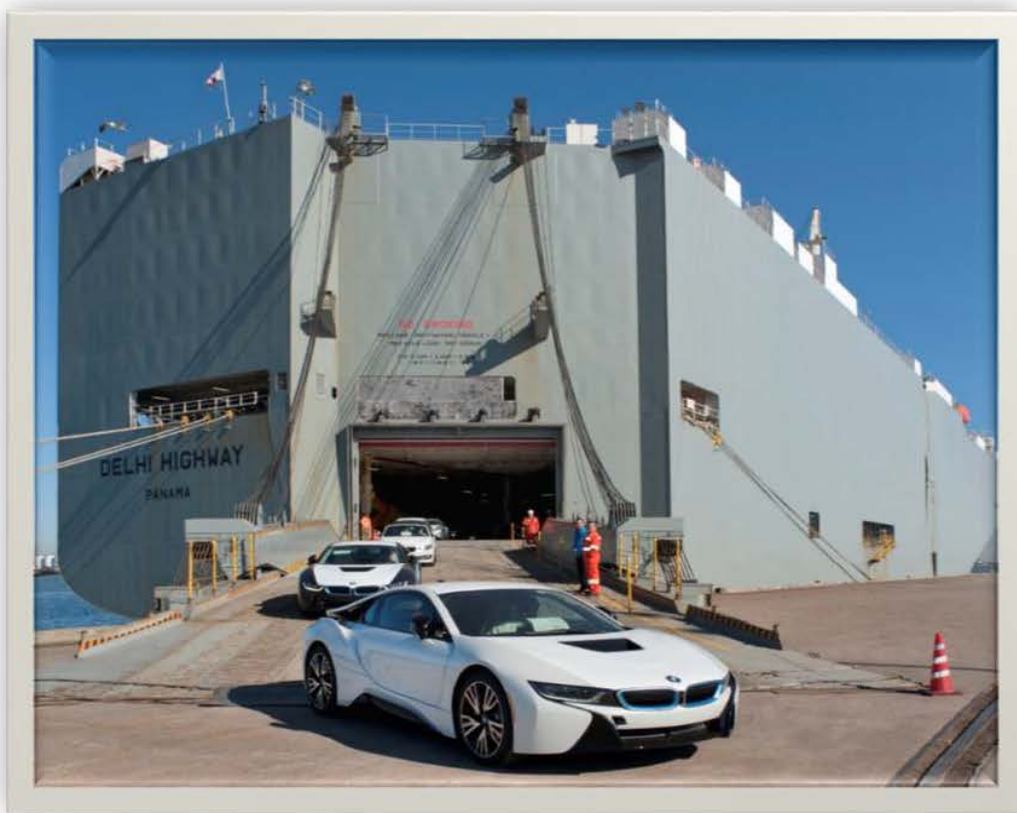

PORT OF GALVESTON

2015 Comprehensive Annual Financial Report



The Board of Trustees of the Galveston Wharves,
A Component Unit of the City of Galveston, Texas
Comprehensive Annual Financial Report
For the Year Ending December 31, 2015

PORT OF GALVESTON, GALVESTON TX

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



CALLAN MARINE DREDGING AT PORT

The Comprehensive Annual Financial Report For Year Ending December 31, 2015

Prepared by the Department of Finance under
the direction of the Director of Finance and
Senior Financial Staff.

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

PORT OF GALVESTON, GALVESTON TX



*First Shipment of BMW's and MINI Coopers off-loaded at Pier 10
from Delhi Highway on January 28, 2016*

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Directory of Officials

2015 Board of Trustees of the Galveston Wharves

BENJAMIN F. HOLLAND, JR.
CHAIRMAN



EDWARD J. WALSH III
VICE CHAIRMAN



ELIZABETH BEETON
TRUSTEE



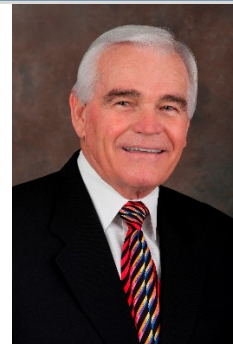
RICHARD DEVRIES
TRUSTEE



ALBERT P. SHANNON
TRUSTEE



GERALD A. SULLIVAN
TRUSTEE



JAMES D. YARBROUGH
TRUSTEE



Directory of Officials (con't)

Officers and Executive Staff

Michael J. Mierzwa, Port Director

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

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

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

Mark R. Murchison, Director of Finance, Treasurer

Roger Quiroga, Director of Economic Development and External Affairs

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

Robert Pierce, Chief of Police, Director of Safety and Security

Earl L. Kalsnes, Harbormaster

General Counsel

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

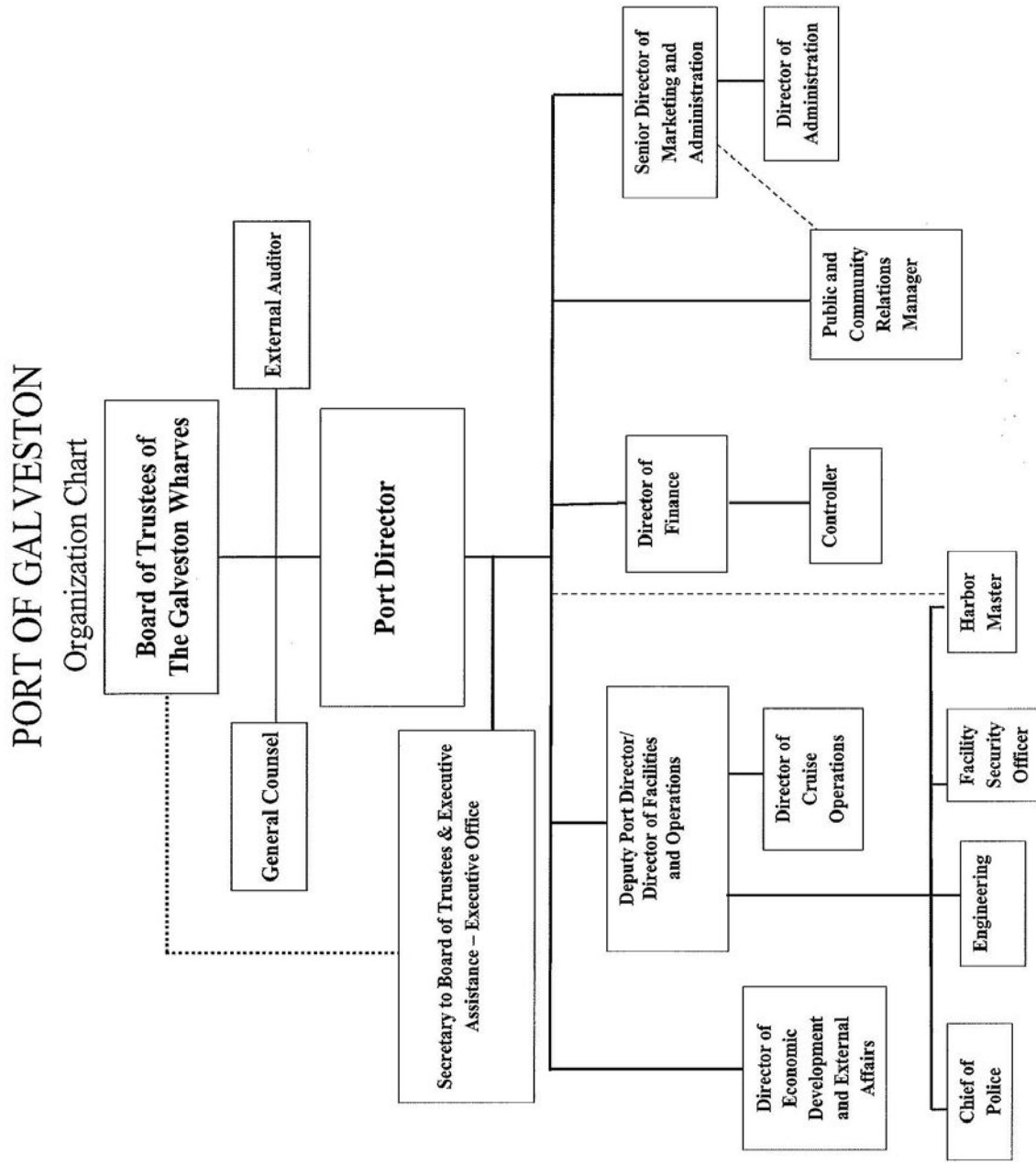
Bond Counsel

Bracewell & Giuliani, L.L.P.

Auditors

Whitley-Penn, LLP

Organization Chart



Company Contact Information

Port of Galveston

123 Rosenberg St.

Galveston TX 77550

Mailing Address:

Port of Galveston

P.O. Box 328

Galveston, TX 77553

Tel 409-765-9321

Fax 409-766-6109

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

Letter of Transmittal

March 28, 2016
Board of Trustees of the Galveston Wharves
Galveston, TX

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Board of Trustees of the Galveston Wharves for the year ended December 31, 2015. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Galveston Wharves. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Galveston Wharves. All disclosures necessary to enable the reader to gain an understanding of the Galveston Wharves' financial activities have been included.



**Michael J. Mierzwa,
Port Director**

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Independent Auditors selected by the Board of Trustees have audited the financial statements and supplemental schedules for the year ended December 31, 2015. The Independent Auditors' report is included in front of the Financial Section of this report.

In addition to meeting the requirements of generally accepted auditing standards, the audit was designed to also meet the requirements of the Federal Single Audit Act of 1984 and related OMB

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Circular A-133. A copy of the Independent Auditor's reports related specifically to the Single Audit Act may be obtained by contacting the Director of Finance, 123 Rosenberg, P.O. Box 328, Galveston, TX 77553. An electronic copy of this report will be posted to the Port's website www.portofgalveston.com within 15 days of acceptance of the report by the Board of Trustees of the Galveston Wharves.

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



Profile of the Government

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

The Galveston City Council created the Port’s blended component unit, the Galveston Port Facilities Corporation (GPFC), in 2002 for use as a financing vehicle for expansion and renovation of Wharves’ facilities. A detailed explanation of the GPFC is given in Note One to the 2015 Financial Statements which are included in the Financial Section of the CAFR.

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

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

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

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

The Galveston Wharves' facilities, located at the entrance to Galveston Bay, constitute a large portion of the greater Port complex. This complex is situated on the north side of the island city with property and facilities also located on adjacent Pelican Island. The Gulf Intercoastal Waterway runs alongside the Port of Galveston. The 45 foot deep Galveston Channel provides access to the open Gulf. The Galveston Channel includes two turning basins with 45 feet depth and widths up to 1,400 feet. Galveston port facilities are situated 9.3 miles from the open sea.

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

Budgetary Process

During the fourth quarter each year, the Board of Trustees adopts an annual budget for the period beginning January 1 through December 31. This budget is based on the Port's recommended tariff rates, projected revenues, operating expenses, debt service and capital improvements plans. Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported monthly to the Trustees of the Galveston Wharves, which also holds management accountable for actual results. Through management reporting, the Port is promulgating sound financial and management practices.

Local Economic Condition and Outlook

The Port of Galveston is one of Texas's major seaports. It operates as a self-supporting enterprise not relying on any local tax dollars for operations. The Port generated \$33 million in revenues in 2015 with an annual estimated economic impact to the state of more than \$3.8 billion. A landlord port with facilities and property approximating 850 acres on Galveston Island and the adjacent Pelican Island, the Port of Galveston facilitates the movement of a diverse mix of domestic and international cargoes. One of the top 50 ports in the nation and one of the busiest in Texas, the Port moved 5.6 million tons of cargo and had over 1.67 million cruise passenger movements in 2015.

Based on the most recent economic impact study commissioned by the Port (2011 Martin Associates Economic Study), the Port generates 12,878 jobs in Texas of which 3,042 are direct jobs. With the completion of several major capital projects in 2015 and early 2016, jobs associated with Port activity are expected to grow. This same study also indicates that Port of Galveston Marine Cargo activity at both the public and private marine terminals including cruise activity, generated \$3.1 billion of economic activity within the State of Texas. This activity generated an estimated \$52.6 million in direct, induced and indirect Texas state and local tax revenue from the Port. An additional \$24.5 million in Texas state and local taxes were created due to the economic activity of the related users of the cargo moving through public and private marine terminals thus generating a total state wide tax impact of \$77.1 million. The Port is currently having Martin Associates update their 2011 Economic Impact Study. The results will be presented in the 2016 CAFR.

