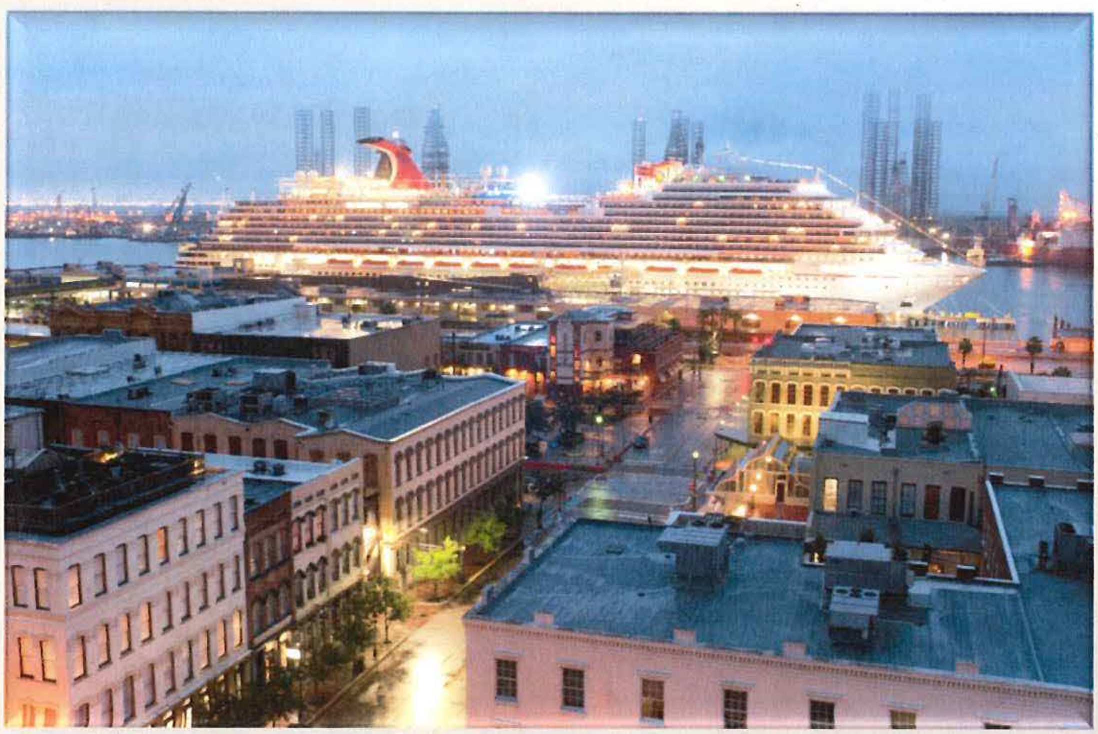
2018
COMPREHENSIVE ANNUAL FINANCIAL REPORT



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, 2018

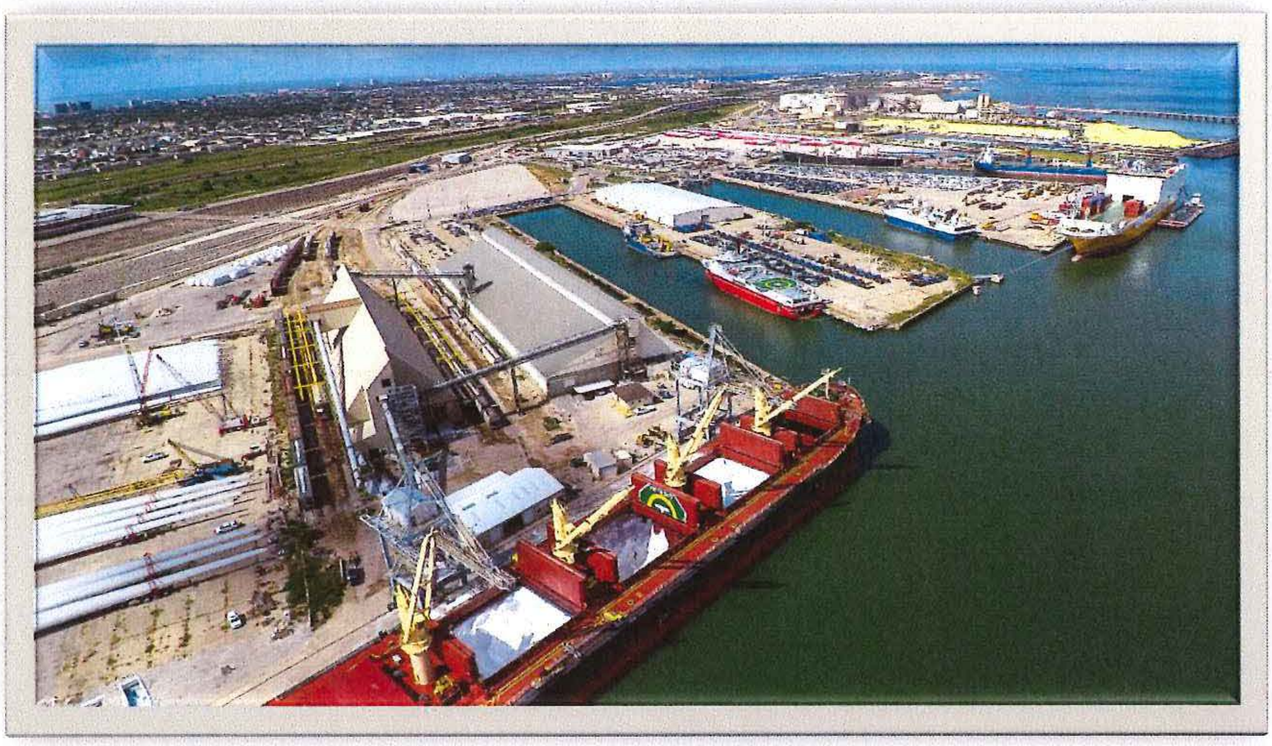
PORT OF GALVESTON

Galveston, TX

GALVESTON WHARVES

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT



Year Ending December 31, 2018

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

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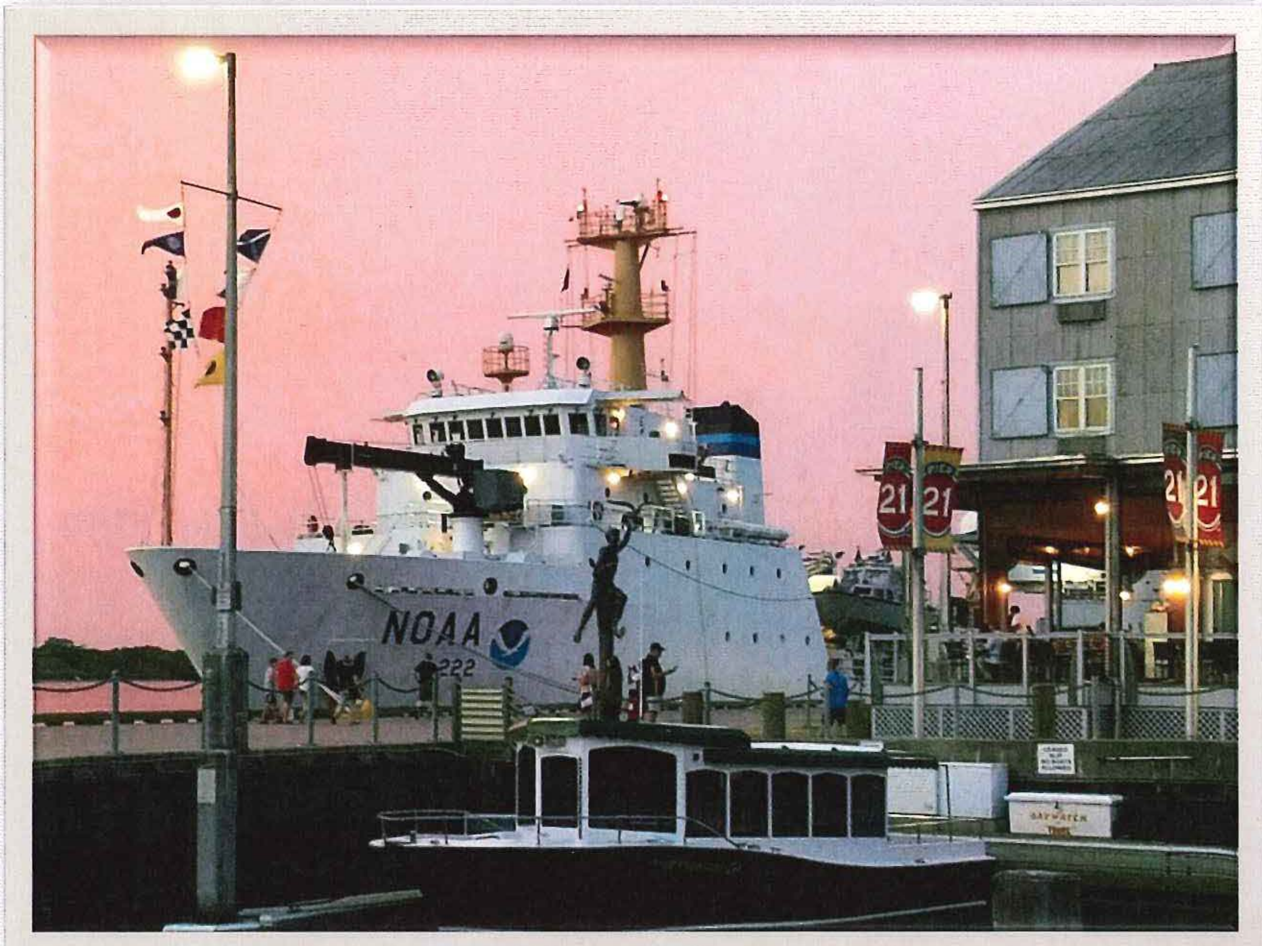

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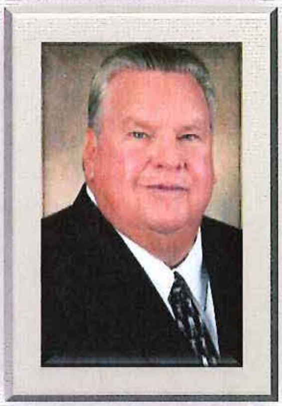
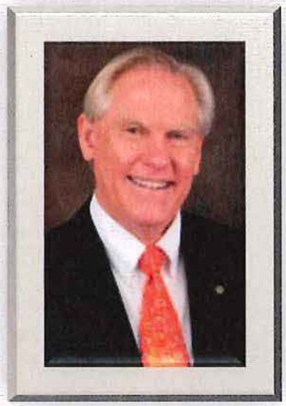
Directory of Officals

E.L. "TED" O'ROURKE
CHAIRMAN

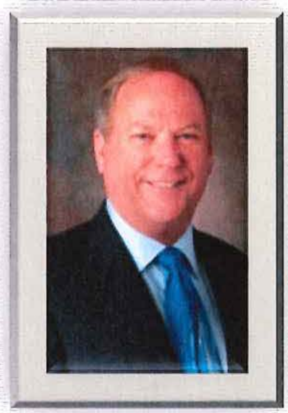


ALBERT P. SHANNON
VICE CHAIRMAN



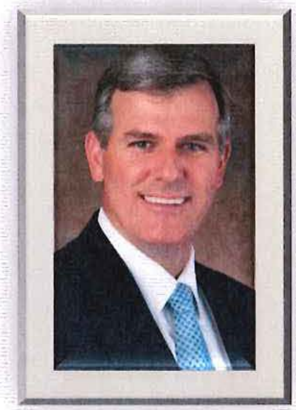
ELIZABETH BEETON
TRUSTEE

RICHARD DEVRIES
TRUSTEE



JAMES D. YARBROUGH
TRUSTEE

TODD P. SULLIVAN
TRUSTEE



HARRY D. MAXWELL, JR
TRUSTEE

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Directory of Officials

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OFFICERS AND EXECUTIVE STAFF

Rodger Rees, Port Director / CEO

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

Mark R. Murchison, Chief Financial Officer

Brett Milutin, Director of Port Operations

Laura Camcioglu, Director of Administration

Kenneth Campbell, Director of Public Safety

William Dell, Cruise Terminal Manager

Cristina Galego, Public Relations Manager

GENERAL COUNSEL

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

BOND COUNSEL

Bracewell & Giuliani, L.L.P.

AUDITORS

RSM US LLP

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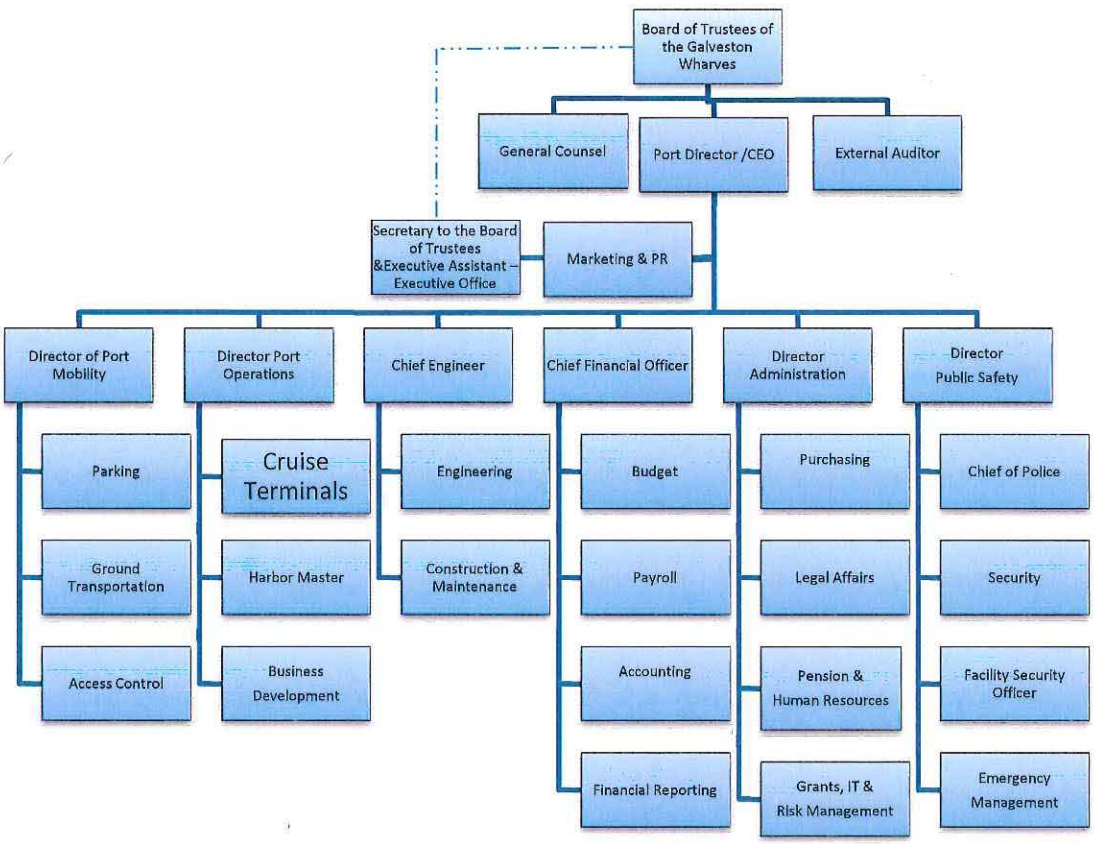
Organization Chart



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Port Contact Information

Port of Galveston

123 Rosenberg Street, 8th Floor

Galveston, TX 77550

Tel 409-765-9321

Fax 409-766-6109

www.portofgalveston.com

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

123 Rosenberg Avenue 8th Floor, Galveston, Texas 77550

Letter of Transmittal

June 25, 2019
Board of Trustees of the Galveston Wharves
Galveston, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Board of Trustees of the Galveston Wharves for the year ended December 31, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Port of Galveston. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Port of Galveston. All disclosures necessary to enable the reader to gain an understanding of the Port of Galveston's financial activities have been included.

