2016

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, 2016

PORT OF GALVESTON

Galveston, TX

2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ending December 31, 2016

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

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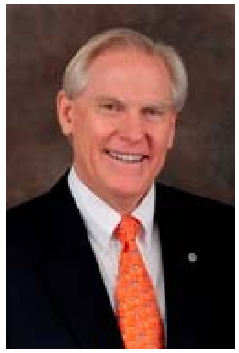
Directory of Officials

2016 Board of Trustees of the Galveston Wharves

BENJAMIN F. HOLLAND, JR.
CHAIRMAN

ALBERT P. SHANNON
VICE CHAIRMAN



ELIZABETH BEETON
TRUSTEE

RICHARD DEVRIES
TRUSTEE

E. L. "TED" O'ROURKE
TRUSTEE

TODD P. SULLIVAN
TRUSTEE

JAMES D. YARBROUGH
TRUSTEE

Directory of Officials (con't)

Officers and Executive Staff

Peter Simons, Interim Port Director

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

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

Mark R. Murchison, Director of Finance, Treasurer

Roger Quiroga, Director of Economic Development and External Affairs

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

Cristina Galego, Public Relations Manager

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

Earl L. Kalsnes, Harbormaster

General Counsel

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

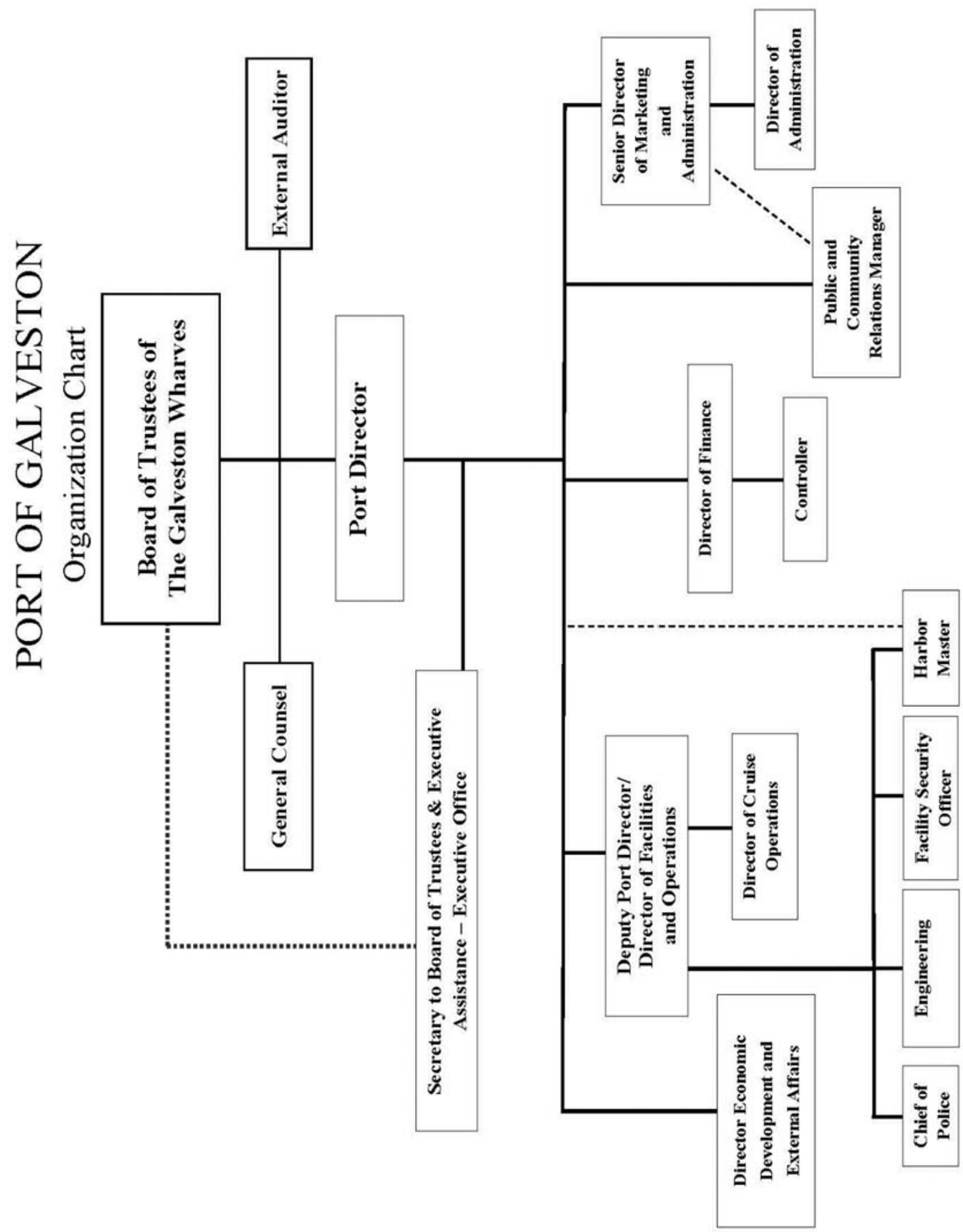
Bond Counsel

Bracewell & Giuliani, LLP.

Auditors

Whitley-Penn, LLP

Organization Chart



Port Contact Information

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Galveston TX 77550

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Port of Galveston
P.O. Box 328
Galveston, TX 77553

Tel 409-765-9321
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●123 Rosenberg Avenue 8th Floor, Galveston, Texas 77550

● P O Box 328 Galveston, Texas 77553

● Galveston (409) 765-9321 ● Houston (281) 286-2484

● Fax (409) 766-6171

● Website: http://www.portofgalveston.com

Letter of Transmittal

April 3, 2017

Board of Trustees of the Galveston Wharves
Galveston, TX

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Board of Trustees of the Galveston Wharves for the year ended December 31, 2016. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Galveston Wharves. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the Galveston Wharves. All disclosures necessary to enable the reader to gain an understanding of the Galveston Wharves' financial activities have been included.

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

Independent Auditors selected by the Board of Trustees have audited the financial statements and supplemental schedules for the year ended December 31, 2016. The Independent Auditors' report is included in front of the financial section of this report.