Since 2011, the Port has paid in excess of \$36.6 million to vendors located within the City of Galveston. This is an average annual expenditure of \$7.3 million spent locally over the past five years. Additionally, the Port operates cruise parking lots subject to sales tax through which the local government receives 2% of parking revenues or \$122 thousand in 2015.

In 2015, the Port focused on three major capital improvement projects representing an investment of over \$33 million in Port, government and private funds. These three projects consisted of the construction of a state of the industry Vehicle Processing Center for new BMW vehicles completed in January 2016; construction of a regional intermodal transportation terminal for the City of Galveston completed in December 2015; and construction of a 60,000 square foot expansion to Cruise Terminal Two and wharf with expansion and mooring improvements to accommodate larger cruise vessels expected to be completed in May 2016.

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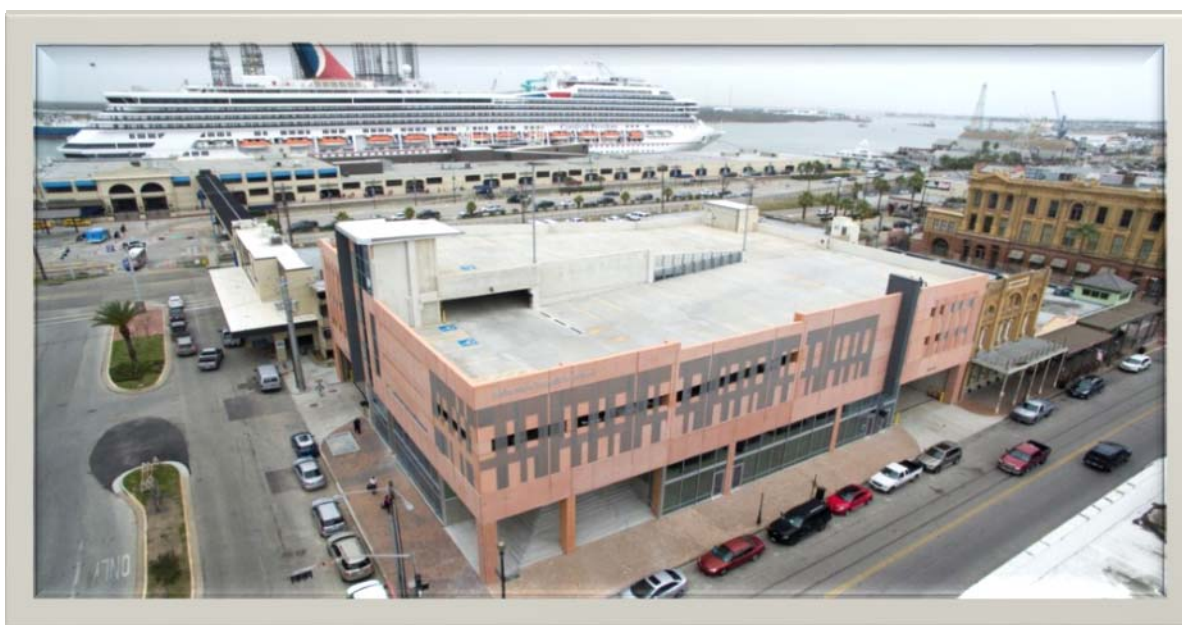


The new Vehicle Processing Center (VPC) was constructed as a public-private partnership with Wallenius Wilhelmsen (WW) Vehicle Services America, and is located on the East End of the Port at Pier 10. The Port's investment in the facility, which includes utilization of various grants and cash expenditures, will be in excess of \$5.5 million. WW is expected to spend a similar amount and the City of Galveston through its Industrial Development Corporation (IDC) has contributed \$1 million to the VPC. This facility consists of a 35,000 square foot vehicle processing center, and also includes a 12,000 square foot body shop and car wash and is located on 19.6 acres of land located in Foreign Trade Zone 36. The VPC will be servicing 42 BMW and MINI Cooper dealers in the states of Texas, Oklahoma, Louisiana, and Arkansas and is projected to process approximately 33,000 units annually. Ground breaking occurred in April 2015 with the facility receiving its first shipment of BMW's and MINI Cooper's on January 28, 2016. The VPC is projected to have a substantial economic benefit to the region over the next 20 years. The economic impact is projected to be around \$311 million with \$164 million being direct economic impact.

The Galveston Transit Terminal was constructed as a partnership between the City of Galveston and the Port through the use of two Federal Transportation Administration Grants along with Port funds during 2015. The total cost of the facility was approximately \$7.5 million. The Transit Terminal, located in Downtown Galveston at 25th and Strand, consists of

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a regional transportation hub including an indoor waiting area, public restrooms, and 3,654 square feet of commercial retail space. The facility also includes 159 parking spaces. The retail area is expected to be fully leased by 2nd quarter 2016. The Transit Terminal became fully operational in 2016.



The Port of Galveston is the 4th largest cruise port in North America and ranks 7th worldwide. For continued growth, and to accommodate larger cruise ships considering cruises out of the Port, expansion of Cruise Terminal Two was necessary. Once completed, the expansion will increase the size of the terminal from 90,000 square feet to 150,000 square feet. The additional square footage will allow more room for passenger processing and permit servicing vessels carrying in excess of 4,000 passengers. Included in this expansion are various waterside improvements including dock and wharf improvements, additional moorings and updates to the existing structure. Total expenditures related to these projects are in excess of \$16.4 million. The expansion is being funded by a \$13 million Series 2014 Subordinate Lien Revenue Note and the wharf expansion and mooring improvements are being funded by a Series 2011 Revenue Bond. In 2014, the Port had over 1.28 million passenger movements. During 2015, passenger movements increased to over 1.67 million. Movements are conservatively projected to exceed 1.7 million in 2016.

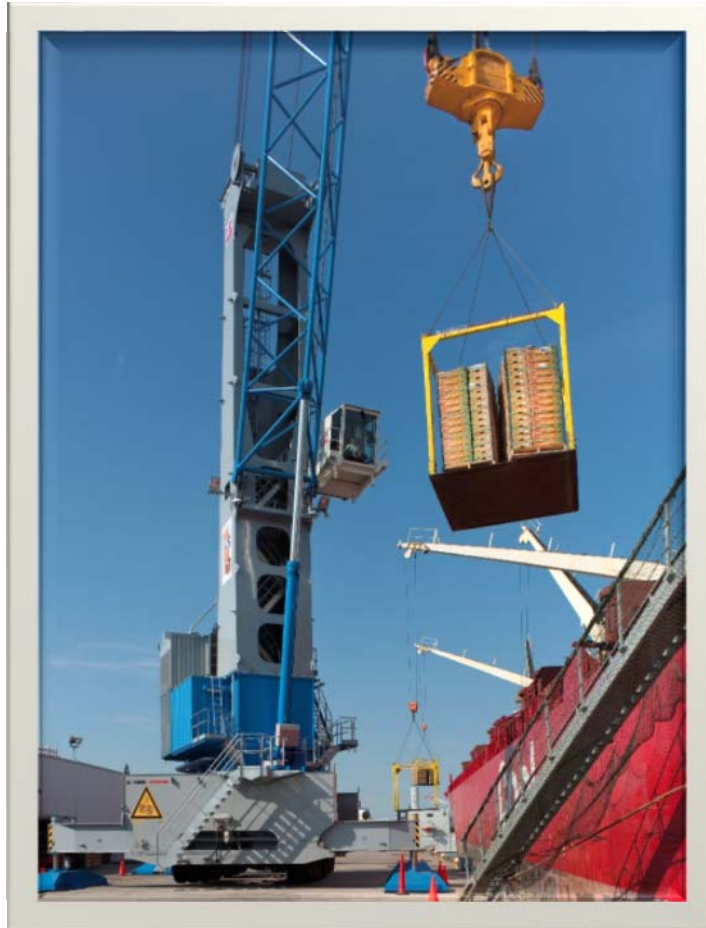
2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

According to the most recent Galveston Parks Board study on the Economic Impact of Tourism on Galveston, as a result of the Port's cruise business, shore side cruise passenger expenditures in Galveston were in excess of \$46 million. Shore accommodations accounted for \$13.5 million of the local expenditures. Additionally, the impact to Texas was in excess of 22,600 Texas jobs contributing \$1.42 billion to the Texas economy. Galveston is Texas's primary cruise port.



In 2015, the Port recognized a 97% increase in export grain tonnage from the previous year to approximately 3 million short tons. This figure is close to the historical average for this commodity after record setting poor years in 2012 and 2013. Grain is the Port's largest bulk cargo. In 2015, the Port entered into a revised agreement with Archer Daniels Midland (ADM) which increased the minimum annual guaranteed revenue to the Port. Along with reaching this new agreement, ADM announced their intent to invest \$10 million of capital improvements to the local facility in the near term.

Last year, the Port continued to see growth in its refrigerated fruit/bananas business. Tonnage increased an additional 6% following substantial growth in 2013 and 2014 as a result of 2012 capital investments by Del Monte Fresh Produce, N.A., Inc. in their facility, approximately \$12 million, a \$10 million wharf improvement and expansion of Pier 16 - 18 serving Del Monte by the Port and a \$3 million investment in a shore based crane by Del Monte's stevedore, Gulf Stevedoring.



Port tonnage in General Cargo also increased 156% from approximately 20,000 short tons in 2014 to almost 52,000 short tons in 2015. This was a direct result of increased wind project cargo through the Port helped by the extension of production tax credits for the wind industry. However, Port tonnage declined almost 46% to 904,000 short tons for bulk liquid as a result of lower oil prices; approximately 14% for bulk fertilizer to 621,000 short tons from a record year in 2014 of over 721,000 tons; and 9% for roll on-roll off cargo as a result of the global recession and the loss of business from one shipper to another port.

Long Term Financial Planning

In 2015, the Port received various Federal Port Security Grants, local Industrial Development Corporation (4B Sales Tax) (IDC) grants, and during the first quarter 2016 received preliminary notification of funding from Texas Department of Transportation for Port infrastructure improvements. These grants range from 100% funding of specific projects to projects with a 25% or more Port cost share. Generally, the grants received by the Port are 25% Port cost share consisting of in-kind or actual percentage cash contribution.