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

Independent Auditors selected by the Board of Trustees have audited the financial statements for the year ended December 31, 2018. 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 Uniform Guidance. A copy of the Independent Auditor's reports related specifically to the Single Audit Act may be obtained by contacting the CFO, 123 Rosenberg Avenue, 8th Floor, Galveston, TX 77550. An electronic copy of this report will be posted to the Port's website at www.portofgalveston.com within 15 days of acceptance of the report by the Board of Trustees of the Galveston Wharves.

A copy of the Independent Auditor's reports may be obtained by contacting the CFO, 123 Rosenberg Avenue, 8th Floor, Galveston TX 77550. An electronic copy of this report will be posted to the Port's website at www.portofgalveston.com within 15 days of acceptance of the report by the Board of Trustees of the Galveston Wharves.

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

Profile of the Government

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

The Galveston City Council created the Galveston Port Facilities Corporation (GPFC) in 2002 for use as a financing vehicle for expansion and renovation of Port facilities. A detailed explanation of the GPFC is given in Note 1 to the 2018 Financial Statements which are included in the Financial Section of the CAFR.

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

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

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

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

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

Budgetary Process

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

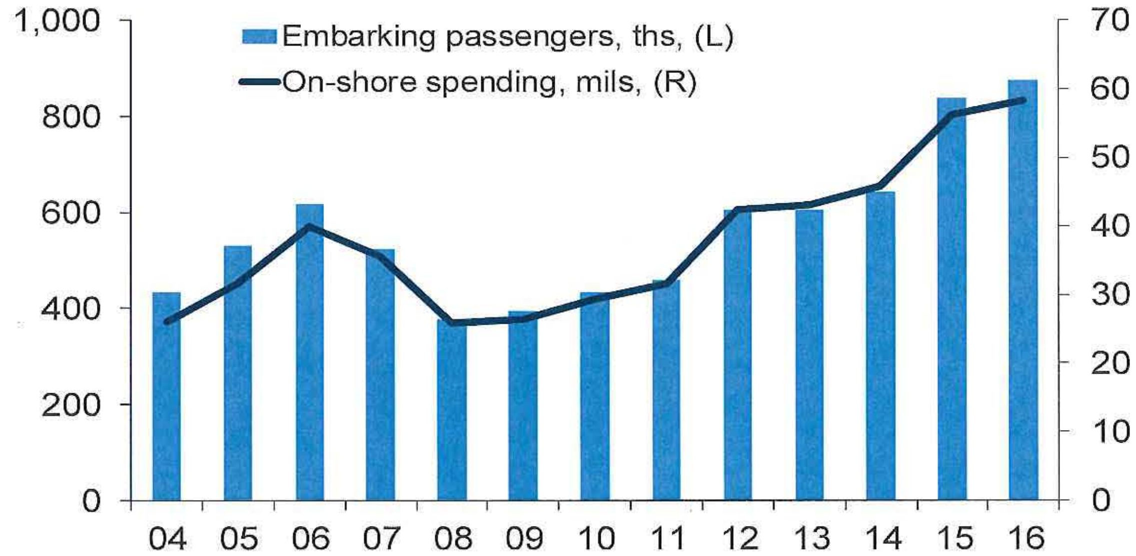
Results of operations are reviewed monthly by an operational and functional management team who is held responsible for the results. The actual vs. budgetary results are reported quarterly to the Trustees of the Port of Galveston, which also holds management accountable for actual results. Through management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

Local Economic Condition and Outlook

The Port of Galveston is one of Texas' major seaports. It operates as a self-supporting enterprise and does not rely on any local tax dollars for operations. The Port generated \$43.5 million in revenues in 2018 with an annual estimated economic impact to the state in excess of \$2.3 billion. A landlord port with facilities and property totaling approximately 850 acres on Galveston Island and the adjacent Pelican Island, the Port of Galveston facilitates the movement of a diverse mix of domestic and international cargoes. One of the top 50 ports in the nation and one of the busiest in Texas and the fourth largest cruise port in the United States, the Port moved 4 million tons of cargo and had over 1.97 million cruise passenger movements in 2018.

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

Cruise Passengers and On-Shore Spending



Sources: Port of Galveston, CLIA, Tourism Economics

The Port of Galveston entered the modern cruise industry in 2004. Since that year the Port of Galveston is proud to say we celebrated our 10 millionth cruise passenger in December 2018.

Since 2011, the Port has made direct payments in excess of $54.5 million to vendors located within the City of Galveston. This is an average annual expenditure of $6.8 million local spend by the Port over the past eight years. Additionally, the Port operates cruise parking lots subject to sales tax through which the local government receives 2% of parking revenues, or $146 thousand in 2018.

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

In 2018, the Port focused on capital projects which include continuing waterside improvements to Cruise Terminal 2, west end dock and wharf improvements, and the improvements to accommodate the third quarter 2018 arrival of the Carnival Cruise Line ship Vista at Cruise Terminal 1. The Carnival Vista (shown below) replaced the Carnival Breeze.

In 2018, the Port exported approximately 840 thousand short tons of grain. Grain generally constitutes the largest volume of the Port's bulk cargo. In 2015, the Port entered into a revised agreement with Archer Daniels Midland (ADM) which increased the minimum annual guaranteed revenue to the Port. Due to low grain volumes in 2018 attributable to the grain embargo enacted by China, ADM was required to make the minimum annual guaranteed payment.

In 2018, the refrigerated fruit/banana business remained stable at 2017 levels. This followed substantial growth in 2013, 2014 and 2015. Tonnage growth in prior years was the result of capital investments totaling $25 million shared between Del Monte, their stevedore, and the Port of Galveston.

Port tonnage in the general cargo category increased 19% from approximately 97 thousand short tons in 2017 to almost 116 thousand short tons in 2018. This was a direct result of increased wind project cargo shipped through the Port. The Port expects to see a similar level of wind project cargo through 2019. Finally, in 2018, the tonnage of roll-on/roll-off cargo shipped through the Port increased 22%.

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2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Long-Term Financial Planning

Engaging Bermello Ajamil & Partners, Inc. to develop a port infrastructure assessment and master plan was a major undertaking for 2018 with expected completion during the third quarter of 2019. This process is expected to be accomplished in a "phased approach" so that certain clearly identified projects are both incorporated into the master plan but also fast tracked.

In 2018, the Port received approval of various Federal Port Security Grants, local Industrial Development Corporation grants (4B Sales Tax), and notification of funding from Texas Department of Transportation for Port infrastructure improvements. These grants range from 100% funding of specific projects to projects with a 25% or more Port cost share. Generally, the grants received by the Port are 25% Port cost share consisting of in-kind or actual percentage cash contribution.

The Port continues to actively pursue public-private financing opportunities to fund improvements and additions to its facilities. The Port continues to seek additional Federal, state, and local grants while leveraging grant proceeds with local share contributions. Plans for financing future facilities include replacing or increasing bond indebtedness as existing issues are retired and as increased cash flow from operations permits.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Board of Trustees of the Galveston Wharves for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2017. This was the 25th consecutive year that the Port of Galveston has achieved this prestigious award. In order to receive a Certificate of Achievement, candidates must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Port of Galveston staff believes that the 2018 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and the Port of Galveston will submit the report to the GFOA to determine its eligibility for another certificate.

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Board of Trustees

of the Galveston Wharves, Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2017

Christopher P. Morrill

Executive Director/CEO

Relevant Financial Policies

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

Acknowledgments

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

2018 represents an exciting time for the Port as we welcome a new Port Director / CEO, Rodger Rees effective January 16, 2018, the arrival of the Carnival Vista, the long term commitment from Royal Caribbean Cruise Line in entering an MOU agreement for a third cruise terminal, the long term commitment from Disney Cruise Lines, and continued growth of our major business lines.

Respectfully submitted,

Rodger Rees PD/CEO

Rodger Rees
Port Director, CEO

Mark R. Murchison
Chief Financial Officer

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Port of Galveston Celebrates 193 Years

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Financial Section

Port of Galveston
Galveston, Texas

Royal Caribbean Cruise Line and
The Port of Galveston Signing MOU
For Third Cruise Terminal

RSM

RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Board of Trustees of the Galveston Wharves (the Port), a component unit of the City of Galveston, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port's financial statements, as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of December 31, 2018, and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As described in Note 12, the Port restated beginning net position effective January 1, 2018, to correct an error in revenue recognition. 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 and the pension information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 an opinion on the financial statements that collectively comprise the Port's financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The information in these sections has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

San Antonio, Texas
June 25, 2019

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Management's Discussion and Analysis

Port of Galveston
Galveston, Texas

GALVESTON WHARVES

Overview of the Financial Statements

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

The Statement of Net Position presents as of a specific date information on the Port's assets, deferred outflows, liabilities, and deferred inflows of resources with the difference between the four being reported as net position. Increase or decrease in net position may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

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

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

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

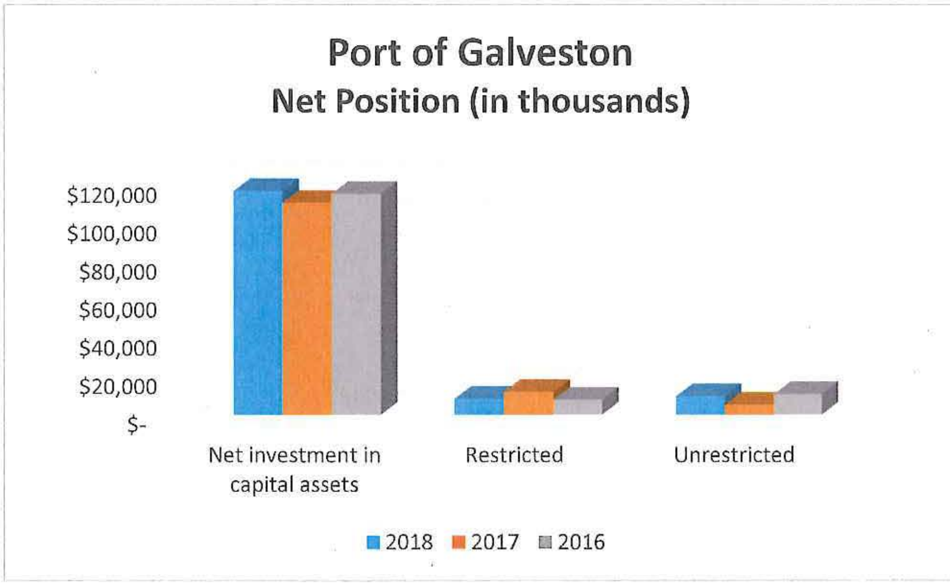
Financial Analysis of the Port as a Whole

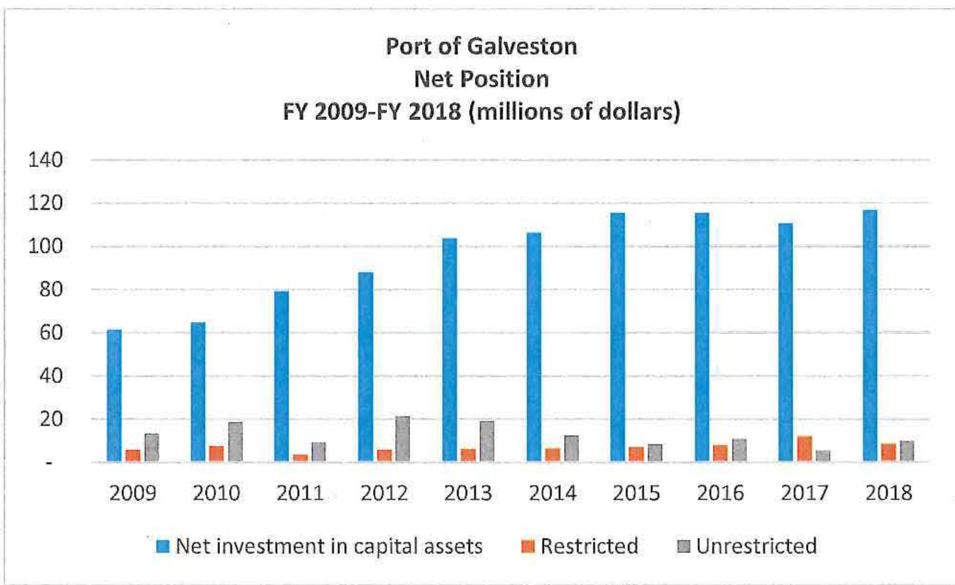
Net Position

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

	2018	2017 (Restated)	Increase (Decrease) over Prior Year
Current assets	$ 36,831	$ 32,840 [a]	12%
Capital assets	149,794	147,820	1%
Other non current assets	1,460	1,660	-12%
Total Assets	188,085	182,320	3%
Deferred outflows of resources	985	1,410	-30%
Current liabilities	13,659	13,689	0%
Long Term liabilities	37,223	38,581	-4%
Net Pension liability	2,442	3,525	-31%
Total Liabilities	53,324	55,796	-4%
Deferred inflows of resources	847	84	908%
Net Position			
Net investment in capital assets	116,705	110,604	6%
Restricted	8,409	11,996	-30%
Unrestricted	9,785	5,250 [a]	86%
Total Net Position	$ 134,899	$ 127,850	6%

[a]See Note 12 of the financial statements


Port of Galveston
Net Position (in thousands)
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$-
Net investment in capital assets
Restricted
Unrestricted
2018
2017
2016


Port of Galveston
Net Position
FY 2009-FY 2018 (millions of dollars)
140
120
100
80
60
40
20
-
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Net investment in capital assets
Restricted
Unrestricted

Statement of Net Position

The Port's combined net position increased $7.0 million between fiscal years 2017 and 2018, to approximately $134.9 million. Net investment in Capital Assets increased $6.1 million to $116.7 million. Restricted Net Position decreased $3.6 million to $8.4 million and Unrestricted Net Position increased $4.5 million to $9.8 million.

Total Assets increased by $5.8 million in 2018.

- **Current Assets increased $4 million.**
  - Current unrestricted cash and cash equivalents increased $5.2 million attributable to an increased accumulation of unrestricted cash.
  - Current receivables net of allowances decreased $0.04 million.
  - Current prepaid accounts increased $0.17 million.
  - Current restricted cash, cash equivalents and investments decreased $1.3 million due to the final balloon payment of $1.8 million for the Cruise Terminal 1 passenger loading walkway, offset by an interest and sinking fund increase of $0.5 million.
- **Non-current Assets Increased $1.8 million**
  - Capital assets net of depreciation increased $2.0 million (see Note 4).
    - The Port recognized an increase in capital cost related to the 10% cost share of the previously completed channel deepening projected undertaken by the US Army Corps of Engineers of $3.9 million. The Port is the local sponsor for the Galveston Harbor Deepening Project (GHDP), and in addition to the previously capitalized sponsor cost share, is required to contribute 10% of the project cost over a period not to exceed 30 years.
    - Additional capitalized asset additions and retirements totaled an increase of $4.3 million net of retirements of $253 thousand and adjustments to expense of $390 thousand.
    - Normal depreciation of capital assets totaled $6.3 million net of retirements of $253 thousand.
  - Net investment in direct financing lease decreased $199 thousand.

Deferred Outflows of Pension and Contributions Decreased $0.4 million.

Total Liabilities decreased by $2.5 million in 2018.

- **Current Liabilities decreased $31 thousand**
  - Trade accounts payable and other accrued expenses excluding maintenance dredging increased $332 thousand largely due to normal fluctuations in timing.
  - Dredging increased $1.05 million due to current maintenance dredging cycle
  - Deferred revenue increased $437 thousand due to December 2018 billing of January 2019 rents $236 thousand and increase from long term deferred revenue to short term $201 thousand.
  - Long term debt due within a year decreased $1.85 million

- **Long Term Liabilities decreased $2.4 million**
  - Long Term Liabilities decreased $810 thousand due to transfer of annual debt service from long term to short term $4.6 million offset by the addition of $3.8 million long term debt to the US Army Corp of Engineers (see footnote 5).
  - Long term deferred revenues decreased $389 thousand due to 2018 recognition of revenue and transfer to short term deferred.
  - Long term employee paid time off decreased $159 thousand.
  - Net Pension Liabilities decreased $1.1 million based on the most recent actuarial study.

