,868	273,569	540,096
Bulk liquid	1,965,982	1,989,260	1,393,261	1,574,339
Other bulk cargoes	-	-	39,703	-
Bananas and other fruit	559,084	594,012	606,624	568,860
Other general and RoRo Cargo	533,041	622,701	479,335	687,215
Livestock	2,392	2,937	1,859	-
Total tons handled	4,018,997	4,846,320	4,267,622	4,017,838
Inward	2,995,253	3,246,009	2,444,617	3,043,447
Outward	1,023,744	1,600,311	1,823,005	974,391
Total inward and outward	4,018,997	4,846,320	4,267,622	4,017,838
Number of vessels, including ships and barges	925	943	813	1,023

The Board of Trustees of the Galveston Wharves

**Tonnage Handled Through Facilities, Port Activity, Inward/Outward
Last Ten Fiscal Years**

2018	2017	2016	2015	2014	2013
839,395	734,932	2,466,931	3,073,498	1,553,860	914,099
603,701	455,945	565,277	620,731	721,562	542,121
1,544,103	1,225,701	1,303,459	904,659	1,666,465	2,127,632
-	-	-	-	-	-
534,412	484,661	486,797	520,697	504,542	439,178
581,779	486,296	383,320	483,722	495,067	429,382
-	-	-	-	-	11,897
4,103,390	3,387,535	5,205,784	5,603,307	4,941,496	4,464,309
3,069,352	2,342,006	2,631,508	5,296,181	3,103,258	3,314,967
1,034,038	902,805	2,574,276	307,126	1,838,238	1,149,342
4,103,390	3,244,811	5,205,784	5,603,307	4,941,496	4,464,309
840	734	752	810	846	912

The Board of Trustees of the Galveston Wharves

Cruise Traffic Last Ten Fiscal Years

Year	Cruise Ship Calls	Cruise Passengers	Vehicles Parked
2013	179	604,994	73,395
2014	181	641,650	87,422
2015	232	834,616	112,363
2016	235	868,923	105,108
2017	255	938,198	116,211
2018	268	989,220	113,484
2019	297	1,091,622	114,042
2020*	63	225,643	21,115
2021*	127	282,545	37,679
2022	324	1,041,407	143,907

* The cruise lines voluntarily suspended operations at the Port of Galveston due to the worldwide COVID-19 pandemic beginning on March 12, 2020, and did not resume until July of 2021

Source: Port of Galveston Records

The Board of Trustees of the Galveston Wharves

**Number of Employees and Gross Wages Paid
Last Ten Fiscal Years**

Year	Number of Employees (Maintenance)	Number of Employees (Security)	Number of Employees (Administration)	Average Number of Employees (a)	Gross Wages Paid (b)
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
2018	20	33	33	86	5,322,593
2019	20	27	35	82	5,593,528
2020	23	28	38	89	5,654,513
2021	26	29	36	91	5,923,588
2022	25	34	37	96	6,821,426

- a. Based on quarterly Bureau of Labor Statistics reports.
- b. Includes straight time and over time.

The Board of Trustees of the Galveston Wharves

Operating Facilities December 31, 2022

Vehicle Processing Center (Pier 10 Terminal)	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.
Cruise Terminal 10	Home Port to Royal Caribbean International including a New 120,000 SF purpose built terminal building, 10 acres of on-site ground parking with associated roadways, traffic signals, lighting, landscaping, shuttle system and pedestrian walkways. Upgraded wharf and mooring equipment to support Oasis Class vessels.
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 . Seasonal home port to Disney Cruise Line, Princess Cruise Line and Norwegian 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, including on-site parking. Ability to take on additional cruise lines and passengers. Expansion of mooring capabilities at Cruise Terminal No. 25 to accommodate the largest Carnival Cruise Line vessel was completed in early 2018. Expansion of Cruise Terminal No. 27 to accommodate larger cruise vessels completed in 2016.
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.

The Board of Trustees of the Galveston Wharves

Operating Facilities December 31, 2022

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, containers and livestock. 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 70,000 short tons. Serviced by BNSF and Union Pacific Railroads. Facility rail track expansion to handle shuttle trains completed in 2012.
West End RoRo and General Cargo Piers 37-40	Services major RoRo cargo ship ocean lines. Major RO-RO Hub Port on Gulf Coast. Totals 45 acres, including 7.26 acres for FTZ Zone 36 and Caterpillar EPC. Also transloading military household goods for ARC.
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 acres 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 is 2.3 million barrels.



GALVESTON WHARVES



**Port Employees Partner With Ceres
In Galveston Beach Clean-up Day**