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

Awards

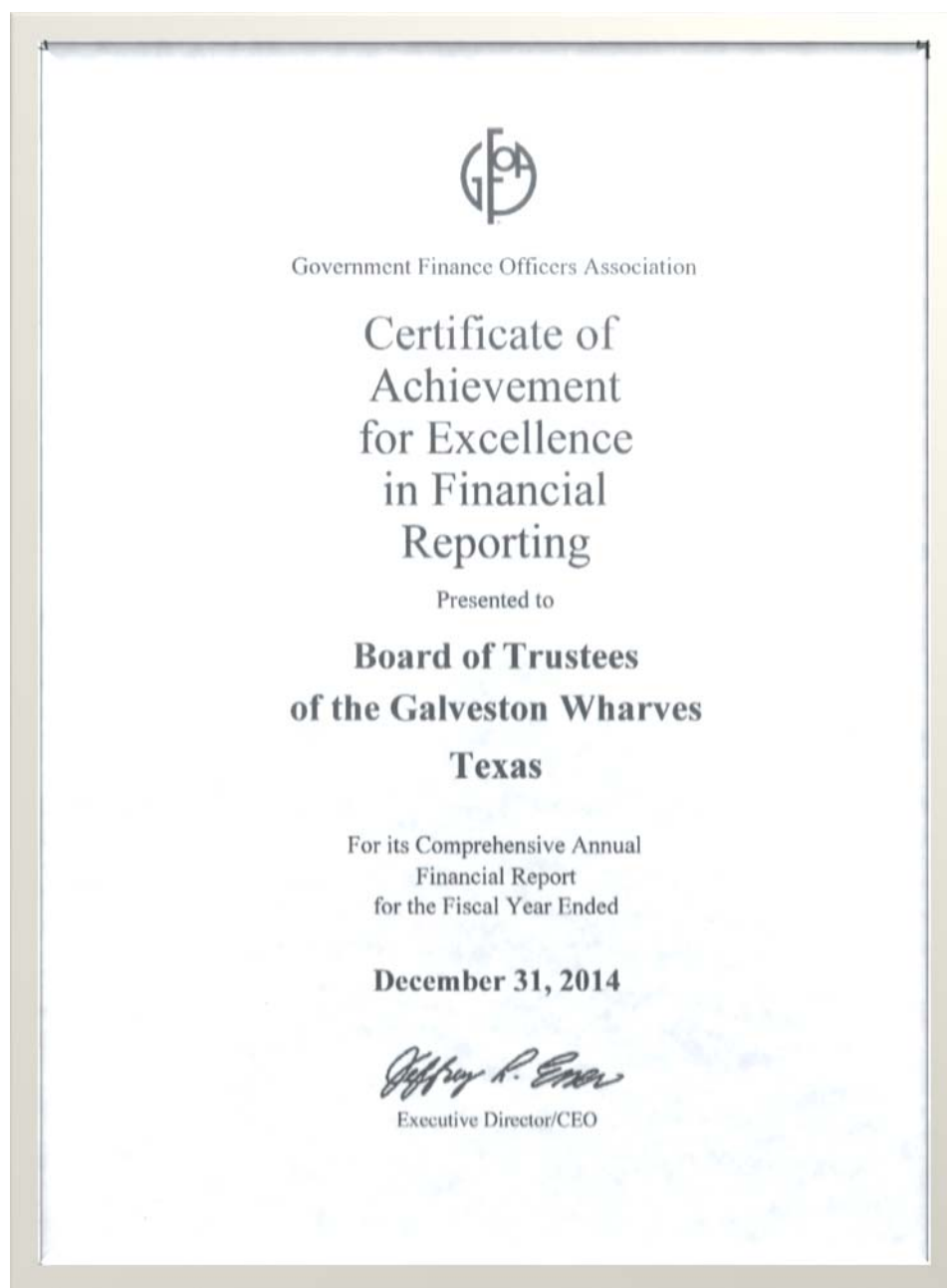
In 2015, the Port of Galveston received notification that it was named a recipient of Logistics Management's 2015 Quest for Quality Award in the Ports Category. This award is based on evaluations of five critical areas, including ease of doing business, value, ocean carrier network, intermodal network, and equipment operations. Only 16 other U.S. and Canadian Ports received the award.



The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Board of Trustees of the Galveston Wharves ("Port of Galveston"), for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2014. This was the 22th consecutive year that the Port of Galveston has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Port of Galveston must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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



Relevant Financial Policies

Grant proceeds are treated as contributions to capital grants and contributions are listed immediately following operating income before contributions in the Port's Statement of Revenues, Expenses and Changes in Net Position, which is contained in the Financial Section of the Port's CAFR.

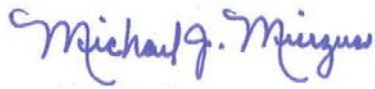
Grant proceeds are treated as contributions to capital and are not included in operating income. Capital grants and contributions are listed immediately following operating income before contributions in the Port's Statement of Revenues, Expenses and Changes in Net Position, which is contained in the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



Acknowledgements

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

Respectfully Submitted,



Michael J. Mierzwa
Port Director



Mark R. Murchison
Director of Finance



Financial Section



CARNIVAL CRUISE LINE FREEDOM

Port of Galveston
Galveston, Texas
2015 CAFR

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



PORT OF GALVESTON PROPERTY OUTLINED IN YELLOW

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Board of Trustees of the Galveston Wharves (the “Wharves”), a component unit of the City of Galveston, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Wharves’ basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Trustees of the Galveston Wharves, as of December 31, 2015, and the respective changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees of
The Galveston Wharves

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Wharves adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the year ending December 31, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and required pension system supplementary information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2016 on our consideration of the Wharves' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wharves' internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
March 24, 2016

Management's Discussion and Analysis



GROUND BREAKING BMW VEHICLE PROCESSING CENTER

Port of Galveston
Galveston, Texas
2015 CAFR

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



CARNIVAL MAGIC WITH GALVESTON HISTORICAL DISTRICT

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

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

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

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

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

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

Financial Analysis of the Wharves as a Whole

The adoption of Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended December 31, 2015, has resulted in the restatement of the Wharves' beginning net position for the fiscal year 2015 government-wide financial statements to reflect the reporting of net pension liabilities and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of these statements. Net position as of December 31, 2015 was decreased by \$2.0 million (\$2.5 million of Net Pension Liability less deferred outflows of \$540,004). Refer to Note 7 for more information regarding the City's pension and Note 14 for more details about the restatement.

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

Net Position

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

	2015	2014	Increase (Decrease) over prior year
Current assets	\$ 48,381	\$ 55,782	-13%
Capital assets	147,902	136,548	8%
Other non current assets	2,058	2,257	-9%
Total Assets	198,341	194,587	2%
Deferred outflows of resources	452	540	
Current liabilities	14,809	11,157	33%
Long Term Liabilities	53,640	56,231	-5%
Net Pension Liability*	2,479	2,548	
Total Liabilities	68,449	69,936	-2%
Deferred inflows of resources	134	143	-6%
Net Position			
Net investment in capital assets	115,313	93,483	23%
Restricted	6,646	19,200	-65%
Unrestricted	8,251	12,365	-33%
Total Net Position	\$ 130,210	\$ 125,048	4%

*As noted above, during the fiscal year ended December 31, 2015, the Wharves implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to Wharves' employee retirement plan. Prior year liabilities have been presented in this schedule for comparative purposes.

The Wharves' combined net position increased \$5.2 million between fiscal years 2014 and 2015, to approximately \$130.2 million. Net Investment in Capital Assets increased by \$21.8 million accompanied by an decrease in Restricted (\$12.6 million) and a decrease in Unrestricted (\$4.1 million) Net Position during 2015.

- Current assets decreased \$7.4 million or 13%
 - Unrestricted cash decreased by \$2.9 million of which \$2.3 million is due to timing issues in Accounts Receivable leaving a variance in cash of \$600 thousand. The remaining reduction to unrestricted cash is attributable to the construction of the Vehicle Processing Unit. As of December 31, 2015 receivables increased due to timing of payments from the cruise lines and from the grant being used to fund construction of the Galveston Transit Terminal. Both were collected in January.
 - Receivables increased \$2.3 million largely due to timing issues of collection from December Cruises and delay in grant funding for the Galveston Transit Terminal. These delays were attributable to processing of late year invoices.

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

- Restricted cash decreased \$6.7 million to \$27.6 million for a 20% decrease from 2014. During 2015 construction cost of the Cruise Terminal 2 expansion (\$5.4 million) and the related Water Side improvements (\$1.3 million).
- Capital Assets net of depreciation increased \$11.3 million. During 2015, construction work in progress included the VPC, Galveston Transit Terminal and the Cruise Terminal 2 Expansion project which will all go into service in 2016. When these three projects are completed the total increase in capital before depreciation will exceed \$29 million. 2015 depreciation expense is \$6 million.
- Deferred Outflows representing the first year for inclusion of GASB 68 decreased \$88 or 16% to \$134 thousand.
- The Wharves total liabilities decreased by approximately \$1.4 million during the year ended December 31, 2015.
 - Current Liabilities increased by \$3.6 million when compared to 2014. Due to the capital constitution projects the retainage account has increased to \$1 million which will be paid from restricted cash. Additionally, year end accruals and invoices from the three primary capital projects total \$3 million. At the end of 2015, the Port accrued \$442 thousand for maintenance dredging which occurred in November and December 2015 of which \$184 thousand is being reimbursed by one of the Port tenants.
 - Long Term Liabilities decreased \$5 million due to the reclassification of long term debt to current liability representing scheduled debt service.
 - Deferred inflows decreased \$9 thousand or 6% to \$134 thousand.
 - Net Investments in capital assets increased \$21.8 million due to increases in construction work in progress of \$15 million net of \$6 million in current year depreciation. In 2015 \$2.7 million in fully depreciated assets were removed deem no longer of value and removed from the Port's books of record decreasing depreciable fixed assets and accumulated depreciation. Additional assets costing \$439 were deemed impaired and written off. A portion of the increase in Net Investment is due to the utilization of \$12.5 million of restricted assets in the construction of Cruise Terminal 2 and related Water Front Improvements, and utilization of \$4 million of unrestricted cash in the construction of the Vehicle Processing Unit and the Galveston Transit Terminal.

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

Changes in Net Position

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

	2015	2014	Increase (Decrease) over prior year
Operating Revenues			
Vessels and cargo services	\$ 20,618	\$ 17,807	16%
Building and facilities rental and fees	12,398	9,904	25%
Total Operating Revenues	33,016	27,711	19%
Operating Expenses			
Personnel services	8,892	8,858	0%
Maintenance and operations	9,006	8,912	1%
Sales and office	6,047	3,804	59%
Annual City payment	188	187	1%
Depreciation	6,005	5,838	3%
Total Operating Expenses	30,137	27,599	9%
Net Operating Income	2,879	112	2471%
Non-Operating Revenue (Expense)			
Lease income			
Earnings on investments	232	226	3%
Interest expense	(2,275)	(1,971)	15%
Other Debt Expense		(171)	100%
Gain (loss) on disposal of equipment	3		100%
Total Non-Operating Revenues (Expenses)	(2,040)	(1,916)	6%
Income Before Capital Grants and Contributions and Special Items	839	(1,804)	-147%
Capital Grants and Contributions	4,893	2,264	116%
Extraordinary items	(570)	(1,964)	-71%
Changes in Net Position	5,162	(1,504)	-443%
Beginning Net Position (as originally stated)	127,056	128,560	-1%
Change in Accounting principle**	(2,008)	(2,008)	
Ending Net Position	\$ 130,210	\$ 125,048	4%

**During the fiscal year ended December 31, 2015, the Wharves implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to Wharves' employee retirement plan. Prior year liabilities have been added to the ending Net Position balance but pension related activities have not been presented in this schedule as the information is not available. See Note 14 for more information.

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

Net Operating Income increased \$2.8 million from \$112 thousand in 2014 to \$2.9 million in 2015.

2015 Revenues increased \$5.3 million.

- Cruise Passenger 2015 revenues were \$2.5 million or 40% over 2014 revenues. The increase in revenue in part is the result of an overall increase in passenger movements for 2015 over 2014 of 29.72% due to an increase of cruise sailings for 2015 over 2014 resulting from the addition of a third year round Carnival vessel, Carnival Freedom, in February 2015 and the return of Disney for the winter cruise season.
- Parking revenue for 2015 was \$1.5 million or 30% over 2014. The increase in revenue is due to the aforementioned additional sail dates for 2015 over 2014 and improved internet sales. There was a 28.53% increase in the number of vehicles parked at the Port's parking facilities in 2015 over 2014.
- Dockage revenue for 2015 was \$639 thousand or 17% over 2014. The increase in revenue is due to increases in grain revenue (\$640 thousand), wind energy/general cargo (\$163 thousand), cruise revenue dockage (\$158 thousand), and research vessels (\$193 thousand) offset by decreases in Ro-Ro (\$133 thousand), liquid bulk (\$308 thousand), and other minor variances \$73 thousand).
- Lay Dockage revenue for 2015 was \$156 thousand or 11% over 2014. The increase in revenue is primarily due to the increased grain lay vessels (\$348 thousand) offset by decreases in lay barges (\$205 thousand) and other minor variances.
- Rail and Switching revenue for 2015 was \$304K or 40% over 2014. The increase in revenue is primarily due to the aforementioned increase in Grain cargo movements. Grain cargo is transported to the Port's facilities via rail. The Port receives a percentage of the switching and other fees charged by the rail operator for transporting cargo, storage of cars and other miscellaneous fees.
- All other 2015 Revenues from Operations increased \$237 thousand over 2014.
- Operating expenses increased by \$2.5 million or 9% primarily due to an increase of \$1.1 million in increased cruise and parking contract marketing fees paid to Carnival Corporation, \$334 thousand due to rent of temporary structure at Cruise Terminal 2 to accommodate the increased passenger traffic until the Cruise Terminal 2 expansion is completed in April 2016 and the rental of additional property for increased parking, the \$339 thousand write off of the West End Development project, increased depreciation of \$168 thousand and other minor expenses.
- Total Cargo Tonnage for the twelve months ending December 31, 2015 increased 13% above 12 months ending December 31, 2014, with 5,603,304 Short Tons in 2015 vs. 4,941,496 Tons in 2014 an increase of 661,811 tons.
 - Bulk Grain, current movements were 1.5 million tons higher in 2015 than 2014 increasing from 1.6 million tons in 2014 to 3.1 million tons in 2015 for a increase of 98%.
 - Liquid Bulk decreased 46% or 762 thousand tons.
 - Bulk Fertilizer decreased 14% or 100 thousand tons.