Deferred inflows of resources increased $762 thousand based on the most recent actuarial study.

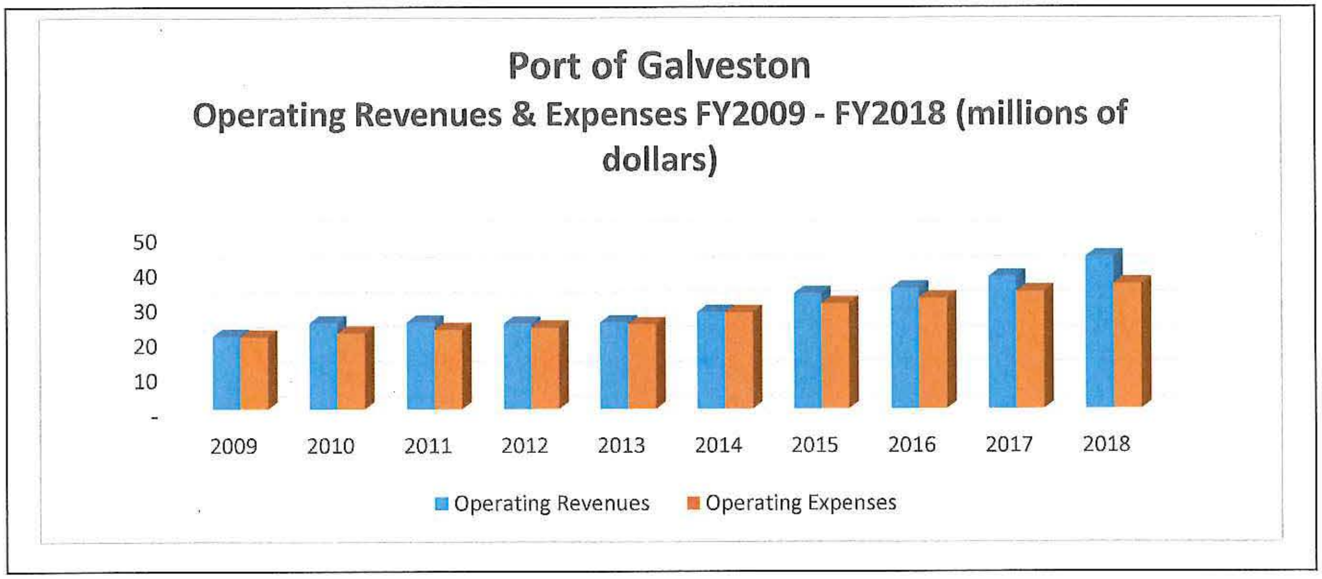
Changes in Net Position The following financial information is derived from the Port's financial statements comparing the Port's current to prior year changes in financial position or net position (in 000's):

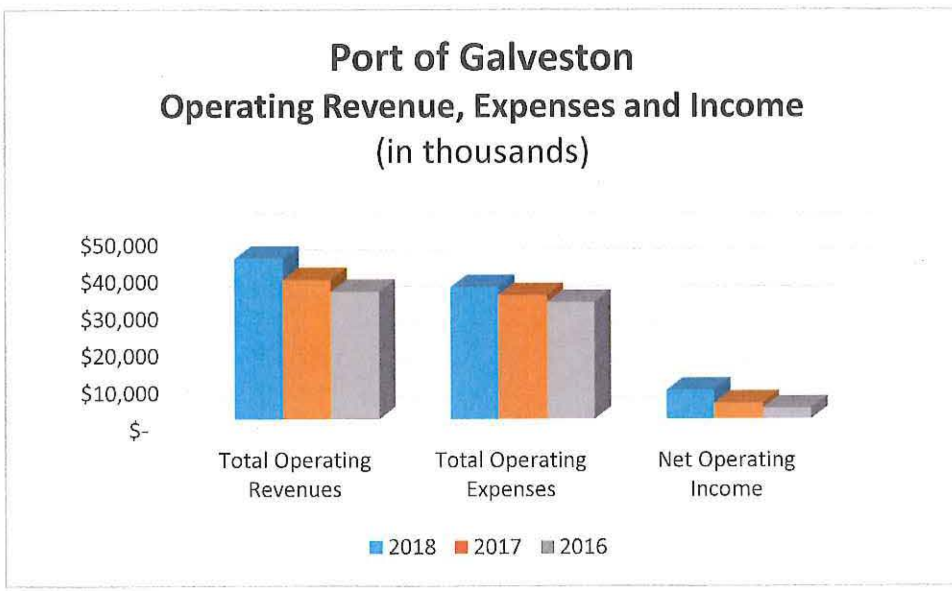
	2018	2017 (Restated)	Increase (Decrease) over prior year
Operating Revenues			
Vessels and cargo services	$ 28,749	$ 24,777	16%
Building and facilities rental and fees	14,766	12,993	14%
Total Operating Revenues	43,515	37,770	15%
Operating Expenses			
Personnel services	8,281	7,972	4%
Maintenance and operations	12,774	11,772	9%
Sales and office	7,935	6,866	16%
Depreciation	6,547	6,706	-2%
Total Operating Expenses	35,537	33,316	7%
Net Operating Income	7,977	4,454	79%
Non-Operating Revenue (Expense)			
Earnings on investment	281	347	-19%
[c]Annual City payment	(189)	(189)	0%
US Army COE-Related expenses	(488)	-	0%
[a] Hurricane-related income/(expenses)	(459)	(811) [b]	-43%
Interest expense	(1,743)	(1,935)	-10%
Total Non-Operating Revenue (Expenses)	(2,598)	(2,588)	0%
Income before Capital Grants and Contributions	5,379	1,867	188%
Capital Grants and Contributions	1,669	30	5394%
Changes in Net Position	7,049	1,897	272%
Beginning Net Position	127,850	125,953 [b]	2%
Ending Net Position	$ 134,899	$ 127,850	6%

[a]Effective in 2018, Hurricane-related expenses for all years are being shown as Non-Operating rather than Extra-Ordinary Items

[b]See Note 12 of the financial statements

[c]Effective in 2018, Annual City Payments for all years are being shown as Non-Operating rather than Operating

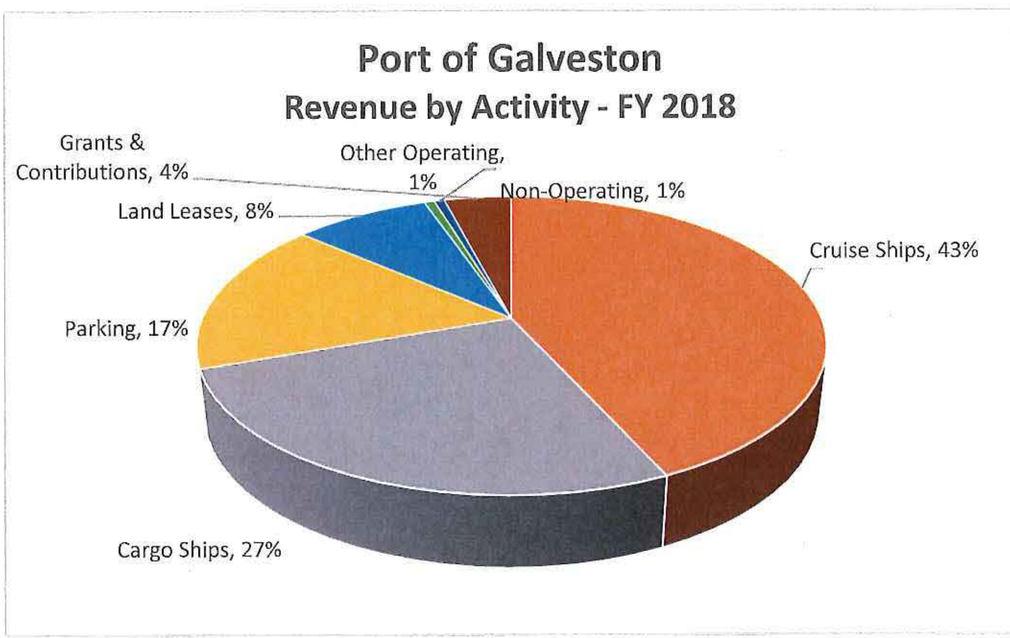




Net Operating Income increased $3.5 million from $4.5 million in 2017 to $8.0 million in 2018.

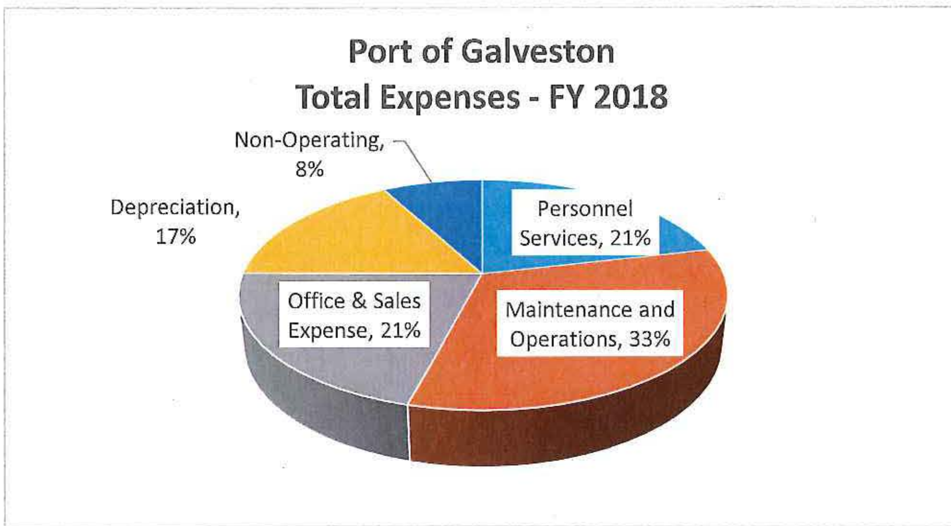
2018 Operating Revenues increased $5.7 million or 15%

- Vessels and Cargo Services increased 16%, or $3.9 million, from $24.8 million in 2017 to $28.7 million in 2018.
    - 2018 Passenger revenues increased $0.6 million from $11.5 million in 2017 to $12.2 million in 2018. Contributing to the increase was an increase in passenger count of 108,269 movements, or 6%.
    - Dockage increased $0.5 million or 12% largely driven by 28 additional ship calls, or 5% increase, excluding lay dockage.
    - Lay Dockage increased $1 million or 92% due to 78 additional ship calls, or 46%. This increase is sustainable well into the future as shippers become aware the Port welcomes lay vessels destined for other Gulf Coast ports.
    - Wharfage increased $1.3 million or 42%. Contributing factors are a 24% increase in tonnage and increased demurrage from inbound wind product and outbound Roll On – Roll Off cargo.
    - Ship Services increased $0.5 million or 9% directly related to the increase in ship activity.
- Building, Facilities Rental, and Fees increased 14% or $1.8 million from $13 million in 2017 to 14.7 million in 2018.
    - Parking increased $1 million or 14% due to a 5% increase in number of cars parked along with a mid-year increase in parking rates.
    - Real Estate increased $0.04 million or 1%.
    - Rail Switching increased $0.1 million or 19%.
    - Security Cost Recovery increased $0.3 million or 36%.
    - Terminal Access fees remained unchanged at $0.9 million.
    - Revenue producing Services increased $0.2 million or 248%.
    - Licenses, fees and Miscellaneous increased $0.1 million or 80%.



Operating Expenses increased $2.2 million or 7% in 2018

- Salaries and Related Expenses increased $0.3 million or 4%. The Port had vacant positions in 2017 which were not filled until 2018. The Port underwent a major reorganization in 2018.
- Maintenance and Operations expense increased $1.0 million or 8.5%. Included in this category are the marketing incentive fees the Port pays to various cruise lines which due to increased passenger movements caused an increase of $0.4 million. The Port's property and casualty insurance increased $0.2 million.
- Office and Sales Expense excluding salaries and related expense increased $1.1 million or 16%, of which $0.6 million is related to on-going efforts by the Port to collect FEMA claims.
- Depreciation expense decreased $.2 million or 2% when compared with 2017.



Other Non-Operating Revenues/Expenses netted an expense increase of $.2 million or 8% in 2018

- Other non-operating revenue/expenses include interest income and interest expense. Interest income decreased $0.1 million or 18%, while interest expense decreased $0.2 million or 10%.
- A US Army Corps of Engineering expense of $0.5 million was added in 2018 and hurricane related expenses decreased by $0.2 million or 20%.

2018 Tonnage

- 2018 Cargo tonnage increased 21.1% to 4 million tons
    - Grain shipments increased by 14% to 839 thousand tons up from 735 thousand tons in 2017. Outbound shipments were on target for substantially higher end results until the Embargo was put in place by China.
    - Bulk fertilizer increased 32% in 2018 to 604 thousand tons up from 456 thousand in 2017.

- Liquid bulk increased 26% from $1.2 million tons in 2017 to 1.5 million tons in 2018.
- Fresh Fruit and Vegetables increased 10% or 50 thousand tons to 534 thousand tons in 2018 up from 485 thousand tons in 2017.
- General Cargo increased 19% to 116 thousand tons up from 97 thousand tons.
- Roll on – Roll off cargo increased 22% in 2018.
- Passenger movements increased 6% to 1,970,233 movements in 2018 (a movement consists of an embarkation or disembarkation passenger).
- Parking decreased 2% to 113 thousand units.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2018, capital assets before depreciations, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled $254 million. This is an increase of $8.3 million over 2017. Accumulated Depreciation as of year-end 2018 is $105 million, an increase of $6.3 million. The net change in Capital Assets was a $2.0 million increase from 2017. The following is a comparison of capital assets for the years ended December 31, 2017 and 2018 (in 000's):

	2018	2017
Land	$ 16,499	$ 16,499
Channel Deepening	15,132	11,207
Construction in progress	2,376	3,437
Total capital assets, non depreciable	34,007	31,143
Railway property and buildings	4,261	4,261
Wharves property and buildings	204,810	199,620
Operating equipment	8,344	8,299
Office equipment	3,059	2,893
Total capital assets being depreciated	220,474	215,073
Less allowance for depreciation	(104,688)	(98,393)
Total assets being depreciated, net	115,786	116,680
Total capital assets	$ 149,793	$ 147,823

Construction work in progress decreased $1.1 million while depreciable assets increased $5.4 and non-depreciable assets increased $3.9 million. Net change in 2018 annual depreciation is $6.3 million.

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

Long-Term Debt

At year-end the Port had $23.4 million in bonds and contracts payable and $13.2 million in notes payable representing a decrease of 15% over prior year. The notes payable are a series 2014 Note payable ($13M) and a Community Disaster Loan. The Community Disaster Loan was retired March 1, 2019. Changes in long-term debt for the year ended December 31, 2017 and 2018 are summarized below (in 000's):

Debt Category	2018	2017
Revenue Bonds	$17,242	$18,973
Contracts payable	6,136	8,688
Loans and leases payable	13,175	15,400
Total	$36,553	$43,061

Bond Ratings

The underlying ratings assigned to the Port's bond issues are as follows:

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

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

Economic Factors and Next Year's Rates

The Board of Trustees of the Galveston Wharves' mission is to manage the assets and resources under its stewardship for optimum economic benefit for the City of Galveston and the surrounding region. It is the intent of the Board to set its fees, leases and other charges at a level to recover the cost of its activities including renewal and replacement of its facilities and equipment.

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

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

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

During 2018, several positive events which affect both short term and longer term future years occurred. The Port welcomed the New Year with the arrival of the new Port Director and Chief Executive Officer, Rodger Rees. Under his leadership the Port is moving forward with several new initiatives.