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

Capital Assets and Debt Administration

Capital Assets

At year-end 2015, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled \$233.1 million. This is an increase of \$14.7 million over 2014. Accumulated depreciation as of year-end 2015 increased by \$3.3 million. The net change in Capital Assets was a \$1.4 million increase from 2014. The following is a comparison of capital assets for the years ended December 31, 2014 and 2015 (in 000's):

	2015	2014
Land	\$ 16,499	\$ 16,499
Channel Deepening	11,339	11,339
Construction in progress	22,453	7,446
Total capital assets, non depreciable	50,291	35,284
Railway property and buildings	4,261	4,261
Wharves property and buildings	167,683	166,925
Operating equipment	8,053	8,826
Office equipment	2,777	3,092
Total capital assets being depreciated	182,774	183,104
Less allowance for depreciation	(85,165)	(81,839)
Total assets being depreciated, net	97,609	101,265
Total capital assets	\$ 147,900	\$ 136,549

Construction work in progress increased \$15 million while depreciable assets decreased \$328 thousand. In 2015 three major capital improvement projects were under way, the BMW Vehicle Processing Center, the Galveston Transit Terminal and the Cruise Terminal 2 expansion. Also in 2015 management conducted a stringent review of all capital assets identifying specific impaired assets which include \$339 thousand related to a West End Development project, \$80 thousand related to a specific plan proposed for a third cruise terminal. As part of this review certain fully depreciated assets with a zero book value were removed. One of the impacts was a reduction of \$2.7 million in both depreciable assets and the related depreciation. Actual depreciation expense in 2015 is \$6 million.

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

Long-Term Debt

At year-end, the Wharves had \$36.2 million in bonds and contracts payable and \$16.5 million in notes and leases outstanding representing a decrease of 8% over the prior year. The notes payable are a Series 2014 Note Payable (\$13M), a Community Disaster Loan and a Capital Lease. Changes in Long-term debt for the year ended December 31, 2015, are summarized below (in 000's):

Debt Category	2015	2014
Revenue Bonds	\$ 22,205	\$ 23,726
Contracts payable	14,013	16,571
Notes and leases payable	16,525	16,942
Total	\$ 52,743	\$ 57,239

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-Term Debt (continued)

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

Bond Ratings

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

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

Economic Factors and Next Year's Rates

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

The 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 services, and promotes 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 Wharves major tenants continue to grow. Roll On-Roll Off (RO-RO) cargo carrier activity has continued to increase and with the addition of BMW which is now importing premium new automobiles. The fresh fruits and vegetables have continued expanding and improving its facilities utilizing more refrigerated containers. Cruise ship business continues to bolster the Wharves business with the addition of a fourth year round cruise ship, the return of Disney Cruise Lines for the winter season and ongoing discussions concerning the addition of other cruise ships utilizing the current available open cruise terminal days. Due to revisions of the lease agreement with ADM, grain has a new minimum guaranteed payment beginning in 2015. Even the ship yards who catered to the off shore oil industry are finding additional work not directly tied to the off shore oil fields. With the overall economy picking up the Port anticipates increased cargo movement and robust cruise ship activity for year 2016.

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

Contacting the Wharves' Financial Management

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

2015 CAFR Basic Financial Statements



CATERPILLAR AND CASE HEAVY EQUIPMENT RO-RO ACTIVITY

Port of Galveston
Galveston, Texas
2015 CAFR

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF NET POSITION
December 31, 2015

	2015
Assets	
Current Assets - Unrestricted:	
Cash and cash equivalents	\$ 6,005,951
Accounts receivable, net of allowance for doubtful accounts	13,936,548
Prepaid assets	642,157
Current Assets - Restricted:	
Cash and cash equivalents	27,597,154
Current portion of investment in direct financing lease	199,146
Total Current Assets	48,380,956
Non-Current Assets	
Capital Assets:	
Capital assets, non depreciable	50,291,379
Capital assets, net of depreciation	97,610,441
Total Capital Assets	147,901,820
Other Assets:	
Net investment in direct financing lease - less current portion	2,057,844
Total Non-Current Assets	149,959,664
Total Assets	198,340,620
Deferred Outflows of Resources	
Deferred outflows - pension items	451,726
Liabilities	
Current Liabilities (payable from current assets):	
Accounts payable	3,395,811
Accrued expenses	5,265,247
Accrued compensated absences	317,400
Payable to other government	188,077
Long term debt due within one year	594,859
Interest payable	797,247
Total Current Liabilities (payable from current assets)	10,558,641
Current Liabilities (payable from restricted assets):	
Long term debt due within one year	4,250,000
Total Current Liabilities (payable from restricted assets)	4,250,000
Total Current Liabilities	14,808,641
Long-Term Liabilities:	
Accrued compensated absences	740,636
Unearned revenues and rents	2,522,265
Long term debt due in more than one year	47,897,912
Net pension liability	2,478,716
Total Long-Term Liabilities	53,639,529
Total Liabilities	68,448,170
Deferred inflows of resources	
Deferred gain on refunding	96,347
Deferred pension activities	37,614
Total Deferred inflows of resources	133,961
Net Position	
Net investment in capital assets	115,312,854
Restricted for debt service	6,646,097
Unrestricted	8,251,264
Total Net Position	\$ 130,210,215

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	2015
Operating Revenues	
Charges for services:	
Vessels and cargo services	\$ 20,618,181
Building and facilities rental and fees	12,397,462
Total Operating Revenues	33,015,643
Operating Expenses	
Personnel services	8,891,974
Maintenance and operations	9,005,438
Sales and office	6,046,520
Annual City payment	188,076
Depreciation	6,005,248
Total Operating Expenses	30,137,256
Operating Income	2,878,387
Non-Operating Revenue (Expenses)	
Earnings on investments	232,073
Interest expense	(2,275,468)
Gain on disposal of equipment	3,279
Total Non-Operating Revenues (Expenses)	(2,040,116)
Income (Expense) Before Contributions and Special Items	838,271
Capital grants and contributions	4,893,290
Extraordinary item- clean up and repair- Hurricane Ike	(569,808)
Change in Net Position	5,161,753
Total Net Position - Beginning (as originally presented)	127,056,035
Change in Accounting principle	(2,007,573)
Total Net Position - Ending	\$ 130,210,215

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Page 1 of 2

Cash flows from operating activities

Cash receipts from customers	\$ 31,404,725
Cash payments to employees	(8,886,326)
Cash payments to suppliers for goods and services	(11,584,076)
Cash payments to City of Galveston	(188,076)
Net cash provided (used) by operating activities	10,746,247

Cash flows from capital and related financing activities

Payments received on capital and direct financing leases	199,146
Principal payments, scheduled debt service	(4,531,870)
Payments on extraordinary items, hurricane damage	(569,808)
Receipts from capital grant	5,030,111
Interest paid, long-term debt	(2,493,936)
Acquisition and construction of capital assets	(18,247,976)
Net cash provided (used) by capital and related financing activities	(20,614,333)

Cash flows from investing activities

Receipts of interest	229,479
Net cash provided (used) by investing activities	229,479

Net increase (decrease) in cash and cash equivalents (9,638,607)

Cash and cash equivalents, beginning of year 43,241,712
Cash and cash equivalents, end of year \$ 33,603,105

Cash and cash equivalents per statement of net position:

Unrestricted \$ 6,005,951
Restricted 27,597,154
Cash and cash equivalents, end of year \$ 33,603,105

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES*Page 2 of 2***STATEMENT OF CASH FLOWS*****For the Year Ended December 31, 2015*****Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

Operating income	\$ 2,878,387
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,005,248
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(1,468,054)
(Increase) decrease in prepaid assets	74,627
Increase (decrease) in accounts and wages payable	544,737
Increase (decrease) in accrued expenses	2,847,743
Increase (decrease) in payable to other government	775
Increase (decrease) in Unearned revenues and rents	(142,864)
Increase (decrease) in accrued compensated absences	(51,383)
(Increase) decrease in deferred outflows - pension	88,278
Increase (decrease) deferred inflows - pensions	37,614
Increase (decrease in net pension liability	(68,861)
Total adjustments	<u>7,867,860</u>
Net cash provided (used) by operating activities	<u><u>\$ 10,746,247</u></u>

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

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

The following is a summary of the most significant policies:

A. Reporting Entity

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

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

Galveston Port Facilities Corporation

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Implementation of New Standards

In the current fiscal year, the Wharves implemented the following new accounting standards:

Government Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pension, establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB No. Statement 71, Pension transition for Contributions Made Subsequent to the Measurement Date, amends the transition provisions of GASB 68. GASB 71 requires that at transition a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statement and the notes to the financial statements.

C. Cash and Cash Equivalents

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

D. Investments

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

E. Prepayments

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

F. Restricted Assets

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

G. Capital Assets

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

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

H. Compensated Employee Absences

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

I. Unearned Revenues and Rents

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

J. Pensions

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

K. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates utilized in preparing the financial statements include depreciable lives of property and equipment, estimated accrued loss contingencies, actuarial assumptions relative to future pension benefit obligations and other post-retirement benefits. Although not expected by management, actual results could differ from those estimates.

L. Deferred Outflows/Inflows of Resources

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

- Deferred gain on refunding reported in the statement of net position – this deferred inflow results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred inflows of resources for pension – This deferred inflow results from the differences between expected and actual actuarial experiences and will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 30 years for the Wharves' plan.

M. Net Position

Net position flow assumption

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

Restricted Net Position

Restricted net position represent those portions of net position segregated pursuant to the provisions of the indenture of the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2004 B, the Series 2011 Revenue Refunding bonds, Series 2013 Certificates of Obligation Bonds, and 2014 Subordinate Revenue Notes Series A and B which require the Galveston Wharves to establish and maintain an interest and sinking fund and a debt service reserve fund.

Note 2 - Cash and Temporary Investments

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

Deposit Custodial Credit Risk

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

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

At December 31, 2015 Cash and temporary investments balances, which were either insured by FDIC or covered held by Wharves' agent in the Wharves' name at December 31, 2015 consisted of the following:

Checking and time deposits	
Cash on hand	\$ 8,300
Deposits with financial institution:	
Checking	9,905,712
Held by City of Galveston	2,612,583
	<u>12,526,595</u>
Temporary investments	
U.S. Treasury bills	4,114,192
Local Government investment pools	16,962,318
	<u>21,076,510</u>
Total cash and temporary investments	\$ 33,603,105

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

Note 2 - Cash and Temporary Investments (continued)

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

Unrestricted	
Cash and temporary investments	\$ 6,005,951
Restricted	
Cash and temporary investments	<u>27,597,154</u>
Total cash and temporary investments	<u>\$ 33,603,105</u>

Restricted Cash and Temporary Investments

Restricted cash and temporary investments and the net investment in a direct financing lease were required under the terms of: Article XII, Section 9, of the Charter of the City Galveston that requires the Galveston Wharves to make annual payments to the City of Galveston. Provisions of the indenture of the City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 2011, Series 2013, Series 2014, as well as Series 2004 B, require the Galveston Wharves to establish and maintain an interest and sinking fund and a debt service reserve fund.