The Port reached an agreement which extended Disney Cruise Lines preferential berthing agreement rights for an additional ten years with two additional five year periods effective November 1, 2018. The new agreement outlines plans for a shared cruise terminal that will accommodate a ship equal to or larger than the Disney Magic/Disney Wonder class of vessel. Additionally, over the first five years of the agreement, Disney will nearly double its sailings. Disney Cruise Line has orders on the books for three new cruise ships.

The Port formally announced on December 5, 2018 that it entered into a Memorandum of Understanding (MOU) with Royal Caribbean Cruise Ltd, setting general terms for a new long-term business agreement for the development and operation of a new cruise terminal. The new terminal will cover approximately 200,000 square feet on ten acres of land in the southeast section of the Port known as Pier 10. Improvements to the pier bulkhead and apron will be made to safely accommodate the cruise line's largest vessels. In addition, a staging and loading area, bus and taxi staging areas and substantial parking will be constructed. The new state-of-the-art facility is anticipated to open in late 2021. This state of the art facility is to be built by Royal Caribbean with the Port receiving a land lease payment from Royal Caribbean and the Port providing parking for the new terminal.

The consulting firm Bermello Ajamil & Partners, Inc. was hired by The Board of Trustees of the Galveston Wharves to aid the Port staff in facilitating the development of a strategic plan. During this process, the Port of Galveston will be creating a Strategic Master Plan that will assist in guiding the Port over the next 40 years.

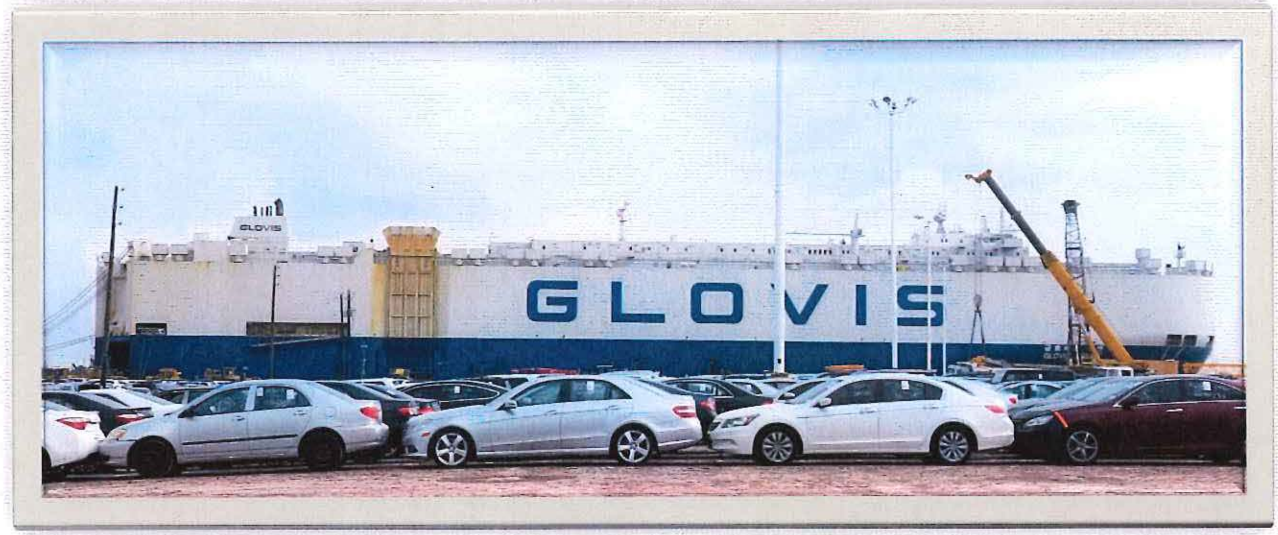
The Port of Galveston Strategic Master Plan (SMP) will create a vision and direction for the Port that can be embraced by the community with a sustainable and viable business model for the Port. Throughout the planning process outreach is being conducted with Port and community users and stakeholders providing input to guide the future vision accordingly.

Other significant items include home porting three Carnival Cruise Line ships, two Royal Caribbean Cruise Line ships, and one Disney Cruise Line winter season ship. Wind cargo is positioned to continue to have another record year. Due to revisions of the lease agreement with ADM, grain has a minimum annual guaranteed payment that began in 2015. As a result, the Port anticipates increased cargo movement and robust cruise ship activity in 2019.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Port of Galveston, 123 Rosenberg, 8th Floor, Galveston, TX 77550.

Basic Financial Statements



Port of Galveston
Galveston, Texas

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

STATEMENT OF NET POSITION

December 31, 2018

Assets		
Current assets—unrestricted:		
Cash and cash equivalents	$	12,718,072
Accounts receivable, net of allowance for doubtful accounts		6,062,425
Prepaid items		751,552
Current portion of investment in direct financing lease		199,146
Current assets—restricted:		
Cash and cash equivalents		12,239,956
Investments		4,859,883
Total current assets		36,831,034
Noncurrent assets:		
Capital assets:		
Capital assets, nondepreciable		34,007,306
Capital assets, net of depreciation		115,786,546
Total capital assets		149,793,852
Other assets:		
Net investment in direct financing lease, less current portion		1,460,406
Total noncurrent assets		151,254,258
Total assets		188,085,292
Deferred outflows of resources—pension items		984,558
Total assets and deferred outflows of resources	$	189,069,850

(Continued)

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

STATEMENT OF NET POSITION (CONTINUED)

December 31, 2018

Liabilities

Current liabilities:		
Accounts payable	$	3,939,213
Accrued expenses		3,065,589
Payable to other government		189,168
Interest payable		584,164
Accrued compensated absences		166,707
Unearned revenues and rents		437,380
Long-term liabilities due within one year		305,808
Long-term liabilities due within one year (payable from restricted assets)		4,971,216
Total current liabilities		13,659,245
Long-term liabilities:		
Accrued compensated absences		334,284
Unearned revenues and rents		1,686,930
Long-term debt due in more than one year		35,201,601
Net pension liability		2,442,467
Total long-term liabilities		39,665,282
Total liabilities		53,324,527
Deferred inflows of resources—pension items		846,633
Total liabilities and deferred inflows of resources		54,171,160
Net position:		
Net investment in capital assets		116,705,066
Restricted for debt service		8,408,718
Unrestricted		9,784,906
Total net position		134,898,690
Total liabilities, deferred inflows of resources and net position	$	189,069,850

See accompanying notes to financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2018

Operating revenues:		
Charges for services:		
Vessels and cargo services	$	28,748,282
Building and facilities rental and fees		14,766,234
Total operating revenues		43,514,516
Operating expenses:		
Personnel services		8,281,310
Maintenance and operations		12,773,845
Sales and office		7,935,356
Depreciation		6,546,854
Total operating expenses		35,537,365
Operating income		7,977,151
Nonoperating revenues (expenses):		
Investment income		280,987
Interest expense		(1,742,546)
Annual city payment		(189,169)
Recovery, restoration and other nonoperating expenses		(947,177)
Total nonoperating revenues (expenses)		(2,597,905)
Income before capital grants and contributions		5,379,246
Capital grants and contributions		1,669,423
Change in net position		7,048,669
Net position at beginning of year, restated		127,850,021
Net position at end of year	$	134,898,690

See accompanying notes to financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

Cash flows from operating activities:		
Cash receipts from customers	$	43,542,463
Cash payments to employees		(8,534,013)
Cash payments to suppliers for goods and services		(20,377,806)
Net cash provided by operating activities		14,630,644
Cash flows from noncapital financing activities:		
Annual city payment		(189,169)
Net cash used in noncapital financing activities		(189,169)
Cash flows from capital and related financing activities:		
Principal payments on revenue bonds, contracts payable and capital lease		(6,317,484)
Proceeds from community disaster loan (CDL) notes payable		188,494
Principal payments on CDL notes payable		(616,419)
Receipts from capital grants and contributions		1,565,098
Interest paid—long-term debt		(1,823,449)
Acquisition and construction of capital assets		(4,249,238)
Net cash used in capital and related financing activities		(11,252,998)
Cash flows from investing activities:		
Receipts of interest		227,404
Investment income		53,583
Purchase of investments		(4,130,450)
Proceeds from sale of investments		4,201,085
Payments received from capital and direct financing lease		199,145
Net cash provided by investing activities		550,767
Net increase in cash and cash equivalents		3,739,244
Cash and cash equivalents at beginning of year		21,218,784
Cash and cash equivalents at end of year	$	24,958,028
Cash and cash equivalents per statement of net position:		
Unrestricted	$	12,718,072
Restricted		12,239,956
Cash and cash equivalents at end of year	$	24,958,028

(Continued)

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2018

Operating income	$	7,977,151
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		6,546,854
Changes in operating assets and liabilities:		
Decrease in accounts receivable		107,961
Increase in prepaid items		(169,717)
Increase in accounts payable		145,858
Increase in accrued expenses		72,586
Increase in unearned revenues and rents		48,634
Decrease in accrued compensated absences		(204,076)
Decrease in deferred outflows—pension items		425,318
Increase in deferred inflows—pension items		762,926
Decrease in net pension liability		(1,082,851)
Net cash provided by operating activities	$	14,630,644
Supplemental disclosures of cash flow information:		
Construction payables	$	4,427,466
Retainage payable	$	233,804

See accompanying notes to financial statements.

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

The Trustees of the Port consist of seven members; one member is the ex-officio representative of the City of Galveston City Council and is elected from the City Council (the Council) by council members. The Council appoints the six remaining members for three-year staggered terms. The Trustees have the powers which are necessary or proper to discharge their responsibilities which include, but are not limited to: the election of a chairman, the employment of a general manager and such other officers and employees as may be required for the proper conduct of the Port, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and in general, the complete management and control of the Port 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 Trustees shall render the City of Galveston liable for damages or shall be binding other than on the properties, income and revenues of the Port. Except for the annual payment of approximately $190,000 to the City of Galveston, all net revenues of the Port shall be retained and used by the Port for the betterment and extension of the Port. For reporting purposes, the Port is considered a component unit of the City of Galveston.

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

Galveston Port Facilities Corporation

The Galveston Port Facilities Corporation (the Corporation) was incorporated on June 17, 2002, under the provisions of the Texas nonprofit corporation act as a financing facility for the future financing of expansion and renovation of Port's facilities. The Corporation provides services exclusively for the benefit of the Port and is governed by a board of directors composed of the seven members of the primary government and two additional directors appointed by the Council. Because the nature and significance of the Corporation's relationship with the primary government 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Port and the Corporation are charges to customers for services. Operating expenses include personnel services, maintenance and operations, sales and office, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Port's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Cash and Cash Equivalents

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

D. Investments

Investments represent amounts restricted through debt covenants. The Port values its investments in treasury securities using a computerized pricing service utilizing a yield-based matrix system to arrive at the estimated market value. Net change in the fair value of investments is recognized and reported as investment income in the financial statements.

E. Accounts Receivables

The Port considers most accounts receivables to be fully collectible; however, the Port has created an allowance for those, where based upon historical attempts at collection, it deems collection to be unlikely. It is the Port's policy to set an additional reserve of 25.0 percent for non-parking lot receivables over 90 days and a 1.5 percent reserve on average accounts receivable at year-end. The allowance for the year ended December 31, 2018, totaled approximately $333,000.

F. Prepaid Items

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

Note 1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

Property constructed or acquired by purchase is stated at cost. The Port's policy is to capitalize all capital assets with historical cost of $5,000 or more. Donated capital assets, donated works of art and similar items and capital assets received in a service concession arrangement are reported at acquisition value on the date the asset is received. Construction in progress will be depreciated when placed in service. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are used for depreciation purposes:

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 Absences

Compensated absences, which include unpaid accrued vacation and sick leave, are accumulated during employment and are accrued when incurred. Employees of the Port earn annual vacation and sick leave time at the rate of one-twelfth of the annual days eligible for each month worked. Vacation time is accrued at the rate of 12 to 31.5 working days per year and may accumulate up to a maximum of 320 hours. Full-time employees accumulate sick leave time at the rate of one day per month, not to exceed 180 days. Upon termination, employees are paid for accumulated vacation time and one-half of accumulated sick leave.

I. Unearned Revenues and Rents

Unearned revenues and rents represent lease payments received that are to be recognized in future periods and provision for dredging slips and access channels. Further in 1977, the Port received approximately $10 million in the form of advanced rental on the dockside elevator facility. The advance rent is being recognized over the initial and optional terms of the lease that aggregate 50 years. At December 31, 2018, the amount that applies to future periods was approximately $1.7 million. This amount is presented as unearned revenues and rentals as a long-term liability on the statement of net position.

J. Pensions

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

K. Use of Estimates

The preparation of financial statements, in accordance with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflow (inflows) and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts

Note 1. Summary of Significant Accounting Policies (Continued)

of revenues and expenses during the reporting period. Significant estimates utilized in preparing the financial statements include depreciable lives of property and equipment, allowance for doubtful accounts and actuarial assumptions relative to future pension benefit obligations. 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 net 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) until then.

The Port has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension—are an aggregate of items related to pensions, as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. They consist of contributions subsequent to the measurement date, difference between expected and actual experience, effect of changes in actuarial assumptions and net difference between actual and projected investment earnings.

In addition to liabilities, the statement of net 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Port has one item that qualifies for reporting in this category:

- Deferred inflows of resources for pension—are an aggregate of items related to pensions, as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. They consist of differences between expected and actual experience, effect of changes in actuarial assumptions and net difference between actual and projected investment earnings.

M. Net Position

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

N. Revenues and Expenses

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

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

O. New and Future GASB Pronouncements

Implementation of new GASB standard: In the current fiscal year, the Port implemented the following new standard. The applicable provision of this new standard is summarized below. Implementation is reflected in the financial statements and the notes to financial statements.

GASB Statement No 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period is not included in the historical cost of a capital asset.

Future GASB implementations: GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016, will be effective for the Port beginning with its fiscal year ending December 31, 2019. Under GASB Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. This statement identifies the circumstances that trigger the recognition of these transactions. This statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. This statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability and other relevant information.

GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, will be effective for the Port beginning with its fiscal year ending December 31, 2019. The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria is included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Note 1. Summary of Significant Accounting Policies (Continued)

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 87, *Leases,* issued June 2017, will be effective for the Port beginning with its fiscal year ending December 31, 2020, with earlier adoption encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation. GASB Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability, (2) an intangible asset representing the lessee's right to use the leased asset, (3) report the amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (4) interest expense on the lease liability and (5) note disclosures about the lease. A lessor must recognize (1) a lease receivable (measured at the present value of lease payments expected to be received during the lease term), (2) deferred inflow of resources, (3) interest revenue on the lease receivable and (4) note disclosures of leasing arrangements and the total inflows of resources recognized from leases. This statement provides exceptions for leases of assets held as investments, certain regulated leases, short-term leases and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

Management is currently evaluating the impact, if any, these pronouncements will have on the Port's financial statements; however, GASB Statements No. 84 and 87 will likely have an impact on the Port's financial statements.