	<u>2015</u>
Interest and sinking and debt service reserves	
Terminal Revenue Refunding Bonds Series 2011	\$ 2,550,892
Terminal Revenue Bonds Series 2011	
Interest and Sinking Fund	1,849,325
Series 2013 C.O. Interest and Sinking Fund	2,612,583
Series 2014 Subordinate Lien Notes	
Interest and Sinking Fund	240,505
City of Galveston franchise payment	182,000
Bond proceeds	12,984,441
Series 2014 Restricted Notes Funds	7,169,364
Channel deepening	7,650
Bulkhead improvements	394
	<u>\$ 27,597,154</u>

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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

Investment Policies

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

- obligations of the United States or its agencies and instrumentalities;
- direct obligations of this state or its agencies and instrumentalities;
- a certificate of deposit or share certificate issued by a depository institution with an office in this state or as otherwise described in the statutes;
- a fully collateralized repurchase agreement that has a defined termination date, is secured by the obligations and pledged as defined in the statutes; and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;
- a securities lending program that meets all of the detailed conditions defined in the statutes;
- a bankers' acceptance that has a stated maturity of 270 days or fewer from the date of its issuance, will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank and is accepted by a bank as defined in the statutes;
- commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance, is rated or fully secured as defined in the statutes;
- a no-load money market mutual fund that is registered with and regulated by the Securities and Exchange Commission, provides information and investment objectives as required by the statutes, has a dollar-weighted average stated maturity of 90 days or fewer;
- a no-load mutual fund that invests exclusively in the obligations authorized in this section, is registered with the Securities and Exchange Commission, has an average weighted maturity of less than two years, is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent and conforms to other statute requirements;
- a guaranteed investment contract is an authorized investment for bond proceeds if it has a defined termination date of no longer than five years from the date of issuance of the bonds, is fully secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities and is pledged to the Wharves and deposited with the Wharves or with a third party selected and approved by the Wharves. Eligibility must meet requirements as defined in the statutes;
- an investment pool that invests exclusively in the obligations authorized in this section and furnishes the Wharves specified required information as defined in the statutes. The investment pool must also meet additional guidelines as defined in the statutes.

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

Note 2 - Cash and Temporary Investments (continued)

Interest Rate Risk

In order to limit interest and market risk from changes in interest rates, the Wharves adopted Investment Policy sets a maximum stated maturity date of one year in operating funds, 210 days in debt service funds and three years in bond reserve funds. As of December 31, 2015, the Wharves investments consisted of the following investment types and weighted average maturities:

	Fair Value	Average Maturity (days)	Percentage of Total Portfolio
Investments			
U.S. Treasury bills	\$ 4,114,192	182	20%
Local Government investment pools	16,962,318	51	80%
Total Investments	<u>\$ 21,076,510</u>		<u>100%</u>
Weighted average maturity (days)		<u>77</u>	

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

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

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

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

Note 3 - Accounts Receivable

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

	2015
Accounts receivable, trade	\$ 5,730,972
Grants receivable	8,841,080
Interest receivable	3,931
Less allowance for doubtful accounts	(639,435)
Net accounts receivable	<u>\$ 13,936,548</u>

Note 4 - Capital Assets

Changes in capital assets during the year ended December 31, 2015, are summarized as follows:

	Balance at December 31, 2014	Additions	Retirements	Transfers / Reclassification	Balance at December 31, 2015
Capital assets not being depreciated:					
Land	\$ 16,499,295	\$	\$	\$	\$ 16,499,295
Channel Deepening	11,338,742				11,338,742
Construction in progress	<u>7,445,917</u>	<u>18,034,685</u>	<u>(862,497)</u>	<u>(2,164,763)</u>	<u>22,453,342</u>
Total capital assets not being depreciated	35,283,954	18,034,685	(862,497)	(2,164,763)	50,291,379
Capital assets being depreciated:					
Railway property and buildings	4,260,563				4,260,563
Wharves property and buildings	166,925,023	30,765	(760,438)	1,487,390	167,682,740
Operating equipment	8,825,546	137,096	(979,612)	71,421	8,054,451
Office equipment	<u>3,091,671</u>	<u>48,709</u>	<u>(968,917)</u>	<u>605,952</u>	<u>2,777,415</u>
Total capital assets being depreciated	183,102,803	216,570	(2,708,967)	2,164,763	182,775,169
Less accumulated depreciation for:					
Railway property and buildings	(2,258,754)	(53,535)			(2,312,289)
Wharves property and buildings	(73,504,620)	(4,792,072)	738,845		(77,557,847)
Operating equipment	(4,225,016)	(805,230)	974,195		(4,056,051)
Office equipment	<u>(1,850,324)</u>	<u>(354,436)</u>	<u>966,219</u>		<u>(1,238,541)</u>
	<u>(81,838,714)</u>	<u>(6,005,273)</u>	<u>2,679,259</u>		<u>(85,164,728)</u>
Total assets being depreciated, net	<u>101,264,089</u>	<u>(5,788,703)</u>	<u>(29,708)</u>	<u>2,164,763</u>	<u>97,610,441</u>
Total capital assets	<u>\$ 136,548,043</u>	<u>\$ 12,245,982</u>	<u>\$ (892,205)</u>	<u>\$</u>	<u>\$ 147,901,820</u>

Depreciation expense for the year amounted to \$6.0 million

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

Note 4 - Capital Assets (continued)

The Port is currently constructing an Intermodal Transit Center with 160 parking spaces on a Port owned lot at the corner of Strand and 25th street. The original completion date was 4th quarter 2013. Due to issues pertaining to the historical building on the lot next to the new construction there has been a delay in the completion. This construction has been completed after year-end in the 1st quarter 2016. The Transit Center is being funded through grants in conjunction with the City of Galveston. Acquisition cost of the lot was \$850 thousand with total Transit Center cost of construction not to exceed \$6.5 million.

Commitments relating to construction in progress as of December 31, 2015, are as follows:

	Total Commitment	Construction in Progress	Remaining Commitment
Galveston Transit Terminal- Construction	\$ 6,928,067	\$ 6,890,989	\$ 37,078
CT 2 Expansion	17,155,443	9,308,860	7,846,583
Vehicle processing and storage facilities	4,670,894	4,299,683	371,211
PSG2013/2014 EMW FEMA	2,648,740	1,569,688	1,079,052
Projects under \$200,000	470,297	384,122	86,175
Totals	\$ 31,873,441	\$ 22,453,342	\$ 9,420,099

Note 5 - Long Term Debt

During the year ended December 31, 2015, the following changes occurred in the Wharves' general long-term debt issues:

Issue	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015	Amount Due Within One Year
Revenue Bonds					
Series 2011 Refunding	\$ 23,160,000	\$	\$ (1,470,000)	\$ 21,690,000	\$ 1,530,000
Premium on Series 2011	566,023		(51,070)	514,953	
Contracts Payable					
Series 2013A&B	11,025,000		(2,645,000)	8,380,000	2,720,000
Premium on 2013 A&B	536,176		(173,895)	362,281	
Series 2004B	2,873,672			2,873,672	
Accreted interest on Capital Appreciation Bonds	2,136,564	260,509		2,397,073	
Capital Lease Payable					
Capital Lease	2,602,368		(257,656)	2,344,712	268,150
Notes Payable					
Series 2014	13,000,000			13,000,000	
Federal Community Disaster Loan	1,339,294		(159,214)	1,180,080	326,709
	<u>\$ 57,239,097</u>	<u>\$ 260,509</u>	<u>\$ (4,756,835)</u>	<u>\$ 52,742,771</u>	<u>\$ 4,844,859</u>

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

Note 5 - Long Term Debt (continued)

Long-term bonded debt at December 31, 2015, was composed of the following issues:

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

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

As of December 31, 2015, the annual debt service requirements for bonded debt until maturity are as follows:

Fiscal Year	Revenue Bonds		
	Principal	Interest	Total
2016	\$ 1,530,000	\$ 1,019,394	\$ 2,549,394
2017	1,600,000	948,794	2,548,794
2018	1,680,000	866,794	2,546,794
2019	1,765,000	780,669	2,545,669
2020	1,855,000	690,169	2,545,169
2021	1,950,000	595,044	2,545,044
2022	2,055,000	494,919	2,549,919
2023	2,150,000	395,169	2,545,169
2024	2,255,000	294,647	2,549,647
2025	2,365,000	183,375	2,548,375
2026	2,485,000	62,122	2,547,122
	<u>\$ 21,690,000</u>	<u>\$ 6,331,096</u>	<u>\$ 28,021,096</u>

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

Note 5 - Long Term Debt (continued)

Fiscal Year	Contracts Payable		
	Principal	Interest	Total
2016	\$ 2,720,000	\$ 245,400	\$ 2,965,400
2017	2,820,000	148,200	2,968,200
2018	2,840,000	45,900	2,885,900
2019	1,483,051	1,676,949	3,160,000
2020	1,390,621	1,769,379	3,160,000
	<u>\$ 11,253,672</u>	<u>\$ 3,885,828</u>	<u>\$ 15,139,500</u>

Revenue Bonds

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

Contracts Payable

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

On May 2, 2013 \$14,025,000 of the Combination Tax and Revenue Certificates of Obligation (CO's) Series 2004A and Series 2004B were refunded through the issuance of \$13,600,000 of the City of Galveston issued Combination Tax and Revenue Certificates of Obligation (CO's) Series 2013. The refunded bonds were called on May 6, 2013.

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

Note 5 - Long Term Debt (continued)

Notes Payable

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

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

Fiscal Year	Notes Payable		
	Principal	Interest	Total
2016	\$ 326,709	\$ 603,659	\$ 930,368
2017	334,979	595,389	930,368
2018	343,433	586,936	930,369
2019	174,959	578,825	753,784
2020	1,773,750	577,200	2,350,950
2021	2,012,916	498,446	2,511,362
2022	2,102,500	409,072	2,511,572
2023	2,201,667	315,721	2,517,388
2024	2,301,667	217,967	2,519,634
2025	2,406,250	115,773	2,522,023
2026	201,250	8,936	210,186
	<u>\$ 14,180,080</u>	<u>\$ 4,507,924</u>	<u>\$ 18,688,004</u>

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

Note 5 - Long Term Debt (continued)

Capital Lease Payable

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

Fiscal Year	Future Minimum Lease Payments
2016	\$ 357,060
2017	357,060
2018	1,809,389
	<u>2,523,509</u>
Less interest portion	<u>(178,797)</u>
Capital lease payable	<u><u>\$ 2,344,712</u></u>

Compensated Absences

Compensated absences liability activity for the year is as follows:

Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
<u>\$ 1,109,419</u>	<u>\$ 502,508</u>	<u>\$ (553,891)</u>	<u>\$ 1,058,036</u>

The amount due within one year is estimated to be \$317,400.

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

Note 6 - Lease Agreements

Direct Financing Lease - Dockside Elevator

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

Upon issuing Special Contract Refunding Revenue Bonds in the amount of \$8,500,000 on April 15, 1998, the Galveston Wharves entered into an amended lease agreement with its present lessee to amend the terms of the lease extending the initial lease period to May 1, 2015, (17 years), with options to extend the lease for four additional successive terms of three years each. On February 13, 2015 the Galveston Wharves entered into an amended lease agreement with its present lessee whereby lessee exercised all four extensions.

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

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2015:

	<u>2015</u>
Minimum lease rental payments receivable:	
Due within one year	\$ 489,106
Due after one year	<u>5,054,101</u>
	<u>5,543,207</u>
Unearned income, direct financing lease:	
Due within one year	289,960
Due after one year	<u>2,996,257</u>
	<u>3,286,217</u>
Net investment in direct financing lease	<u><u>\$ 2,256,990</u></u>

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

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

Note 6 - Lease Agreements (continued)

Advance Facility Rental

In 1977, the Galveston Wharves received approximately \$10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2015, the amount that applies to future periods was approximately \$3.3 million. This amount is presented as unearned revenues and rentals on the face of the financial statements.

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

Fiscal Year	Future Minimum Lease Payments
2016	\$ 489,106
2017	489,106
2018	489,106
2019	489,106
2020	489,106
Thereafter	3,097,677
Total	\$ 5,543,207

Railroad Facilities

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

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2015, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Fiscal Year	Future Lease Payments
2016	\$ 3,855,492
2017	3,961,324
Total	\$ 7,816,816

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 - Employee Retirement System (Pension Plan)

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

Normal Retirement

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

Death benefit

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

Late retirement

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

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

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

Early retirement

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

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

Termination

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

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	54
Inactive employees entitled to but not yet receiving benefits	60
Active participants transferred out	<u>11</u>
Active employees accruing benefits	<u>48</u>
	<u>173</u>

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

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

Contributions

The Wharves will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Wharves may decide. The Wharves reserves the right to reduce, suspend or discontinue contributions to the plan. Currently the Wharves is making monthly contributions such that payments equal to the prior year funding requirement is met. In the event that the funding requirement exceeds monthly contributions an additional contribution is normally scheduled to fund the annual required contribution. The Wharves made contributions for the 2014 and 2015 calendar years of \$540,004 and \$400,000 respectively.

Actuarial Assumptions

The annual contribution was determined through an actuarial valuation performed as of January 1, 2014. The actuarial assumptions used are as follows:

Actuarial Assumptions:

Valuation Date	December 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period in Years	30 - Closed
Asset Valuation Method	Market Value
Investment rate of return	7.5%
Projected Salary Increases	4.6%
Interest credit for cash balance	5.0%
Rate of inflation	3.5%
Ad-hoc Cost-of-living Increases	None
Mortality Rates	RP 2000 Combined Mortality Table, projected to 2015 with separate tables for males and females.
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 2011 to review the investment rate of return and the salary scale. There has not been a recent experience study to review the demographic assumptions.

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

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

Discount Rate

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

The long-term rate of return on the pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) and developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic fixed income equities securities	2.0%
Common Stock	7.8%
Domestic equities - large cap	7.8%
Domestic equities - mid cap	9.0%
Domestic equities - small cap	8.5%
International equities	8.0%
Natural resources	9.0%
Cash	0.0%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability	\$ 3,864,445	\$ 2,478,716	\$ 1,286,923

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

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

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2013	\$ 14,039,689	\$ 11,492,112	\$ 2,547,577
Changes for the year:			
Service Cost	183,481		183,481
Interest	1,040,307		1,040,307
Difference between expected and actual experience	(56,421)		(56,421)
Contributions - employer		540,004	(540,004)
Net Investment income		782,143	(782,143)
Benefit payments, including refunds, of employee contributions	(704,816)	(704,816)	
Administrative expense		(89,122)	89,122
Other changes		3,203	(3,203)
Net changes	462,551	531,412	(68,861)
Balance at 12/31/2014	<u>\$ 14,502,240</u>	<u>\$ 12,023,524</u>	<u>\$ 2,478,716</u>

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

For the year ended December 31, 2015, the Wharves recognized pension expense of \$457,031.

At December 31, 2015, the Wharves reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 37,614
Difference between projected and actual earnings	\$ 51,726	
Contributions subsequent to the measurement date	400,000	
Totals	<u>\$ 451,726</u>	<u>\$ 37,614</u>

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

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

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

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of December 31, 2014 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2015 (i.e. recognized in the Wharves' financial statements December 31, 2016). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2016	\$ (5,875)
2017	(5,875)
2018	12,932
2019	12,934
	<u>\$ 14,116</u>

Note 8 - Deferred Compensation Plans

Deferred Compensation Plan

The Galveston Wharves offers all full-time employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code (IRC 457). The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseen emergency. Government entities relying upon third parties to manage IRC 457 assets are not required to report such assets on their balance sheets.

Employees Retirement Accumulation Plan

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

The Galveston Wharves had no employees covered by a collective bargaining plan in the year 2015; therefore, all Wharves' employees participated in the plan.

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Deferred Compensation Plans (continued)

Employees Retirement Accumulation Plan (continued)

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

During the year ended December 31, 2015, employees contributed \$428,182 and the Wharves contributed \$308,980 to the plan.

Note 9 - Commitments, Contingencies, and Uncertainties

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

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

The Galveston Wharves' is subject to claims and lawsuits arising from the normal course of business. The Galveston Wharves' legal counsel routinely evaluates such claims and management may make provision for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2015 and 2014.

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

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

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 10 - Risk Management

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

The Galveston Wharves also provides for losses ranging for \$1 million to \$75 million by carrying excess/umbrella liability insurance coverage.

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

Arbitrage Compliance

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

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

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

The Wharves presently has unexpended debt proceeds from certain debt issues, but will not be subject to yield restrictions until December 2016 and therefore does not anticipate associated non-compliance issues.

Note 11 - Concentration of Credit Risk

Five customers generating operating revenues in excess of \$13 million annually comprise approximately 39 percent of total operating revenues for the year ended December 31, 2015. In the normal course of business, the Galveston Wharves extends unsecured credit to its customers.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 12 - Extraordinary Items

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

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

Total Property Insurance Received	\$ 55,000,000
Total Current TDEM/FEMA Project Worksheet Amounts	20,944,569
Estimated Future TDEM/FEMA Projects Amounts	22,867,709
FEMA Reimbursement to Date	(13,714,337)
Total Pending Current and Future FEMA Project Amounts	30,097,941

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

Note 13 - Combining Schedule for Galveston Wharves (POG) and Galveston Port Facilities Corporation (GPFC) for the year ended December 31, 2015

	POG	GPFC	Eliminations	Totals
Current assets	\$ 45,228,753	\$ 6,563,042	\$ (3,410,839)	48,380,956
Capital assets	137,968,214	9,933,606		147,901,820
Other non current assets	2,057,844			2,057,844
Total Assets	185,254,811	16,496,648	(3,410,839)	198,340,620
Deferred outflows of resources	451,726			451,726
Current liabilities	17,653,794	565,686	(3,410,839)	14,808,641
Long Term Liabilities	53,639,529			53,639,529
Total Liabilities	71,293,323	565,686	(3,410,839)	68,448,170
Deferred inflows of resources	133,961			133,961
Net Position				
Net investment in capital assets	105,379,248	9,933,606		115,312,854
Restricted	6,646,102			6,646,102
Unrestricted	2,253,903	5,997,356		8,251,259
Total Net Position	\$ 114,279,253	\$ 15,930,962	\$ -	\$ 130,210,215

	POG	GPFC	Eliminations	Totals
Operating Revenues				
Vessels and cargo services	\$ 7,910,257	\$ 12,707,924	\$ -	\$ 20,618,181
Building and facilities rental and fees	18,707,826	272,011	(6,582,375)	12,397,462
Total Operating Revenues	26,618,083	12,979,935	(6,582,375)	33,015,643
Operating Expenses				
Personnel services	7,979,281	912,693		8,891,974
Maintenance and operations	5,123,543	10,464,270	(6,582,375)	9,005,438
Sales and office	3,945,643	2,100,877		6,046,520
Annual city payment	188,076			188,076
Depreciation	5,312,232	693,016		6,005,248
Total Operating Expenses	22,548,775	14,170,856	(6,582,375)	30,137,256
Net Operating Income	4,069,308	(1,190,921)		2,878,387
Non-Operating Revenue (Expense)				
Earnings on investments	231,738	335		232,073
Interest expense	(2,275,468)			(2,275,468)
Gain (loss) on disposal of equipment	3,279			3,279
Total Non-Operating Revenues (Expenses)	(2,040,451)	335		(2,040,116)
Income Before Capital Grants and Contributions				
and Special Items	2,028,857	(1,190,586)		838,271
Capital Grants and Contributions	4,893,290			4,893,290
Extraordinary items	(569,808)			(569,808)
Changes in Net Position	6,352,339	(1,190,586)		5,161,753
Beginning Net Position	107,926,914	17,121,548		127,056,035
Change in Accounting Principle	(2,007,573)			(2,007,573)
Ending Net Position	\$ 114,279,253	\$ 15,930,962	\$ -	\$ 130,210,215

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 14 Prior Period Adjustment

Implementation of New Accounting Standards

The Wharves has implemented the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending December 31, 2015. As a result the beginning net position of the Wharves' governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

Summary

The following is a summary of the prior period adjustment to net position:

Beginning Net Position - as originally presented	\$ 127,056,035
Net Pension Liability - at beginning measurement date (12/31/2013)	(2,547,577)
Deferred Outflows of Resources - pension contributions for the 2014 calendar year	<u>540,004</u>
Beginning Net Position - as restated	<u><u>\$ 125,048,462</u></u>

Required Supplemental Information



CARNIVAL MAGIC WITH BULK CARRIER SEA CHINA LOADING GRAIN IN BACKGROUND

Port of Galveston
Galveston, Texas
2015 CAFR

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

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Measurement Year Ended December 31, 2014

	2014
Total pension liability	
Service Cost	\$ 183,481
Interest	1,040,307
Change in benefit terms	-
Difference between expected and actual experience	(56,421)
Benefit payments, including refunds, of employee contributions	(704,816)
Net change in total pension liability	462,551
Total pension liability - beginning	14,039,689
Total pension liability - ending	\$ 14,502,240
Plan Fiduciary Net Position	
Changes in assumptions	\$ -
Contributions - employer	540,004
Contributions - employee	-
Net Investment income	782,143
Benefit payments, including refunds, of employee contributions	(704,816)
Administrative expense	(89,122)
Other changes	3,203
Net change in plan fiduciary net position	531,412
Plan fiduciary net position - beginning	11,492,112
Plan fiduciary net position - ending	\$ 12,023,524
Wharves' net pension liability - ending	\$ 2,478,716
Fiduciary net position as a percentage of the total pension liability	83%
Covered-employee payroll (measurement year 2014)	\$ 3,484,519
Wharves' net pension liability as a percentage of covered employee payroll	71%

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

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

SCHEDULE OF WHARVES' CONTRIBUTIONS

Last 10 fiscal years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 377,727	\$ 398,283	\$ 540,004	\$ 669,776	\$ 593,171
Contributions in relation to the actuarially determined contribution	<u>400,000</u>	<u>540,004</u>	<u>540,004</u>	<u>669,776</u>	<u>593,171</u>
Contribution deficiency (excess)	<u>\$ (22,273)</u>	<u>\$ (141,721)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	3,289,226	3,484,519	6,327,781	3,921,729	3,889,073
Contributions as a percentage of covered-employee payroll	12.16%	15.50%	8.53%	17.08%	15.25%
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006*</u>
Actuarially determined contribution	\$ 595,057	\$ 541,408	\$ 319,782	\$ 274,395	\$ 329,428
Contributions in relation to the actuarially determined contribution	<u>595,057</u>	<u>541,408</u>	<u>319,782</u>	<u>274,395</u>	<u>1,600,000</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,270,572)</u>
Covered-employee payroll	3,990,184	4,146,487	4,096,280	3,963,526	3,575,578
Contributions as a percentage of covered-employee payroll	14.91%	13.06%	7.81%	6.92%	44.75%

*Additional contribution was made to improve the funding status of the plan.