Note 2. Deposits and Investments

Cash and cash equivalents as of December 31, 2018, are classified in the accompanying financial statements as follows:

Unrestricted:	
Cash and cash equivalents	$ 12,718,072
Restricted:	
Cash and cash equivalents	12,239,956
Total cash and cash equivalents	$ 24,958,028

Cash and cash equivalents as of December 31, 2018, consist of the following:

Checking and time deposits:	
Cash on hand	$ 8,300
Deposits with financial institutions:	
Cash on demand—Moody's	14,708,179
Held by City of Galveston for contracts payable	2,896,668
	17,613,147
Investments:	
Local government investment pools	7,344,881
Total cash and cash equivalents	$ 24,958,028

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

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

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

Note 2. Deposits and Investments (Continued)

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

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

The Port invests in TexasTerm which is an individual investment portfolio established by the TexasTerm Advisory Board pursuant to the TexasTerm Common Investment Contract that established the Pool. TexasTerm is a local government investment portfolio that allows governments to pool their funds for investment under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, the Texas PFIA and other similar cooperative statutes and under the statutes governing investment of funds by those local governments. TexasTerm is directed by an advisory board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. The Port's investments managed through TexasTerm are valued and recorded at amortized cost in accordance with GASB Statement No.79, *Certain External Investment Pools and Pool Participants.*

The Port also invests in the Texas Short Term Asset Reserve Program (TexStar) which has been organized in accordance with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and PFIA. The fund seeks to maintain a constant dollar objective and fulfills all requirements of PFIA for local government investment pools. The portfolio is a government-repurchase agreement (REPO) pool, utilizing primarily U.S. Treasury securities, U.S. agency securities and REPO collateralized obligations, the principal and interest of which are unconditionally guaranteed or insured by the full faith and credit of the U.S. or its agencies or its instrumentalities. Consistent with the investment pool, the Port values and records these investments at NAV or its equivalent.

Treasury securities are bills, notes and bonds (collectively known as Treasuries) issued by the Treasury Department that represent direct obligations of the U.S. government. The Port's investments in Treasuries are reported at fair value using quoted market prices or other fair value techniques, as required by GASB Statement No. 72, *Fair Value Measurements.* Fair value is defined by GASB Statement No. 72, as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Categories within the fair value hierarchy include: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are unobservable inputs. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Treasuries are backed by the full faith and credit of the U.S government. The Port's Treasuries are measured using Level 2 inputs and valued using a computerized pricing service utilizing a yield-based matrix system to arrive at the estimated market value

Note 2. Deposits and Investments (Continued)

As of December 31, 2018, the Port had the following investments:

Type		Weighted-Average Maturity Days	Percentage Invested	Fair Value Hierarchy	Credit Rating (S&P)
Investments measured at fair value:					
Treasuries	$ 4,859,883	22	40%	Level 2	No rating
Investments measured at amortized cost:					
TexasTerm investment fund	3,947,109	31	32%	n/a	AAAf
Investments measured at NAV:					
TexStar investment fund	3,397,772	32	28%	n/a	AAAm
Total investments	$ 12,204,764		100%		
Weighted-average maturity days		28			

The valuation method for investments measured at the NAV per share (or its equivalent) as of December 31, 2018, is presented on the following table.

Investments Valued at NAV	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
TexStar investment fund	$ 3,397,772	N/A	Daily	N/A

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Port manages its exposure to interest rate risk by investing in instruments whose maturities do not exceed one year by weighted-average maturity from the time of purchase.

Credit risk: In accordance with state statutes, PFIA and the Port's investment policy, the Port's investments require at a minimum a rating of "A" by a nationally recognized rating agency. Investments noted above have been rated AAA by Standard and Poor's.

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

Custodial credit risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Port will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Port's investments pools are not exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Port's deposits may not be returned to it. The Port's deposits held at financial institutions were entirely covered by the Federal Deposit Insurance Corporation or were secured by collateral at December 31, 2018.

Note 2. Deposits and Investments (Continued)

Restricted Cash, Cash Equivalents and Investments

In accordance with the terms of Article XII, Section 9, of the Charter of the City of Galveston, the Port is required to set aside funds for interest and sinking and debt service reserves; City of Galveston franchise payment; bond proceeds and bulkhead improvements. Restricted cash, cash equivalents and investments at December 31, 2018, consist of the following:

Interest and sinking and debt service reserves:	
Revenue Refunding Bonds Series 2011	$ 2,592,844
Revenue Bonds Series 2011 Interest and Sinking Fund	2,023,906
Series 2004B Interest, Sinking and Reserve Funds	3,932,375
Series 2014 Interest and Sinking Fund	243,133
City of Galveston franchise payment	182,000
Bond proceeds	5,952,686
Bulkhead improvements	2,172,895
	$ 17,099,839

Note 3. Accounts Receivable

Trade accounts receivable are generated from general deep water port services and rental property and facilities. Accounts receivable and the associated allowance for doubtful accounts as of December 31, 2018, are as follows:

Accounts receivable—trade	$ 6,326,427
Grants receivable	68,650
Less allowance for doubtful accounts	(332,652)
Net accounts receivable	$ 6,062,425

Note 4. Capital Assets

Changes in capital assets during the year ended December 31, 2018, are summarized as follows:

	Balance at December 31, 2017	Additions	Retirements	Transfers/ Reclassification	Balance at December 31, 2018
Capital assets not being depreciated:					
Land	$ 16,499,295	$ -	$ -	$ -	$ 16,499,295
Channel deepening	11,206,530	3,925,466	-	-	15,131,996
Construction in progress	3,436,622	4,824,843	(390,246)	(5,495,204)	2,376,015
Total capital assets not being depreciated	31,142,447	8,750,309	(390,246)	(5,495,204)	34,007,306
Capital assets being depreciated:					
Railway facilities	4,260,563	-	-	-	4,260,563
Wharves, docks and buildings	199,619,522	95,705	-	5,095,031	204,810,258
Machinery and equipment	8,298,834	12,238	(7,336)	40,530	8,344,266
Furniture and office equipment	2,892,549	52,256	(245,419)	359,643	3,059,029
Total capital assets being depreciated	215,071,468	160,199	(252,755)	5,495,204	220,474,116
Less accumulated depreciation for:					
Railway facilities	(2,419,263)	(53,535)	-	-	(2,472,798)
Wharves, docks and buildings	(88,258,703)	(5,356,391)	-	-	(93,615,094)
Machinery and equipment	(5,783,072)	(848,746)	7,336	-	(6,624,482)
Furniture and office equipment	(1,932,433)	(288,182)	245,419	-	(1,975,196)
Total assets being depreciated, net	(98,393,471)	(6,546,854)	252,755	-	(104,687,570)
Total capital assets	$ 147,820,444	$ 2,363,654	$ (390,246)	$ -	$ 149,793,852

Depreciation expense for the year ended December 31, 2018, totaled $6,546,854.

Commitments relating to construction in progress as of December 31, 2018, are as follows:

	Total Commitment	Total Capitalized	Construction in Progress	Remaining Commitment
Port security grant 2016 EMW FEMA	$ 996,750	$ -	$ 355,572	$ 641,178
Port security grant 2017 EMW FEMA	1,121,435	-	17,407	1,104,028
Port security grant 2018 EMW FEMA	925,000	-	-	925,000
C/T #1 Wharf and building improvements	2,561,473	2,022,431	129,640	409,402
Fill slips	850,000	-	382,763	467,237
Master planning services	799,653	-	264,780	534,873
Old port industrial engineering	1,353,544	-	200,456	1,153,088
Projects under $200,000	884,856	-	1,025,397	(140,541)
Totals	$ 9,492,711	$ 2,022,431	$ 2,376,015	$ 5,094,265

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

Note 5. Long-Term Liabilities

During the year ended December 31, 2018, the following changes occurred in the Port's long-term liabilities:

Issue	Balance at December 31, 2017	Increases	Decreases	Balance at December 31, 2018	Amounts Due Within One Year
Revenue bonds:					
Series 2011 Refunding	$ 18,560,000	$ -	$ (1,680,000)	$16,880,000	$ 1,765,000
Premium on Series 2011	412,813	-	(51,069)	361,744	-
Revenue notes payable:					
Series 2014 (AMT)	13,000,000	-	-	13,000,000	-
Contracts payable to the City of Galveston:					
Series 2013 A&B Refunding	2,840,000	-	(2,840,000)	-	-
Premium on 2013 A&B	14,491	-	(14,491)	-	-
Series 2004B	2,873,672	-	-	2,873,672	1,483,051
Accreted interest on capital appreciation bonds	2,959,448	303,336	-	3,262,784	1,723,165
CDL notes payable:					
Federal Community Disaster Loan	602,884	188,494	(616,419)	174,959	174,959
Capital lease payable:					
Capital lease	1,797,484	-	(1,797,484)	-	-
Other long-term liabilities:					
U.S. Corps of Engineers	-	3,925,466	-	3,925,466	130,849
Compensated absences	705,067	77,368	(281,444)	500,991	166,707
Net pension liability	3,525,318	-	(1,082,851)	2,442,467	-
	$ 47,291,177	$ 4,494,664	$ (8,363,758)	$43,422,083	$ 5,443,731

Long-term bonded debt at December 31, 2018, was comprised of the following issues:

Description	Original Issue	Interest Rates	Maturity Dates Beginning/ Ending	Interest Payment Dates
Revenue bonds:				
City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds Series 2011	$ 25,925,000	4.00%-5.00%	February 1, 2013/2026	February 1/ August 1
Revenue notes payable:				
City of Galveston, Texas Subordinate Lien Wharves and Terminal Revenue Note Series 2014 (AMT)	6,000,000	4.44%	February 1, 2015/2026	February 1/ August 1
City of Galveston, Texas Subordinate Lien Wharves and Terminal Revenue Note Series 2014 (AMT)	4,000,000	4.44%	February 1, 2015/2026	February 1/ August 1
City of Galveston, Texas Subordinate Lien Wharves and Terminal Revenue Note Series 2014 (AMT)	3,000,000	4.44%	February 1, 2015/2026	February 1/ August 1
Contracts payable to the City of Galveston:				
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

Note 5. Long-Term Debt (Continued)

As of December 31, 2018, the annual debt service requirements for revenue bonds, revenue notes payable and contracts payable to the City of Galveston until maturity are as follows:

	Revenue Bonds		
	Principal	Interest	Total
Years ending December 31:			
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
2024-2026	7,105,000	540,144	7,645,144
	$ 16,880,000	$ 3,496,114	$ 20,376,114

	Revenue Notes Payable		
	Principal	Interest	Total
Years ending December 31:			
2019	$ -	$ 578,825	$ 578,825
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
2024-2026	4,909,167	342,676	5,251,843
	$ 13,000,000	$ 2,721,940	$ 15,721,940

	Contracts Payable to the City of Galveston		
	Principal	Interest	Total
Years ending December 31:			
2019	$ 1,483,051	$ 1,676,949	$ 3,160,000
2020	1,390,621	1,769,379	3,160,000
	$ 2,873,672	$ 3,446,328	$ 6,320,000

Note 5. Long-Term Debt (Continued)

Revenue Bonds

The indentures creating the Series 2011 Wharves and Terminal Refunding Bonds issued on December 6, 2011, provide provision for payment of maintenance and operations and required deposits into the city payment fund annually by December 31 of approximately $190,000. The gross revenues of the Port are to be pledged for the payment of debt service on the bonds through February 1, 2026. Maintenance and operating expenses, for the purpose of determining funds available for debt service, do not include depreciation expense or interest on obligations or indebtedness issued by the Port or operating expense for use by lessees or others using the Port facilities. The indentures require that for the duration of the period the bonds are outstanding, the Port create and maintain a debt service reserve fund of $2,549,919 equal to at least 150 percent of the average annual debt service or 125 percent of the maximum annual debt service requirements on all parity obligations that will be outstanding after the issuance of the series of additional parity bonds then proposed to be issued; provided, however, that this requirement shall not apply to the issuance of refunding bonds that will have the effect of reducing the average annual debt service requirements on the parity obligations. These interest and sinking funds have been established at the Port's depository bank and are reported as restricted cash and cash equivalents in the financial statements. The Port is in compliance with all significant bond covenants.

Revenue Notes Payable

Revenue Notes Series 2014 (AMT) were issued on October 2, 2014. These notes are payable to Moody National Bank, NA ($6 million), Texas First ($4 million) and Home Town Bank, NA ($3 million). The notes issued are to finance certain improvements to Terminal 2 and related infrastructure to accommodate increased cruise ship activity and to pay the associated costs of issuance. The notes and the series are special obligations of the City of Galveston that are payable from and are secured by a lien on a pledge of the revenues (subordinate to the lien of the senior lien parity obligations) of the City of Galveston's port and harbor facilities remaining after deduction of operation and maintenance expenses and an annual payment required by the City of Galveston Charter (the net revenues), as defined and provided in the indenture, which net revenues are required to be set aside and pledged to the payment of the senior lien parity obligations and subordinate lien obligations, and all other obligations issued on a parity therewith in the parity bond interest and sinking fund (for the benefit of the owners of the senior lien parity obligations), subordinate lien interest and sinking fund (for the benefit of the owners of the Series 2014 notes), and the parity bond debt service reserve fund (for the benefit of the owners of the senior lien parity obligations) maintained for the payment of all such obligations, all as more fully described and provided for in the Indenture.

Contracts Payable to the City of Galveston

On January 13, 2004, the City of Galveston issued Combination Tax and Revenue Certificates of Obligation (CO's) Series 2004A and 2004B totaling $19,323,672 in favor of the Port. The primary security for the repayment of these CO's, which have a final maturity date of February 1, 2020, is the net revenues of the Port. The proceeds of this issue are to be used to build out Cruise Terminal No. 2, demolish grain elevator B, construct warehousing, channel deepening and parking facilities. The liability of the Port relating to these obligations is presented as contracts payable to reflect the agreement (evidenced by resolution of the Trustees of the Port dated December 9, 2003) between the Port and the City of Galveston for the repayment of the debt with Port revenues. This agreement also requires the Port to make monthly transfers to the

Note 5. Long-Term Debt (Continued)

interest and sinking funds for the CO's in approximately equal monthly installments of $1/6^{th}$ of the next scheduled interest payment and $1/12^{th}$ of the next scheduled principal payments.

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

The Port has pledged future gross revenues, net of specified operating expenses, to repay the contracts payable to the City of Galveston. The Port covenants that it will generate sufficient net revenues, after the payment of all payments on obligations, to be at least 125 percent of the current debt service payments in each fiscal year. In the event net revenues in any fiscal year are insufficient to satisfy the rate covenant, the City of Galveston is authorized to direct the Trustees to increase fees, tolls and charges of the Port to a level sufficient to satisfy such rate covenant. Net revenues are defined in the Indenture as the amount remaining after deducting from gross revenues the maintenance and operation expenses and the annual city payment. Maintenance and operation expenses exclude depreciation expense or extraordinary noncash expenses or write-downs of the Port's facilities. Gross revenues are defined in the Indenture as all gross revenues, income, proceeds, tolls, rents, lease money, returns and exchanges derived from and after the date of the Indenture from the operation of the Port's facilities, and from the services provided; all proceeds of business interruption insurance maintained in connection with the Port's facilities, provided that such proceeds shall be deemed to have been received in the year or years during which the business interruption occurred; interest earned from the investment money; and all other revenues pledged to the payment of all parity obligations. Gross revenues expressly exclude special project pledged revenues. Special project pledged revenues are defined in the indenture as those rentals, payments and/or other amounts payable to the City of Galveston in consideration for the use, lease or availability of a special project which are made subject to pledges, liens and/or assignments by the City of Galveston to secure the payment or repayment of special project obligations.

Community Disaster Loan (CDL) Program

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 percent per annum and matured on June 30, 2014. Neither principal nor interest payments were required until maturity. The terms of the loan provide that if the recipient jurisdiction has not recovered sufficiently to meet its operating budget after three full fiscal years, repayment of all or part of the loan may be canceled. Based on FEMA's review, $2.4 million was forgiven in 2014 leaving a balance of $1.3 million to be paid quarterly over a five-year period beginning July 2014. As of December 31, 2018, the balance is $174,959 and is scheduled to be paid in full during next fiscal year.

U.S. Army Corps of Engineers (a Subsequent Event)

Subsequent to year-end, the Port was advised by the U.S. Army Corps of Engineers that, in the near future, the Port, as the local sponsor, would receive billing for payback on previously constructed general navigation features. Based on recent estimates, the Port will be responsible for an additional 10 percent of the cost of the Galveston Harbor Channel deepening to 45 mean lower low water. The estimated cost is $3,925,466 payable over a period not to exceed 30 years. These costs are being capitalized and the liability is being accrued in 2018. In 2019, the Port expects to receive final billing from the U.S. Army Corps of Engineers, along with reaching an agreement on specific payment terms and conditions.

Note 6. Lease Arrangements With the Port as the Lessor

Direct Financing Lease—Dockside Elevator

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

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

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

In 2015, the Port entered into a revised agreement with the lessee with a renewal term of the lease beginning May 1, 2015, and ending May 1, 2027, for the leasing of a facility tract. The lessee has the option to purchase the improvements situated on the facility tract at the end of the term for $1. The lessee covenants that during each calendar year the total of all renewal rental, dockage paid to the Port for ships and barges handling bulk commodities at the leased premises (Grain Dockage), and rail switching and other charges paid to the Port allocated to bulk commodities moved by rail to or from the leased premises (Switching Charges) will not be less than $2 million, the MAG (the minimum annual guarantee). As part of the revised agreement, the lessee will lease the facility tract for a total of $286,675 a year, pay the Port a share of dockage revenue generated from the grain vessel loadings by lessee and the Port's railcar switching revenues earned on the lessee's grain rail car activities. If, during any calendar year, the total renewal rental, grain dockage and switching charges, as set forth above, actually received by the Port exceeds $2.8 million (the threshold), the Port's share of grant dockage shall be immediately reduced to 18 percent from 36 percent for the remainder of the calendar year. Beginning on the third anniversary of the renewal effective date, both the MAG and the threshold will be adjusted on that date and on each anniversary of such date during the remainder of the term of the lease to reflect increases in the consumer price index. Due to low grain volumes in fiscal year 2018, the lessee was required to make the minimum annual guaranteed payment of $2 million.

The Port accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2018:

Minimum lease rental payments receivable:	
Due within one year	$ 199,146
Due after one year	1,460,406
Net investment in direct financial lease	$ 1,659,552

The investment in direct financing lease is net of unearned income of $2,416,336. Unearned income is amortized and charged to operations over the initial and optional terms of the lease on a straight-line basis.

Note 6. Lease Arrangements With the Port as the Lessor (Continued)

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

Years ending December 31:		
2019	$	199,146
2020		199,146
2021		199,146
2022		199,146
2023		199,146
2024-2027		663,822
	$	1,659,552

Railroad Facilities—Operating Lease

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

Other Operating Leases

The Port leases to others certain land and improvements. These leases are classified as operating leases and agreements. The minimum lease payments under these operating leases and agreements that have noncancelable lease terms in excess of one year are as follows:

Years ending December 31:		
2019	$	3,977,739
2020		2,927,172
2021		2,612,952
2022		2,461,021
2023		2,379,847
2024-2028		8,061,063
2029-2033		5,948,247
2034-2038		2,888,573
2039-2043		1,239,778
2044-2048		1,167,778
2049-2053		159,778
2054-2058		159,778
2059-2063		159,778
2064-2068		45,270
	$	34,188,774

Note 7. Employee Retirement System (Pension Plan)

Plan Description

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

Plan Administration

The Plan is administered by the Port. Frost is the Trustee for the Plan.

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 CFO of the Port of Galveston, 123 Rosenberg Avenue, 8th Floor, Galveston TX 77550, or can be viewed at https://www.portofgalveston.com/156/Reports.

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 percent 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 percent 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 percent 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.

Note 7. Employee Retirement System (Pension Plan) (Continued)

Late Retirement

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

Early Retirement

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

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

Disability

A participant who suffers a disability prior to termination of employment and who has completed 10 or more years of vesting service will be entitled to receive a monthly amount which will 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,

Note 7. Employee Retirement System (Pension Plan) (Continued)

it will be reduced to reflect such early commencement. A participant is 100 percent vested after five years of vesting service.

At the December 31, 2017, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive plan members and beneficiaries currently receiving benefits	65
Inactive employees entitled to, but not yet receiving benefits	52
Active plan members	31
	148

Contributions

The Port will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Port may decide. Employees do not make contributions under this Plan. All contributions under the Plan shall be paid or transferred into the Trust Fund to be held, managed, invested and distributed in accordance with the provisions of the Plan. The Port reserves the right to reduce, suspend or discontinue contributions to the plan. Currently, the Port is making semimonthly contributions such that payments equal to the prior-year funding requirement is met. In the event the funding requirement exceeds semimonthly contributions, an additional contribution is normally scheduled to fund the annual required contribution. The Port's contribution for 2018 was $562,160.

Net Pension Liability

The Port's net pension liability was measured as of December 31, 2017, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The annual contribution was determined through an actuarial valuation performed as of January 1, 2018. The actuarial assumptions used are as follows:

Valuation date	December 31, 2017
Actuarial cost method	Individual entry age cost method
Asset valuation method	Market value of assets
Interest rates	Discount rate 7.25% Expected long-term rate of return 7.25% Municipal bond rate N/A
Inflation	2.75%
Annual pay increases	3.00%
Mortality rates	RP 2014 Mortality Table projected from 2006 with the Social Security Generational Improvement Scale based on the 2017 Trustees Report
Retirement rates	The latter of attainment of age 65 or the completion of five years of vesting service

Note 7. Employee Retirement System (Pension Plan) (Continued)

Experience study	The most recent experience study was complete in 2017 to review the interest rate and mortality assumption. There has not been a recent experience study to review the demographic assumptions. As the Plan is not large enough to have credible experience, demographic assumptions are determined based on the results of broad population trends.

The following changes in actuarial assumptions occurred as of January 1, 2018:

- The discount and long-term rate of return decreased from 7.50 percent to 7.25 percent
- Long-term inflation rate assumption decreased from 3.50 percent to 2.75 percent
- Mortality scales changed from using the RP 2000 Combined Mortality table, projected to 2016 with separate tables for males and females to RP-2014 Mortality Tables.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Target allocation percentages and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2017, are summarized in the following table:

Note 7. Employee Retirement System (Pension Plan) (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income equities securities	10%	2.64%
Common stock	60%	6.66%
Domestic equities—large cap	5%	6.66%
Domestic equities— mid cap	3%	7.25%
Domestic equities—small cap	5%	7.74%
International equities	10%	6.46%
Natural resources	1%	3.13%
Emerging markets	1%	8.23%
Cash	5%	0.00%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.25%)	Current Discount Rate (7.25%)	1.00% Increase (8.25%)
Net pension liability	$ 4,024,452	$ 2,442,467	$ 1,001,941

Note 7. Employee Retirement System (Pension Plan) (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	$ 15,365,170	$ 11,839,852	$ 3,525,318
Changes for the year:			
Service cost	138,712	-	138,712
Interest	1,119,970	-	1,119,970
Changes in assumptions	762,720	-	762,720
Difference between expected and actual experience	(134,857)	-	(134,857)
Contributions—employer	-	562,160	(562,160)
Net investment income	-	2,475,326	(2,475,326)
Benefit payments, including refunds of employee contributions	(1,141,887)	(1,141,887)	-
Administrative expenses	-	(69,370)	69,370
Other changes	-	1,280	(1,280)
Balance at December 31, 2018	744,658	1,827,509	(1,082,851)
	$ 16,109,828	$ 13,667,361	$ 2,442,467

Pension Expense

For the year ended December 31, 2018, the Port recognized pension expense of $684,247.

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

At December 31, 2018, the Port reported deferred outflows and inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 28,198	$ (67,428)
Changes in assumptions	381,360	-
Net difference between projected and actual earnings	-	(779,205)
Contributions subsequent to the measurement date	575,000	-
	$ 984,558	$ (846,633)

Note 7. Employee Retirement System (Pension Plan) (Continued)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability for the year ending December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Years		Net Deferred Outflows (Inflows) of Resources
2019	$	247,135
2020		(107,927)
2021		(253,631)
2022		(322,652)
	$	(437,075)

Note 8. Deferred Compensation Plans and Defined Contribution Plans

Deferred Compensation Plan—Section 457 Plan

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

Defined Contribution Plan— Employees Retirement Accumulation Plan

a. Plan Description

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

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

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

b. Plan Funding Policy

Active plan members must contribute 7.65 percent of his/her earnings and the Port is required to contribute 5.5 percent of participant earnings. The plan members contributed $407,048 and the Port contributed $292,743 during the year ended December 31, 2018.

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

Defined Contribution Plan—Galveston Wharves 2010 Plan

a. Plan Description

On January 1, 2010, the Port initiated the Galveston Wharves 2010 Plan (the 2010 Plan). Employees hired prior to January 1, 2010, were given the option to remain in the defined benefit plan, or opt for the new plan. Employees hired after January 1, 2010, were automatically enrolled in the 2010 Plan. The 2010 Plan, a defined contribution plan was established under IRS section 401(a) and is administered by ICMA for the employees' of the Port. The 2010 Plan is employee-directed, whereby employees may choose among various investment options available to participants.

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

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

b. Plan Funding Policy

The contributions made by the Port is a percentage of compensation based on years of service as follows:

0-4.99 years	3%
5-9.99 years	6%
10 plus years	9%

The Port contributed $147,704 during the year ended December 31, 2018.

Note 9. Commitments, Contingencies and Uncertainties

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

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

Note 9. Commitments, Contingencies and Uncertainties (Continued)

The Port is subject to claims and lawsuits arising from the normal course of business. The Port's legal counsel routinely evaluates such claims and management may make provisions for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2018.

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

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

Note 10. Risk Management

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

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

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

Arbitrage Compliance

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

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

Arbitrage profits result when the interest rate earned on invested debt proceeds is materially greater than that paid to holders of that debt, as calculated beginning on the third anniversary of the debt's issuance. Accordingly, any proceeds unexpended more than three years after debt issuance is subject to yield

Note 10. Risk Management (Continued)

restriction. The yield restriction may be satisfied, if any, by making yield-reduction payments pursuant to Treasury Regulation Section 1.148-5(c).

The Port presently has unexpended debt proceeds from certain debt issues, but will not be subject to yield restrictions until December 2023 and, therefore, does not anticipate associated noncompliance issues.

Note 11. Concentration of Credit Risk

Two customers generated operating revenues of $17,674,911, which comprise approximately 41 percent of total operating revenues for the year ended December 31, 2018. In the normal course of business, the Port extends unsecured credit to its customers.

Note 12. Prior-Period Adjustment—FEMA Receivable

On September 13, 2008, Hurricane Ike made landfall bringing up to a 20-foot storm surge ashore causing significant damages to the Texas Gulf Coast. Damages to the Port exceeded its total property insurance limits. As of year-end December 31, 2017, the Port reported a net receivable related to the amounts in excess of property insurance limits based on expected reimbursement from the Texas Division of Emergency Management and FEMA totaling $8,279,129.

In 2018, the Port's management determined it had not met all the eligibility requirements required to record a receivable and revenue related to these expenses. Based on this determination, management concluded the receivable and related revenue was recognized in error and restated beginning net position as follows:

Net position at beginning of year, as previously reported	$ 136,129,150
Correction to remove FEMA accounts receivable	(8,279,129)
Net position at beginning of year, restated	$ 127,850,021

The impact on the change in net position in the prior year is approximately $374,000. Management intends to continue its efforts to request reimbursement.

Note 13. Related Parties

In the ordinary course of business, the Port has entered into a contracted service transaction with a vendor affiliated with a Trustee for an amount totaling approximately $2,200,000 for the year ended December 31, 2018.

Note 14. Subsequent Events

The Port was advised by the U.S. Army Corps of Engineers that the Port, as local sponsor, is responsible to pay 50 percent of the Galveston Harbor Channel Extension (GHCE) Limited Reevaluation Report (LRR) study that was performed on October 2015, regarding a 2,572 feet extension to the existing channel to 45 feet mean lower low water. This unbilled amount is estimated to be $487,983 and is due and payable upon receiving the invoice. This is a cost which must be paid prior to beginning the Galveston Harbor Channel pre-construction engineering and design phase. The estimated cost was accrued into 2018 as an accrued expense and as a nonoperating expense. The local share of the cost for the GHCE shall be shared with other entities who will receive benefit of the extension. The participation share of those entities is still under negotiations.

Note 15. Condensed Combining Information for the Port and the Corporation

STATEMENT OF NET POSITION
December 31, 2018

	Primary Government	Corporation	Eliminations	Totals
Current assets	$ 30,633,506	$ 6,197,528	$ -	$ 36,831,034
Capital assets	141,929,933	7,863,919	-	149,793,852
Other noncurrent assets	1,460,406	-	-	1,460,406
Total assets	174,023,845	14,061,447	-	188,085,292
Deferred outflows of resources	984,558	-	-	984,558
Current liabilities	11,537,521	2,121,724	-	13,659,245
Long-term Liabilities	39,665,282	-	-	39,665,282
Total liabilities	51,202,803	2,121,724	-	53,324,527
Deferred inflows of resources	846,633	-		846,633
Net position:				
Net investment in capital assets	108,841,147	7,863,919	-	116,705,066
Restricted	8,408,718	-	-	8,408,718
Unrestricted	5,709,102	4,075,804	-	9,784,906
Total net position	$ 122,958,967	$ 11,939,723	$ -	$ 134,898,690

Note 15. Condensed Combining Information for the Port and the Corporation (Continued)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2018

	Primary Government	Corporation	Eliminations	Totals
Operating revenues:				
Charge for services:				
Vessels and cargo services	$ 10,295,621	$ 18,452,661	$ -	$ 28,748,282
Building and facilities rental and fees	23,632,703	667,382	(9,533,851)	14,766,234
Total operating revenues	33,928,324	19,120,043	(9,533,851)	43,514,516
Operating expenses:				
Personnel services	7,148,219	1,133,091	-	8,281,310
Maintenance and operations	6,884,917	15,422,779	(9,533,851)	12,773,845
Sales and office	3,946,570	3,988,786	-	7,935,356
Depreciation	5,860,840	686,014	-	6,546,854
Total operating expenses	23,840,546	21,230,670	(9,533,851)	35,537,365
Operating income (loss)	10,087,778	(2,110,627)	-	7,977,151
Nonoperating revenues (expenses):				
Investment income	280,417	570	-	280,987
Interest expense	(1,742,546)	-	-	(1,742,546)
Annual city payment	(189,169)	-	-	(189,169)
Recovery, restoration and other nonoperating expenses	(947,177)	-	-	(947,177)
Total nonoperating revenues (expenses)	(2,598,475)	570	-	(2,597,905)
Income (loss) before capital grants and contributions	7,489,303	(2,110,057)	-	5,379,246
Capital grants and contributions	1,669,423	-	-	1,669,423
Change in net position	9,158,726	(2,110,057)	-	7,048,669
Net position at beginning of year, restated	113,800,243	14,049,778	-	127,850,021
Net position at end of year	$122,958,969	$ 11,939,721	$ -	$134,898,690

Note 15. Condensed Combining Information for the Port and the Corporation (Continued)