Actuarial Assumptions:

Valuation Date	December 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period in Years	30 - Closed
Asset Valuation Method	Market Value
Investment rate of return	7.5%
Projected Salary Increases	4.6%
Interest credit for cash balance	5.0%
Rate of inflation	3.5%

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



CASTERONE 2 PIPE LAYING SHIP ARRIVING

Statistical Section



GAMESA WIND TOWERS LEAVING THE PORT VIA RAIL

Port of Galveston
Galveston, Texas
2015 CAFR

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



AERIAL VIEW OF WEST END OF PORT – OFFSHORE WORK

Statistical Section Categories

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

CONDENSED STATEMENT OF NET POSITION

Last Ten Fiscal Years

Description	2015	2014	2013	2012
Assets				
Unrestricted Current Assets	\$ 20,584,656	\$ 21,289,662	\$ 23,855,430	\$ 26,711,814
Restricted Current Assets	27,796,300	34,491,857	21,643,798	22,538,833
Properties and Facilities, Net	147,901,820	136,548,043	137,638,530	127,239,959
Other Assets	2,057,844	2,256,990	2,456,136	2,655,282
Total Assets	198,340,620	194,586,552	185,593,894	179,145,888
Deferred outflow of resources	451,726	540,004	-	-
Liabilities				
Current Liabilities (payable from non-restricted assets)	10,558,641	7,900,565	5,109,981	5,836,253
Current Liabilities (payable from restricted assets)	4,250,000	4,115,000	5,324,294	3,780,000
Long Term Debt (net of current portion)	48,638,548	52,707,229	43,566,405	51,255,689
Unearned revenues	2,522,265	2,665,129	2,844,814	3,149,585
Net Pension Liability	2,478,716	2,547,577		
Total Liabilities	68,448,170	69,935,500	56,845,494	64,021,527
Deferred inflows of resources	133,961	142,594	188,841	
Net Position				
Net investment in capital assets	115,312,854	106,323,197	103,644,735	87,905,458
Restricted	6,646,097	6,360,062	6,202,683	5,964,618
Unrestricted	8,251,264	12,365,203	18,712,141	21,254,285
Total Net Position	\$ 130,210,215	\$ 125,048,462	\$ 128,559,559	\$ 115,124,361

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

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

2011	2010	2009	2008	2007	2006
\$ 15,432,593	\$ 25,064,376	\$ 21,687,683	\$ 41,213,126	\$ 21,127,290	\$ 19,050,905
22,812,482	33,752,774	32,014,012	37,456,831	22,995,060	24,925,698
118,050,502	101,418,433	100,546,191	92,136,296	84,020,395	78,079,114
2,904,883	11,607,319	11,809,757	12,012,194		
159,200,460	171,842,902	166,057,643	182,818,447	128,142,745	122,055,717
-	-	-	-	-	-
8,789,144	8,636,926	7,275,344	25,723,976	7,548,543	5,848,586
1,355,000	2,815,000	2,685,000	3,210,000	1,975,000	3,905,000
52,359,120	64,215,178	69,185,320	71,099,866	46,827,755	47,259,466
4,842,624	5,648,989	6,583,319	3,890,466	4,128,701	4,392,077
67,345,888	81,316,093	85,728,983	103,924,308	60,479,999	61,405,129
85,136,679	70,222,488	64,734,657	56,794,515	48,425,005	43,442,019
2,324,964	6,387,145	4,900,092	7,655,947	5,032,631	4,093,602
4,392,929	13,917,176	10,693,911	14,443,677	14,205,110	13,114,967
\$ 91,854,572	\$ 90,526,809	\$ 80,328,660	\$ 78,894,139	\$ 67,662,746	\$ 60,650,588

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CHANGES IN NET POSITION

Last Ten Fiscal Years

Description	2015	2014	2013	2012
Operating Revenues:	\$ 33,015,643	\$ 27,711,092	\$ 24,767,493	\$ 24,482,964
Operating Expenses:				
Personnel Services	8,891,974	8,858,156	8,845,314	8,819,701
Maintenance and Operations	9,005,438	8,911,837	7,105,943	6,990,167
Office & Sales Expense	6,046,520	3,804,123	2,428,240	2,333,548
Annual City Payment	188,076	187,302	187,302	187,302
Depreciation	6,005,248	5,837,831	5,640,607	4,999,706
Total Operating Expenses	<u>30,137,256</u>	<u>27,599,249</u>	<u>24,207,406</u>	<u>23,330,424</u>
Net operating Income (Loss)	2,878,387	111,843	560,087	1,152,540
Non-Operating Revenue (Expenses):				
Direct Financing Lease				
Earnings on Investments	232,073	225,801	201,126	122,618
Income from Capital Lease				
Interest Expense	(2,275,468)	(1,970,803)	(2,115,837)	(2,500,263)
Bond issuance costs				
Other Debt Expense		(170,521)	(225,146)	
Net Gain/(Loss) on Disposal of Equipment	3,279		1,840	
Legal Settlement				
Operating Grants				
Loss on Termination of Capital Lease				
Total Non-Operating Revenues (Expenses)	<u>(2,040,116)</u>	<u>(1,915,523)</u>	<u>(2,138,017)</u>	<u>(2,377,645)</u>
Income (Expense) Before Contributions and Special Items	<u>838,271</u>	<u>(1,803,680)</u>	<u>(1,577,930)</u>	<u>(1,225,105)</u>
Capital Grants and Contributions	4,893,290	2,263,814	15,958,039	11,154,694
Extra-Ordinary Items due to Hurricane Ike (Net)	<u>(569,808)</u>	<u>(1,963,657)</u>	<u>(944,908)</u>	<u>13,340,200</u>
Changes in Net Position	<u>\$ 5,161,753</u>	<u>\$ (1,503,523)</u>	<u>\$ 13,435,201</u>	<u>\$ 23,269,789</u>

Effective January 1, 2015 the Wharves implemented GASB 68 and 71. Prior period have not been restated as information for pension expenses has not been calculated.

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

2011	2010	2009	2008	2007	2006
\$ 24,843,317	\$ 24,678,500	\$ 20,870,753	\$ 22,489,156	\$ 22,098,700	\$ 21,958,844
8,281,209	7,657,539	6,945,120	6,664,020	6,268,721	7,365,179
7,329,099	7,101,626	6,440,171	5,564,899	4,475,158	4,363,186
2,869,070	2,595,201	3,195,543	2,774,130	2,447,375	2,324,611
182,000	182,000	182,000	182,000	182,000	182,000
4,112,167	4,212,567	3,942,434	3,500,057	3,302,772	3,184,469
<u>22,773,545</u>	<u>21,748,933</u>	<u>20,705,268</u>	<u>18,685,106</u>	<u>16,676,026</u>	<u>17,419,445</u>
2,069,772	2,929,567	165,485	3,804,050	5,422,674	4,539,399
428,542	467,500	467,500	467,500	512,500	647,500
81,193	375,976	344,028	982,330	1,251,475	922,903
(2,991,863)	(3,157,474)	(3,304,340)	(3,081,362)	(2,517,326)	110,956
(432,241)			(747,438)		(2,595,286)
(24,366)	(40)	(67,706)		2,340	
					7,059,030
1,962,345	3,421,521	540,163	5,909,385		(1,999,321)
<u>(976,390)</u>	<u>1,107,483</u>	<u>(2,020,355)</u>	<u>3,530,415</u>	<u>(751,011)</u>	<u>4,145,782</u>
<u>1,093,382</u>	<u>4,037,050</u>	<u>(1,854,870)</u>	<u>7,334,465</u>	<u>4,671,663</u>	<u>8,685,181</u>
<u>716,170</u>		<u>6,092</u>	<u>123,938</u>	<u>2,340,495</u>	<u>1,546,881</u>
<u>(481,789)</u>	<u>6,161,099</u>	<u>3,283,299</u>	<u>3,772,990</u>		
<u>\$ 1,327,763</u>	<u>\$ 10,198,149</u>	<u>\$ 1,434,521</u>	<u>\$ 11,231,393</u>	<u>\$ 7,012,158</u>	<u>\$ 10,232,062</u>

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

Description	2015	2014	2013	2012
Switching	\$ 1,067,920	\$ 763,624	\$ 496,996	\$ 629,707
Wharfage	2,577,208	2,659,003	2,304,942	2,927,094
Passenger Charge	8,647,317	6,157,648	5,271,205	4,854,694
Parking Fees	6,312,896	4,851,414	4,117,693	4,203,115
Dockage	6,479,532	5,683,806	5,345,099	4,715,107
Equipment Rental				
Ship Service Revenues	3,195,913	3,449,474	2,892,874	2,471,125
Shed Hire				4,216
Revenue Producing Svcs.	120,388	114,505	119,137	124,191
Rentals	3,051,766	3,049,244	3,446,461	3,718,048
Security Cost Recovery	1,539,611	960,516	722,253	636,404
Miscellaneous	23,092	21,858	50,833	199,263
Total Operating Revenues	\$ 33,015,643	\$ 27,711,092	\$ 24,767,493	\$ 24,482,964

2011	2010	2009	2008	2007	2006
\$ 968,353	\$ 1,089,685	\$ 878,609	\$ 998,713	\$ 1,093,779	\$ 1,155,976
2,113,569	1,873,470	1,583,092	1,615,490	1,263,005	1,097,040
3,760,158	3,438,848	3,032,155	2,348,848	3,143,038	3,755,383
3,307,542	3,208,581	3,132,854	2,910,778	3,736,096	4,373,018
6,580,882	7,084,880	5,451,920	5,926,759	5,654,473	5,701,825
					3,600
2,064,344	1,703,452	1,474,313	1,646,860	173,475	
		38,756	33,433		
146,204	467,740	349,995	371,812	498,900	529,122
5,098,394	4,703,380	4,365,053	5,799,238	5,777,558	4,325,814
764,705	711,322	550,516	584,578	652,800	688,434
39,166	397,142	13,490	252,647	105,576	328,632
<u>\$ 24,843,317</u>	<u>\$ 24,678,500</u>	<u>\$ 20,870,753</u>	<u>\$ 22,489,156</u>	<u>\$ 22,098,700</u>	<u>\$ 21,958,844</u>

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

2015			
Rank	Customer Name	Amount	Percent of Total Operating Revenues
1.	Carnival Cruise Lines	\$ 7,343,314	22%
2.	Royal Caribbean, Int'l.	4,959,418	15%
3.	ADM Grain Co.	2,219,254	7%
4.	Galveston Railroad	1,371,311	4%
5.	Del Monte Fresh Fruit	1,300,454	4%
6.	Wallenius Wilhelmsen	964,918	3%
7.	Gulf Copper	958,238	3%
8.	Agrilliance/CHS	784,729	2%
9.	Malin Int'l.	720,769	2%
10.	Norton Lilly Int'l.	650,181	2%
Total Ten Largest Customers		21,272,586	64%
Others		11,743,057	36%
Total Operating Revenues		<u><u>\$ 33,015,643</u></u>	<u><u>100%</u></u>

Source: Port of Galveston Records

2006

Customer Name	Amount	Percent of Total Operating Revenues
Carnival Cruise Lines	2,666,125	12%
Gulf Copper	2,436,842	11%
Royal Caribbean, Int'l.	2,074,369	9%
ADM Grain Co.	1,712,837	8%
Galveston Railroad, L.P.	1,421,659	6%
Wallenius Wilhelmsen	659,569	3%
Port of Houston Authority	584,884	3%
Biehl & Company	562,356	3%
Del Monte Fresh Fruit Co.	449,502	2%
Global Steamsip Agencies	343,722	2%
Total Ten Largest Customers	12,911,865	59%
Others	9,046,979	41%
Total Operating Revenues	\$ 21,958,844	100%

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

Fiscal Year	Special Obligation Bonds	Revenue Bonds	Contracts Payable	Notes Payable
2006	10,500,000	12,935,000	19,323,672	7,474,258
2007	8,500,000	11,030,000	19,323,672	9,306,941
2008	8,500,000	36,735,000	19,323,672	8,515,073
2009	8,500,000	34,170,000	19,323,672	8,565,751
2010	8,500,000	31,485,000	19,323,672	8,831,619
2011	0	25,925,000	20,753,455	6,626,054
2012	0	25,925,000	18,552,189	3,739,399
2013	0	25,187,093	19,072,664	1,339,294
2014	0	23,726,023	16,571,412	14,339,294
2015	0	22,204,953	14,013,026	14,180,080

Capital Leases	Total	Percentage of Personal Income	Dollars Per Capita
1,723,683	51,956,613	5%	2,924
1,614,446	49,775,059	5%	2,801
1,498,772	74,572,517	7%	4,197
1,376,280	71,935,703	8%	4,048
1,246,569	69,386,860	7%	3,905
3,316,379	56,620,888	5%	2,401
3,087,814	51,304,402	4%	2,176
2,849,937	48,448,988	4%	1,952
2,602,368	57,239,097	4%	2,167
2,344,712	52,742,771	4%	2,016

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PLEDGED NET REVENUE COVERAGE

Last Ten Fiscal Years

Description	2015	2014	2013	2012
Operating Revenues:	\$ 33,015,643	\$ 27,711,092 *	\$ 24,767,493 *	\$ 24,482,964
Operating Expenses	<u>30,137,256</u>	<u>27,599,249</u>	<u>24,207,406</u>	<u>23,330,424</u>
Net Operating Income (Loss)	2,878,387	111,843	560,087	1,152,540
Add:				
Income from Capital Lease				
Miscellaneous Income				
Interest Income	232,073	225,801	201,126	122,618
Depreciation	<u>6,005,248</u>	<u>5,837,831</u>	<u>5,640,607</u>	<u>4,999,706</u>
Total Net Revenues	<u><u>\$ 9,115,708</u></u>	<u><u>\$ 6,175,475</u></u>	<u><u>\$ 6,401,820</u></u>	<u><u>\$ 6,274,864</u></u>
Annual Debt Service	<u>\$ 6,450,236</u>	<u>\$ 5,513,294</u>	<u>\$ 5,693,844</u>	<u>\$ 2,521,208</u>
Debt Service Coverage	<u>1.41</u>	<u>1.12</u>	<u>1.12</u>	<u>2.49</u>