STATEMENT OF CASH FLOWS
Year Ended December 31, 2018

	Primary Government	Corporation	Total
Cash flows from operating activities:			
Cash receipts from customers	$ 23,567,290	$ 19,975,173	$ 43,542,463
Cash payments to employees	(7,400,922)	(1,133,091)	(8,534,013)
Cash payments to suppliers for goods and services	(10,201,187)	(10,176,619)	(20,377,806)
Interfund transfers	9,533,961	(9,533,961)	-
Net cash provided by (used in) operating activities	15,499,142	(868,498)	14,630,644
Cash flows from noncapital financing activities:			
Payment to the City of Galveston	(189,169)	-	(189,169)
Net cash used in noncapital financing activities	(189,169)	-	(189,169)
Cash flows from capital and related financing activities:			
Principal payments on revenue bonds, contracts payable and capital lease	(6,317,484)	-	(6,317,484)
Proceeds from CDL notes payable	188,494	-	188,494
Principal payments on CDL notes payable	(616,419)	-	(616,419)
Receipts from capital grants and contributions	1,565,098	-	1,565,098
Interest paid—long-term debt	(1,823,449)	-	(1,823,449)
Acquisition and construction of capital assets	(4,249,238)	-	(4,249,238)
Net cash used in capital and related financing activities	(11,252,998)	-	(11,252,998)
Cash flows from investing activities:			
Receipts of interest	226,833	571	227,404
Investment income	53,583	-	53,583
Purchase of investments	(4,130,450)	-	(4,130,450)
Proceeds from sale of investments	4,201,085	-	4,201,085
Payments received from capital and direct financing lease	199,145	-	199,145
Net cash provided by investing activities	550,196	571	550,767
Net increase (decrease) in cash and cash equivalents	4,607,171	(867,927)	3,739,244
Cash and cash equivalents at beginning of year	15,979,729	5,239,055	21,218,784
Cash and cash equivalents at end of year	$ 20,586,900	$ 4,371,128	$ 24,958,028
Cash and cash equivalents per statement of net position:			
Unrestricted	$ 8,346,944	$ 4,371,128	$ 12,718,072
Restricted	12,239,956	-	12,239,956
Cash and cash equivalents at end of year	$ 20,586,900	$ 4,371,128	$ 24,958,028
Operating income (loss)	$ 10,087,778	$ (2,110,627)	$ 7,977,151
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	5,860,840	686,014	6,546,854
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(747,169)	855,130	107,961
Increase in prepaid items	(168,382)	(1,335)	(169,717)
Increase in accounts payable	132,794	13,064	145,858
Increase (decrease) in accrued expenses	383,330	(310,744)	72,586
Increase in unearned revenue and rent	48,634	-	48,634
Decrease in accrued compensated absences	(204,076)	-	(204,076)
Decrease in deferred outflows—pension items	425,318	-	425,318
Increase in deferred inflows—pension items	762,926	-	762,926
Decrease in net pension liability	(1,082,851)	-	(1,082,851)
Net cash provided by (used in) operating activities	$ 15,499,142	$ (868,498)	$ 14,630,644
Supplemental disclosures of cash flow information:			
Construction payables	$ 4,427,466	$ -	$ 4,427,466
Retainage payable	$ 233,804	$ -	$ 233,804

GALVESTON WHARVES

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Required Supplemental Information

Port of Galveston
Galveston, Texas

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Four Measurement Years Ended December 31
Required Pension Supplementary Information (Unaudited)

	2018	2017	2016	2015
Total pension liability:				
Service cost	$ 138,712	$ 137,707	$ 169,079	$ 183,481
Interest	1,119,970	1,095,941	1,071,934	1,040,307
Change in assumptions	762,720	-	(239,557)	-
Difference between expected and actual experience	(134,857)	84,594	156,762	(56,421)
Benefit payments, including refunds of employee contributions	(1,141,887)	(855,811)	(757,719)	(704,816)
Net change in total pension liability	744,658	462,431	400,499	462,551
Total pension liability at beginning of year	15,365,170	14,902,739	14,502,240	14,039,689
Total pension liability at end of year	$16,109,828	$15,365,170	$14,902,739	$14,502,240
Plan fiduciary net position:				
Contributions—employer	$ 562,160	$ 420,000	$ 400,000	$ 540,004
Net investment income	2,475,326	519,420	153,997	782,143
Benefit payments, including refunds of employee contributions	(1,141,887)	(855,811)	(757,719)	(704,816)
Administrative expense	(69,370)	-	(65,437)	(89,122)
Other changes	1,280	679	1,199	3,203
Net change in plan fiduciary net position	1,827,509	84,288	(267,960)	531,412
Plan fiduciary net position at beginning of year	11,839,852	11,755,564	12,023,524	11,492,112
Plan fiduciary net position at end of year	$13,667,361	$11,839,852	$11,755,564	$12,023,524
Wharves' net pension liability at end of year	$ 2,442,467	$ 3,525,318	$ 3,147,175	$ 2,478,716
Fiduciary net position as a percentage of the total pension liability	85%	77%	79%	83%
Covered payroll	$ 2,659,786	$ 3,174,196	$ 3,289,226	$ 3,484,519
Wharves' net pension liability as a percentage of covered payroll	92%	111%	96%	71%

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
SCHEDULE OF WHARVES' PENSION CONTRIBUTIONS
Last Ten Years
Required Pension Supplementary Information (Unaudited)

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 421,327	$ 562,160	$ 415,085	$ 377,727	$ 398,283
Contributions in relation to the actuarially determined contribution	575,000	562,160	420,000	400,000	540,004
Contribution excess	$ (153,673)	$ -	$ (4,915)	$ (22,273)	$ (141,721)
Covered payroll	$2,017,084	$2,659,786	$3,174,196	$3,289,226	$3,484,519
Contributions as a percentage of covered payroll	28.51%	21.14%	13.23%	12.16%	15.50%

	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 540,004	$ 669,776	$ 595,057	$ 595,057	$ 541,408
Contributions in relation to the actuarially determined contribution	540,004	669,776	595,057	595,057	541,408
Contribution excess	$ -	$ -	$ -	$ -	$ -
Covered payroll	$3,627,781	$3,921,729	$3,889,073	$3,990,184	$4,146,487
Contributions as a percentage of covered payroll	14.89%	17.08%	15.30%	14.91%	13.06%

Actuarial Assumptions

Valuation date	December 31, 2017
Actuarial cost method	Individual entry age cost method
Amortization method	23-year level dollar (closed)
Asset valuation method	Market value of assets
Interest rates	7.25%, net of investment expenses, including inflation
Inflation	2.75%
Annual pay increases	3.00%

GALVESTON WHARVES

2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section

Port of Galveston
Galveston, Texas


STAR LEADER
SINGAPORE

Statistical Section Categories

Page

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.

Revenue Capacity Data:
These schedules contain information regarding the largest contributors to operating revenues.

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.

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.

Operating Information:
These schedules contain service and infrastructure data to help the reader understand how the information in the Port's financial report relates to the services the Port provides and the activities it performs.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
CONDENSED STATEMENT OF NET POSITION
Last 10 Fiscal Years

Description	2018	2017 (Restated)	2016	2015
Assets				
Unrestricted Current Assets	$ 19,731,195	$ 14,197,722 [a]	$ 18,183,941	$ 20,584,656
Restricted Current Assets	17,099,839	18,642,035	19,900,725	27,796,300
Properties and Facilities, Net	149,793,852	147,820,443	152,026,032	147,901,820
Other Assets	1,460,406	1,659,552	1,858,698	2,057,844
Total Assets	188,085,292	182,319,752	191,969,396	198,340,620
Deferred outflow of resources	984,558	1,409,876	1,146,128	451,726
Liabilities				
Current Liabilities (payable from non-restricted assets)	8,688,028	8,865,980	5,414,459	10,558,641
Current Liabilities (payable from restricted assets)	4,971,216	4,823,336	4,420,000	4,250,000
Long Term Debt (net of current portion)	35,535,886	36,505,594	43,709,763	48,638,548
Unearned revenues	1,686,930	2,075,676	2,337,245	2,522,265
Net Pension Liability	2,442,467	3,525,318	3,147,175	2,478,716
Total Liabilities	53,324,527	55,795,904	59,028,642	68,448,170
Deferred inflows of resources	846,633	83,707	228,612	133,961
Net Position				
Net investment in capital assets	116,705,066'	110,603,904	115,231,634	115,312,854
Restricted	8,408,718	11,995,924	7,869,709	6,704,602
Unrestricted	9,784,906	5,250,189 [a]	10,756,927	8,192,759
Total Net Position	$ 134,898,690	$ 127,850,017	$ 133,858,270	$ 130,210,215

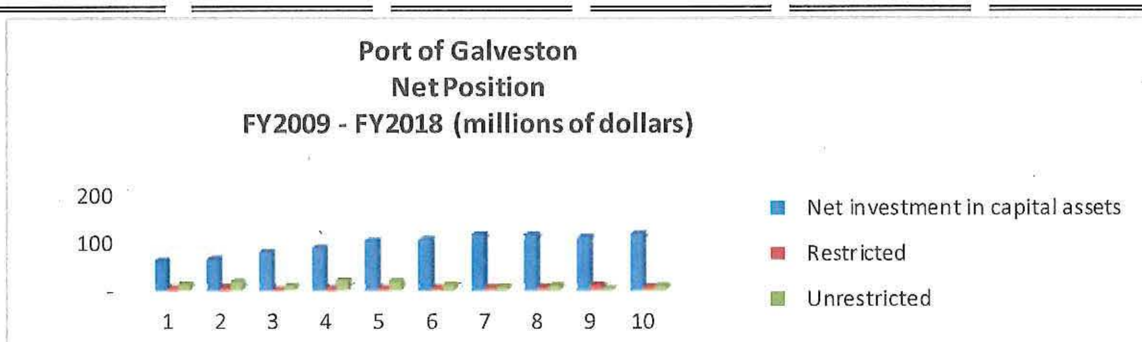
- Effective January 1, 2015 the Wharves implemented GASB 68 and 71. The 2014 ending balance has been restated for comparison purposes.

- 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.

[a]See Note 12 of the financial statements

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
CONDENSED STATEMENT OF NET POSITION
Last 10 Fiscal Years

2014	2013	2012	2011	2010	2009
$ 21,289,662	$ 23,855,430	$ 26,711,814	$ 15,432,593	$ 25,064,376	$ 21,687,683
34,491,857	21,643,798	22,538,833	22,812,482	33,752,774	32,014,012
136,548,043	137,638,530	127,239,959	118,050,502	101,418,433	100,546,191
2,256,990	2,456,136	2,655,282	2,904,883	11,607,319	11,809,757
194,586,552	185,593,894	179,145,888	159,200,460	171,842,902	166,057,643
540,004	-	-	-	-	-
7,900,565	5,109,981	5,836,253	8,789,144	8,636,926	7,275,344
4,115,000	5,324,294	3,780,000	1,355,000	2,815,000	2,685,000
52,707,229	43,566,405	51,255,689	52,359,120	64,215,178	69,185,320
2,665,129	2,844,814	3,149,585	4,842,624	5,648,989	6,583,319
2,547,577					
69,935,500	56,845,494	64,021,527	67,345,888	81,316,093	85,728,983
142,594	188,841				
106,323,197	103,644,735	87,905,458	79,080,947	64,626,839	61,322,438
6,321,160	6,020,683	5,782,618	3,572,747	7,422,212	5,732,986
12,404,105	18,894,141	21,436,285	9,200,878	18,477,758	13,273,236
$ 125,048,462	$ 128,559,559	$ 115,124,361	$ 91,854,572	$ 90,526,809	$ 80,328,660



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CHANGES IN NET POSITION

Last 10 Fiscal Years

Description	2018	2017	2016	2015
Operating Revenues:	$43,514,516	$37,769,849	$34,488,872	$33,015,643
Operating Expenses:				
Personnel Services	8,281,310	7,972,059	8,462,458	8,891,974
Maintenance and Operations	12,773,845	11,772,312	10,987,938	9,005,438
Office & Sales Expense	7,935,356	6,865,712	5,412,002	6,046,520
Depreciation	6,546,854	6,705,570	6,549,259	6,005,248
Total Operating Expenses	35,537,365	33,315,653	31,411,657	29,949,180
Net operating Income (Loss)	7,977,151	4,454,196	3,077,215	3,066,463
Non-Operating Revenue (Expenses):				
Direct Financing Lease				
Investment Income	280,987	347,353	288,856	232,073
cAnnual City Payment	(189,169)	(188,793)	(188,561)	(188,076)
Income from Capital Lease				
Interest Expense	(1,742,546)	(1,934,675)	(2,125,727)	(2,275,468)
Bond issuance costs				
Other Debt Expense				
Net Gain/(Loss) on Disposal of Equipment				3,279
Legal Settlement				
Operating Grants				
US Army COE-Related Expenses	(487,983)			
a Hurricane-Related Income/(Expenses)	(459,194)	(811,434) b	(552,828)	(569,808)
Loss on Termination of Capital Lease				
Total Non-Operating Revenues (Expenses)	(2,597,905)	(2,587,549)	(2,578,260)	(2,798,000)
Income (Expense) Before Contributions	5,379,246	1,866,645	498,955	268,463
Capital Grants and Contributions	1,669,423	30,384	3,149,100	4,893,290
Changes in Net Position	$ 7,048,669 $	$ 1,897,029 $	$ 3,648,055 $	$ 5,161,753

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

• Effective January 1, 2012 the Wharves impleneted GASB Statements No. 63 & 65. Prior periords preented abore have been restated to eflect the accounting methods dictated by these statements.

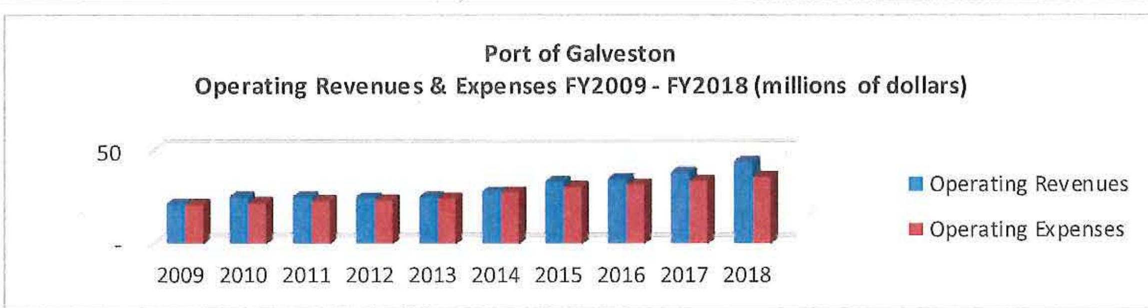
[a]Effective in 2018, Hurricane-related expenses for all years are being shown as Non-Operating.

[b]Adjusted - see Note 12 of the financial statements.