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

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 24,843,317	\$ 24,678,500	\$ 20,870,753	\$ 22,489,156	\$ 22,098,700	\$ 21,958,844
<u>22,773,545</u>	<u>21,748,933</u>	<u>20,705,268</u>	<u>18,685,106</u>	<u>16,676,026</u>	<u>17,419,445</u>
2,069,772	2,929,567	165,485	3,804,050	5,422,674	4,539,399
					110,956
81,193	375,976	344,028	982,330	1,251,475	922,903
<u>4,112,167</u>	<u>4,212,567</u>	<u>3,942,435</u>	<u>3,500,056</u>	<u>3,302,772</u>	<u>3,184,470</u>
<u>\$ 6,263,132</u>	<u>\$ 7,518,110</u>	<u>\$ 4,451,948</u>	<u>\$ 8,286,436</u>	<u>\$ 9,976,921</u>	<u>\$ 8,757,728</u>
<u>\$ 4,695,925</u>	<u>\$ 4,682,086</u>	<u>\$ 4,696,288</u>	<u>\$ 3,207,889</u>	<u>\$ 3,210,340</u>	<u>\$ 3,213,331</u>
<u>1.33</u>	<u>1.61</u>	<u>0.95</u>	<u>2.58</u>	<u>3.11</u>	<u>2.73</u>

**

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
DEBT SERVICE SCHEDULE

Year Ending Dec. 31	Revenue Bonds, Series 2011	Certificate of Obligations	Notes Payable	Total Principal And Interest Requirements
2016	2,549,394	2,965,400	930,368	6,445,162
2017	2,548,794	2,968,200	930,368	6,447,362
2018	2,546,794	2,885,900	930,369	6,363,063
2019	2,545,669	3,160,000	753,784	6,459,453
2020	2,545,169	3,160,000	2,350,950	8,056,119
2021	2,545,044		251,136	5,056,406
2022	2,549,919		2,511,572	5,061,491
2023	2,545,169		2,517,388	5,062,557
2024	2,549,647		2,519,634	5,069,281
2025	2,548,375		2,522,023	5,070,398
2026	2,547,125		210,186	2,757,311
	<u>\$ 28,021,097</u>	<u>\$ 15,139,500</u>	<u>\$ 18,688,004</u>	<u>\$ 61,848,601</u>

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

Fiscal Year	Population (1)	Per Capita Personal Income (1)	Personal Income (in \$000's) (1)	Median Age (1)	Education Level in Years of Formal Schooling (1)	School Enrollment (2)	Unemployment Rate (3)
2006	57,247	17,769	1,017,222	35.5	12	9,200	5.5%
2007	58,329	17,769	1,036,448	35.5	12	8,400	4.9%
2008	59,186	17,769	1,051,676	35.5	12	6,876	5.6%
2009	50,308	17,769	893,923	35.5	12	6,047	7.7%
2010	56,391	17,769	1,002,012	38.8	12	6,400	8.4%
2011	47,743	23,581	1,125,828	38.8	12	6,400	8.9%
2012	48,444	23,581	1,142,358	38.8	12	6,450	7.6%
2013	47,762	24,822	1,185,548	38.8	12	6,450	7.7%
2014	48,733	26,410	1,287,038	38.8	12	6,800	5.6%
2015	49,608	26,164	1,297,944	37.3	12	6,813	6.3%

SOURCE: (1) U.S. Census Bureau (2014)
(2) Galveston Independent School District
(3) Texas Workforce Commission (Data for Galveston County)
(4) City of Galveston

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES**PRINCIPAL EMPLOYERS IN THE CITY OF GALVESTON***Current Year and Nine Years Ago*

Employer	2015		
	Employees	Rank	Percent of total employment
University of Texas Medical Branch	9,000	1	39.38%
Galveston Independent School District	1,361	2	5.96%
Landry's Restaurants	1,300	3	5.69%
American National Insurance Company	1,600	4	7.00%
Moody Gardens	922	5	4.03%
City of Galveston	700	6	3.06%
Fertitta Hospitality	566	7	2.48%
Galveston College	543	8	2.38%
County of Galveston (Island only)	460	9	2.01%
Texas A & M University at Galveston	397	10	1.74%
U.S. Army Corps of Engineers	390	11	1.71%
Total	17,239		75.43%

Source: Galveston Economic Development Partnership and Texas Workforce Commission.

2006

Employees	Rank	Percent of total employment
12,318	1	46.66%
1,286	3	4.87%
1,245	4	4.72%
1,509	2	5.72%
1,077	5	4.08%
845	7	3.20%
687	8	2.60%
543	9	2.06%
901	6	3.41%
400	10	1.52%
390	11	1.48%
<hr/> 21,201 <hr/>		<hr/> 80.31% <hr/>

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



CARNIVAL FREEDOM AND TALL SHIP ELISSA

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

Year	Average No. Employees (Maintenance)	Average No. Employees (Security)	Average No. Employees (Administration)	Total Average Number of Employees (b)	Gross Wages Paid (a)
2006	20	35	27	82	3,783,660
2007	20	35	29	84	4,036,240
2008	21	40	28	89	4,384,761
2009	21	39	28	88	4,432,599
2010	22	43	29	94	4,742,606
2011	21	45	32	98	5,027,568
2012	21	45	32	98	5,238,227
2013	18	44	33	95	5,213,368
2014	18	42	33	93	5,266,610
2015	19	43	34	96	5,683,543

(a) Includes straight time and overtime.

(b) Based on quarterly workers compensation reports.

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

Description	2015	2014	2013	2012
Bulk Grain	3,073,498	1,553,860	914,099	1,088,386
Bulk Fertilizer	620,731	721,562	542,121	700,104
Bulk Liquid	904,659	1,666,465	2,127,632	2,080,702
Bulk Cement				
Other Bulk Cargoes				10,818
Bananas & Other Fruit	520,697	468,796	451,711	379,174
Other General & Ro RoCargo	483,722	495,067	429,382	548,476
Livestock	-	-	11,897	20,178
Total Tons Handled	5,603,307	4,905,750	4,476,842	4,827,838
Inward	5,296,181	3,103,258	3,314,967	3,404,705
Outward	307,126	1,838,238	1,149,342	1,381,871
Total Inward & Outward	5,603,307	4,941,496	4,464,309	4,786,576
Number of Vessels (Includes ships & barges)	810	846	912	803

2011	2010	2009	2008	2007	2006
3,592,228	4,361,157	3,037,793	3,696,415	4,131,026	4,425,479
413,890	376,278	370,384	335,687	461,457	319,488
2,509,852	2,753,381	1,820,621	1,213,185	1,017,712	815,584
				54,271	68,436
20,362				3,714	
402,734	382,038	353,240	353,098	340,513	354,506
439,734	369,891	345,362	399,553	264,295	276,004
5,043					
<u>7,383,843</u>	<u>8,242,745</u>	<u>5,927,400</u>	<u>5,997,938</u>	<u>6,272,988</u>	<u>6,259,497</u>
3,485,019	3,610,312	2,628,434	2,088,040	1,974,296	1,734,998
<u>3,865,324</u>	<u>4,609,348</u>	<u>3,221,343</u>	<u>3,823,842</u>	<u>4,217,134</u>	<u>4,482,670</u>
<u>7,350,343</u>	<u>8,219,660</u>	<u>5,849,777</u>	<u>5,911,882</u>	<u>6,191,430</u>	<u>6,217,668</u>
774	1,078	944	1,064	1,091	1,094

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CRUISE TRAFFIC

Last Ten Fiscal Years

Year	Cruise Ship Calls	Cruise Passengers	Vehicles Parked
2006	253	616,939	78,905
2007	207	523,303	68,230
2008	133	376,815	53,162
2009	139	394,640	56,786
2010	152	434,524	58,378
2011	152	459,448	59,466
2012	174	604,272	77,624
2013	179	604,994	73,395
2014	181	641,650	87,422
2015	232	834,616	112,363

Source: Port of Galveston Records

BOARD OF TRUSTEES OF THE GALVESTON WHARVES
OPERATING FACILITIES
December 31, 2015

East End Ro-Ro Cargo Terminal at Pier 9-15 (Pier 10 Terminal)	Services major Roll-On Roll-off (RO-RO) cargo shipping ocean lines. 41.89 Acres-Expanding additional 4.4 Acres in 2016. Major Ro-Ro Hub Port on Gulf Coast. Vehicle Processing Center (VPC) for BMW.
Refrigerated Warehouse Terminal at Pier 16-18	Services importation of refrigerated bananas and other fruit and produce. Quick access to Interstate Hwy 45. Phase I and Phase II expansion projects completed in 2009. Phase III expansion project was completed in 2011. Phase IV, and V expansion projects completed 2012 Pier 18 expansion (40 feet wide by 600 feet long) completed 2012 Pier 16 expansion (40 feet wide by 600 feet long) completed 2013 Uplands expansion (2 acres) in 2015.
Pier 21 Harborside Development	Retail/wholesale waterfront commercial development of outlets for the sale and provision of goods and services to the public, hotels, motels, residential rental units, offices, museums, and a small boat basin for the docking of pleasure craft and recreational vessels, together with related offices, parking facilities and other facilities incidental or appurtenant to these operations.
Texas Cruise Ship Terminals On Galveston Island®	Home port to Carnival Cruise Line and Royal Caribbean International Lines. Seasonal Home Port to Disney Cruise Lines. Highest cruise passenger volume on the Gulf Coast. Fourth largest (by volume) cruise port in the United States. More than adequate parking for all cruises. Ability to take on additional cruises. Expansion of Cruise Terminal No.1 to accommodate higher volume cruise vessels completed in October 2011. Expansion of Cruise Terminal No. 2 to accommodate larger cruise vessels to be completed by May 2016.
Export Grain Elevator at Pier 30-32	Operated by ADM Grain Company. Handles grain exports from U.S. Mid-West and Southwest regions-served by BNSF and UP railroads. Current plans call for expanding the type of commodities handled. Storage capacity, 3,000,000 bushels. Facility rail expansion completed in 2012 to allow handling of three unit trains.
Pier 34 Project and General Cargo Terminal	General cargo unloading facility with substantial adjacent open storage area. Current primary use unloading, loading, and trans-shipping structural members and components for wind-powered electric generating windmills. Construction of specialized rail ladder track for the loading and storage of rail cars with energy cargo completed March 2012.
Pier 35 Bulk Cargo Terminal-Fertilizer	Operated by CHS, Inc. a major importer of urea fertilizer. Facility has storage capacity of 80,000 tons. Served by BNSF and UP Railroads. Facility rail track expansion completed in 2012.
West End Roll-On/Roll-Off and General Cargo Piers 37-40	Services four major roll-on/roll-off cargo ocean shipping lines. Miscellaneous breakbulk, explosives, and other roll-on/roll-off cargo for other ocean cargo carriers. Piers also used for vessel repairs.
Vessel Repair Facility at Pier 41	Dockside repairs on research and other vessels primarily related to the offshore oil industry, including drilling ships. Operated by port tenant. Significant local employer.
The Old Navy Dock on adjacent Pelican Island	Tenant offers a full range of maritime services and emergency pollution response solutions for worldwide deployment.
Shipyard Operation on adjacent Pelican Island	Property is 107 acre plus dock, pier and dry-dock facility operated by a major Port tenant. Facility repairs oil rigs, ships, barges, and research vessels. Major local employer. Major source of rental income to Port.
Pelican Island Storage Terminal	Liquid bulk terminal operated by Port tenant moving carbon black and heavy fuels. Tank storage capacity expanded 100% completed in 2012. Further expansion with guarantee of 40ft. water depth for larger vessels.

2015 COMPREHENSIVE ANNUAL FINANCIAL REPORT



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