[c]Effective in 2018, Annual City Payments for all years are being shown as Non-Operating rather than Operating

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
CHANGES IN NET POSITION
Last 10 Fiscal Years

2014	2013	2012	2011	2010	2009
$ 27,711,092	$ 24,767,493	$ 24,482,964	$ 24,843,317	$ 24,678,500	$ 20,870,753
8,858,156	8,845,314	8,819,701	8,281,209	7,657,539	6,945,120
8,911,837	7,105,943	6,990,167	7,329,099	7,101,626	6,440,171
3,804,123	2,428,240	2,333,548	2,869,070	2,595,201	3,195,543
5,837,831	5,640,607	4,999,706	4,112,167	4,212,567	3,942,434
27,411,947	24,020,104	23,143,122	22,591,545	21,566,933	20,523,268
299,145	747,389	1,339,842	2,251,772	3,111,567	347,485
			428,542	467,500	467,500
225,801	201,126	122,618	81,193	375,976	344,028
(187,302)	(187,302)	(187,302)	(182,000)	(182,000)	(182,000)
(1,970,803)	(2,115,837)	(2,500,263)	(2,991,863)	(3,157,474)	(3,304,340)
			(432,241)		
(170,521)	(225,146)				
	1,840		(24,366)	(40)	(67,706)
			1,962,345	3,421,521	540,163
(1,963,657)	(944,908)	13,340,200	(481,789)	6,161,099	3,283,299
(4,066,482)	(3,270,227)	10,775,253	(1,640,179)	7,086,582	1,080,944
(3,767,337)	(2,522,838)	12,115,095	611,593	10,198,149	1,428,429
2,263,814	15,958,039	11,154,694	716,170		6,092
$ (1,503,523) $	$ 13,435,201 $	$ 23,269,789 $	$ 1,327,763 $	$ 10,198,149 $	$ 1,434,521



THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

OPERATING REVENUE STATEMENT
Last 10 Fiscal Years

Description	2018	2017	2016	2015
Switching	$ 664,519	$ 556,646	$ 929,527	$ 1,067,920
Wharfage	4,491,912	3,169,750	2,661,602	2,577,208
Passenger Charge	12,200,846	11,580,016	8,946,032	8,647,317
Parking Fees	7,607,603	6,669,561	6,143,976	6,312,896
Dockage	6,719,542	5,165,419	5,826,700	6,479,532
Ship Service Revenues	5,336,560	4,861,472	3,891,550	3,195,913
Shed Hire				
Revenue Producing Svcs.	343,467	98,497	114,358	120,388
Rentals	3,787,582	3,748,981	3,478,455	3,051,766
Security Cost Recovery	1,191,123	847,632	949,909	979,811
Terminal Access Fees	888,442	889,170	832,440	526,823
Miscellaneous	282,920	182,710	714,323	56,067
Total Operating Revenues	$ 43,514,516	$ 37,769,854	$ 34,488,872	$ 33,015,641

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
OPERATING REVENUE STATEMENT
Last 10 Fiscal Years

2014	2013	2012	2011	2010	2009
$ 763,624	$ 496,996	$ 629,707	$ 968,353	$ 1,089,685	$ 878,609
2,659,003	2,304,942	2,927,094	2,113,569	1,873,470	1,583,092
6,157,648	5,271,205	4,854,694	3,760,158	3,438,848	3,032,155
4,851,414	4,117,693	4,203,115	3,307,542	3,208,581	3,132,854
5,683,806	5,345,099	4,715,107	6,580,882	7,084,880	5,451,920
3,449,474	2,892,874	2,471,125	2,064,344	1,703,452	1,474,313
		4,216			38,756
114,505	119,137	124,191	146,204	467,740	349,995
3,049,244	3,446,461	3,718,048	5,098,394	4,703,380	4,365,053
658,078	558,984	494,919	647,018	602,437	460,443
283,566	148,554	122,430	102,410	101,020	79,476
40,730	65,547	218,318	54,444	405,008	24,086
$ 27,711,092	$ 24,767,492	$ 24,482,964	$ 24,843,318	$ 24,678,501	$ 20,870,752

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF TEN LARGEST REVENUE GENERATING CUSTOMERS

Current Year and Nine Years Ago

		2018	
Rank	**Customer Name**	**Amount**	**Percent of Total Operating Revenues**
1.	Carnival Cruise Lines	$ 9,841,236	23%
2.	Royal Caribbean, Int'l.	7,833,675	18%
3.	ADM Grain Co.	1,710,969	4%
4.	Disney Cruise Line	1,199,883	3%
5.	DSV Air & Sea, Inc.	1,498,237	3%
6.	Gulf Copper	1,312,465	3%
7.	City of Galveston	1,145,000	3%
8.	Wallenius Wilhelmsen Logistics	1,046,480	2%
9.	CHS, Inc.	988,397	2%
10.	WWL Vehicle Services Americas	933,415	2%
	Total Ten Largest Customers	$ 27,509,757	63%
	Others	16,004,759	37%
	Total Operating Revenues	$ 43,514,516	100%

Source: Port of Galveston Records

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF TEN LARGEST REVENUE GENERATING CUSTOMERS

Current Year and Nine Years Ago

2009

Customer Name	**Amount**	**Percent of Total Operating Revenues**
Carnival Cruise Lines	$ 2,772,271	13%
Gulf Copper	2,098,456	10%
Royal Caribbean, Int'l.	2,089,929	10%
ADM Grain	1,773,177	8%
Galveston Railroad	984,057	5%
Wallenius Wilhelmsen	888,919	4%
Del Monte Fresh Fruit	633,796	3%
Mitsubishi	528,366	3%
Norton Lilly Int'l.	521,766	2%
Malin International Ship Repair	416,411	2%
Total Ten Largest Customers	$ 12,707,148	61%
Others	8,163,604	39%
Total Operating Revenues	$ 20,870,752	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
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
2016	0	20,623,883	11,393,206	13,853,370
2017	0	18,972,813	8,687,611	13,602,884
2018	0	17,241,744	6,136,456	13,174,959

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

Capital Leases	Total	Percentage of Personal Income	Dollars Per Capita
1,376,280	71,935,703	8%	4,048
1,246,569	69,386,860	7%	3,905
3,316,379	56,620,888	5%	2,401
3,087,814	51,304,402	4%	2,176
2,849,937	48,448,988	4%	1,952
2,602,368	57,239,097	4%	2,167
2,344,712	52,742,771	4%	2,016
2,076,562	47,947,021	4%	1,798
1,797,486	43,060,794	3%	1,574
0	36,553,159	3%	1,295

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
PLEDGED NET REVENUE COVERAGE
Last Ten Fiscal Years

Description	2018	2017	2016	2015
Operating Revenues:	$ 43,514,516	$ 37,769,849	$ 34,488,872	$ 33,015,643
Operating Expenses	35,537,365	33,504,448	31,600,218	30,137,256
Net Operating Income (Loss)	7,977,151	4,265,401	2,888,654	2,878,387
Add:				
Income from Capital Lease				
Miscellaneous Income				
Interest Income	280,987	347,353	288,856	232,073
Depreciation	6,546,854	6,705,572	6,549,259	6,005,248
Total Net Revenues	$ 14,804,992	$ 11,318,326	$ 9,726,769	$ 9,115,708
Annual Debt Service	$ 6,549,453	$ 6,447,362	$ 6,444,562	$ 6,450,236
Debt Service Coverage	2.26	1.76	1.51	1.41

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PLEDGED NET REVENUE COVERAGE

Last Ten Fiscal Years

2014	2013	2012	2011	2010	2009
$ 27,711,092	$ 24,767,493	$ 24,482,964	$ 24,843,317	$ 24,678,500	$ 20,870,753
27,599,249	24,207,406	23,330,424	22,773,545	21,748,933	20,705,268
111,843	560,087	1,152,540	2,069,772	2,929,567	165,485
225,801	201,126	122,618	81,193	375,976	344,028
5,837,831	5,640,607	4,999,706	4,112,167	4,212,567	3,942,435
$ 6,175,475	$ 6,401,820	$ 6,274,864	$ 6,263,132	$ 7,518,110	$ 4,451,948
$ 5,513,294	$ 5,693,844	$ 2,521,208	$ 4,695,925	$ 4,682,086	$ 4,696,288
1.12	1.12	2.49	1.33	1.61	0.95 **

** - 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.

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
2019	2,545,669	3,160,000	753,784	6,459,453
2020	2,545,169	3,160,000	2,350,950	8,056,119
2021	2,545,044		2,511,362	5,056,406
2022	2,549,919		2,511,572	5,061,491
2023	2,545,169		2,517,388	5,062,557
2024	2,549,647		2,519,634	5,069,281
2025	2,548,375		2,522,023	5,070,398
2026	2,547,123		210,186	2,757,309
	$ 20,376,114	$ 6,320,000	$ 15,896,899	$ 42,593,013

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)
2009	50,308	$17,769	$893,923	35.5	12	6,047	7.7%
2010	56,391	$17,769	$1,002,012	38.8	12	6,400	8.4%
2011	47,743	$23,581	$1,125,828	38.8	12	6,400	8.9%
2012	48,444	$23,581	$1,142,358	38.8	12	6,450	7.6%
2013	47,762	$24,822	$1,185,548	38.8	12	6,450	7.7%
2014	48,733	$26,410	$1,287,038	38.8	12	6,800	5.6%
2015	49,608	$26,164	$1,297,944	37.3	12	6,813	6.3%
2016	50,180	$26,665	$1,338,050	36.3	12	6,976	4.8%
2017	50,550	$27,366	$1,383,351	37.0	12	6,914	3.8%
2018	50,497	$28,227	$1,425,379	36.6	12	7,017	4.5%

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

	2018		
Employer	**Employees**	**Rank**	**Percent of total employment**
University of Texas Medical Branch	8,254	1	28.10%
Landry's Restaurants	2,788	2	9.49%
Galveston County (on island only)	1,340	3	4.56%
Galveston Independent School District	1,100	4	3.75%
Moody Gardens	1,027	5	3.50%
American National Insurance Company	845	6	2.88%
City of Galveston	744	7	2.53%
Schlitterbahn*	500	8	1.70%
Walmart	475	9	1.62%
ILA (Local 20, 1665, 15048, 1443	470	10	1.60%
Mitchell Historic Properties	379	11	1.29%
Texas A&M University at Galveston	375	12	1.28%
Fertitta Hospitality	-		0.00%
Galveston College	-		0.00%
U.S. Army Corps of Engineers	-		0.00%
	18,297		62.30%

Source: Galveston Economic Development Partnership and Texas Workforce Commission.
http://www.galvestonislandtx.com/business/economic/profiles.htm

*Employment increases by 45% - almost 600 additional jobs during the summer.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PRINCIPAL EMPLOYERS IN THE CITY OF GALVESTON

Current Year and Nine Years Ago

2009		
Employees	Rank	Percent of Total Employment
10,500	1	34.09%
1,000	4	4.92%
700	9	1.74%
1,100	3	5.16%
922	5	3.49%
1,400	2	6.06%
730	6	2.95%
		0.00%
		0.00%
		0.00%
		0.00%
	11	1.50%
566	7	2.14%
543	8	2.06%
300	10	1.52%
17,761		65.63%

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

Description	2018	2017	2016	2015
Bulk Grain	839,395	734,932	2,466,931	3,073,498
Bulk Fertilizer	603,701	455,945	565,277	620,731
Bulk Liquid	1,544,103	1,225,701	1,303,459	904,659
Bulk Cement				
Other Bulk Cargoes				
Bananas & Other Fruit	534,412	484,661	486,797	520,697
Other General & Ro RoCargo	581,779	486,296	383,320	483,722
Livestock	-	-	-	-
Total Tons Handled	4,103,390	3,387,535	5,205,784	5,603,307
Inward	3,069,352	2,342,006	2,631,508	5,296,181
Outward	1,034,038	902,805	2,574,276	307,126
Total Inward & Outward	4,103,390	3,244,811	5,205,784	5,603,307
Number of Vessels (Includes ships & barges)	840	734	752	810

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

2014	2013	2012	2011	2010	2009
1,553,860	914,099	1,088,386	3,592,228	4,361,157	3,037,793
721,562	542,121	700,104	413,890	376,278	370,384
1,666,465	2,127,632	2,080,702	2,518,378	2,753,381	1,820,621
		10,818	20,362		
504,542	439,178	337,912	369,234	358,953	275,617
495,067	429,382	548,476	439,734	369,891	345,362
-	11,897	20,178	5,043		
4,941,496	4,464,309	4,786,576	7,358,869	8,219,660	5,849,777
3,103,258	3,314,967	3,404,705	3,493,545	3,610,312	2,628,434
1,838,238	1,149,342	1,381,871	3,865,324	4,609,348	3,221,343
4,941,496	4,464,309	4,786,576	7,358,869	8,219,660	5,849,777
846	912	803	774	1,078	944

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

Year	Cruise Ship Calls	Cruise Passengers	Vehicles Parked
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
2016	235	868,923	105,108
2017	255	938,198	116,211
2018	268	989,220	113,484

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)
2009	21	39	28	88	4,432,599
2010	22	43	29	94	4,742,606
2011	21	45	32	98	5,027,568
2012	21	45	32	98	5,238,227
2013	18	44	33	95	5,213,368
2014	18	42	33	93	5,266,610
2015	19	43	34	96	5,683,543
2016	21	43	40	104	5,956,898
2017	20	41	32	93	5,437,350
2018	20	33	33	86	5,322,593

(a) Includes straight time and overtime.
(b) Based on quarterly Bureau of Labor Statistics reports.

East End Ro-Ro Cargo Terminal and VPC at Pier 9-15 (Pier 10 Terminal)	Services major Roll-On Roll-Off (RO-RO) cargo ship ocean lines. Major RO-RO Hub Port on Gulf Coast. Total 40.1 acres, including 19.7 acres leased in 2016 to an operator for a Vehicle Processing Center (VPC) for BMW. Additional 5.44 acres for Caterpillar EPC. Also transloading military household goods for ARC.
Vehicle Processing Center (Pier 10 Terminal)	Vehicle Processing Center (VPC) for BMW located on 19.7 acres in Foreign Trade Zone Number 36. The VPC services 42 BMW and Mini Cooper Dealers in the states of Texas, Oklahoma, Louisiana and Arkansas.
Refrigerated Warehouse and Distribution Center / Terminal at Pier 16-18	Services importation of refrigerated bananas and other fruit and produce. Quick access to Interstate Hwy 45. Phase I and Phase II expansion projects completed in 2009. Phase III expansion project was completed in 2011. Phase IV and V expansion projects completed in 2012. Pier 18 expansion (40 feet wide by 600 feet long) completed 2012. Pier 16 expansion (40 feet wide by 600 feet long) completed 2013. Uplands acreage expanded (2 acres) in 2015. Additional land added under lease in August, 2017.
Pier 21 Harborside Development	Retail/wholesale waterfront commercial development of outlets for the sale and provision of goods and services to the public: hotel, restaurants, residential rental units, offices, museums and a small boat basin for the docking of pleasure craft and recreational vessels, together with related offices, parking facilities and other facilities, incidental, or pertinent, to these operations.
Texas Cruise Ship Terminals On Galveston Island®	Home Port to Carnival Cruise Line and Royal Caribbean International (RCI). Seasonal Home Port to Disney Cruise Line. Highest cruise passenger volume on the Gulf Coast. Fourth largest (by volume) cruise port in North America. Parking available for passengers on all cruises. Ability to take on additional cruise ships and passengers. Expansion of Cruise Terminal 1 to handle higher volume cruise vessels completed in October 2011. Expansion of Cruise Terminal 2 to accommodate larger cruise vessels completed in 2016. Expansion of mooring capabilities at Cruise Terminal 1 to accommodate the largest Carnival Cruise Line vessel was completed in early 2018.
Export Grain Elevator at Pier 30-32	Operated by ADM Grain Company. Handles grain exports from U.S. Midwest and Southwest regions, serviced by BNSF Railway and UP Railroad. Storage capacity 3,200,000 bushels. Railcar unloading capacity of 1,600 MT per hour. Vessel loading capacity of 2,000 MT per hour. Facility rail expansion completed in 2012 to allow handling of three shuttle trains of 100 rail cars each.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
OPERATING FACILITIES (CONTINUED)
December 31, 2018

Pier 34 Project and General Cargo Terminal	General cargo terminal facility with substantial adjacent open storage area. Current primary use includes unloading, loading, and trans-shipping structural members and components for wind-powered electric generating windmills. Construction of specialized rail ladder track for the loading and unloading of rail cars with energy-related and over-dimensional cargo completed March 2012.
Pier 35 Bulk Cargo Terminal-Fertilizer	Operated by CHS, Inc. a major importer of bulk urea fertilizer. Facility has storage capacity of 80,000 Short Tons. Serviced by BNSF and UP Railroads. Facility rail track expansion to handle shuttle trains completed in 2012.
West End Roll-On/Roll-Off and General Cargo Piers 37-40	Services two major Roll-On/Roll-Off (RO-RO) cargo ocean shipping lines. Miscellaneous Breakbulk, rolling stock, remarketed vehicles for export and IMO Class One cargoes. Piers also used for docking vessels for repairs.
Vessel Repair Facility at Pier 41	Dockside repairs on research and other vessels primarily related to the offshore oil industry which includes drilling ships. Operated by Port tenant. Significant local employer.
The Old Navy Dock on adjacent Pelican Island	Tenant offers a full range of maritime support services including salvage and emergency pollution response solutions for worldwide deployment.
Shipyard Operation on adjacent Pelican Island	Property is 110 acre plus docks, piers and dry-dock facility operated by a major Port tenant. Facility repairs oil rigs, ships, barges, and research vessels. Major local employer. Major source of rental income to Port.
Pelican Island Storage Terminal, Inc.	Liquid bulk terminal operated by Port tenant moving carbon black and heavy fuels. Tank storage capacity expansion of 100% was completed in 2012. Further expansion of tankage and diversification of products is expected.

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