In addition to meeting the requirements of generally accepted auditing standards, the audit was designed to also meet the requirements of the Federal Single Audit Act of 1984 and related OMB Uniform Guidance. A copy of the Independent Auditor's reports related specifically to the Single Audit Act may be obtained by contacting the Director of Finance, 123 Rosenberg, 8th Floor, Galveston, TX 77550 or P. O. Box 328, Galveston, TX 77553. An electronic copy of this report will be posted to the Port's website www.portofgalveston.com within 15 days of acceptance of the report by the Board of Trustees of the Galveston Wharves.

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

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT

Profile of the Government

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

The Galveston City Council created the Galveston Port Facilities Corporation (GPFC) in 2002 for use as a financing vehicle for expansion and renovation of Wharves facilities. A detailed explanation of the GPFC is given in Note One to the 2016 Financial Statements which are included in the Financial Section of the CAFR.

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

The Port is a separate utility so designated by provision of the City Charter (the "Charter"). The Charter provides that all city-owned wharf and terminal properties, and all income and revenue 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 Wharves and such subordinate officers and employees as may be required for the proper conduct of the business of the Wharves, the preparation of budgets, the fixing of charges, the authorization of expenditures, the acquisition of properties, the determination of policies, and, in general, the complete management and control of the Wharves and the income and revenues, thereof, subject only to the special limitations provided in the Charter.

Situated on Galveston Island two miles off the Texas coast on the Gulf of Mexico and approximately fifty miles south of Houston, the Port of Galveston is Texas' oldest port. Galveston was used for shipping as long ago as 1820 and on October 17, 1825 became a provisional port and customs entry port by Act of Congress 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 and 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 monthly to the Trustees of the Galveston Wharves, which also holds management accountable for actual results. Through management reporting, the Port is promulgating sound financial and management practices.

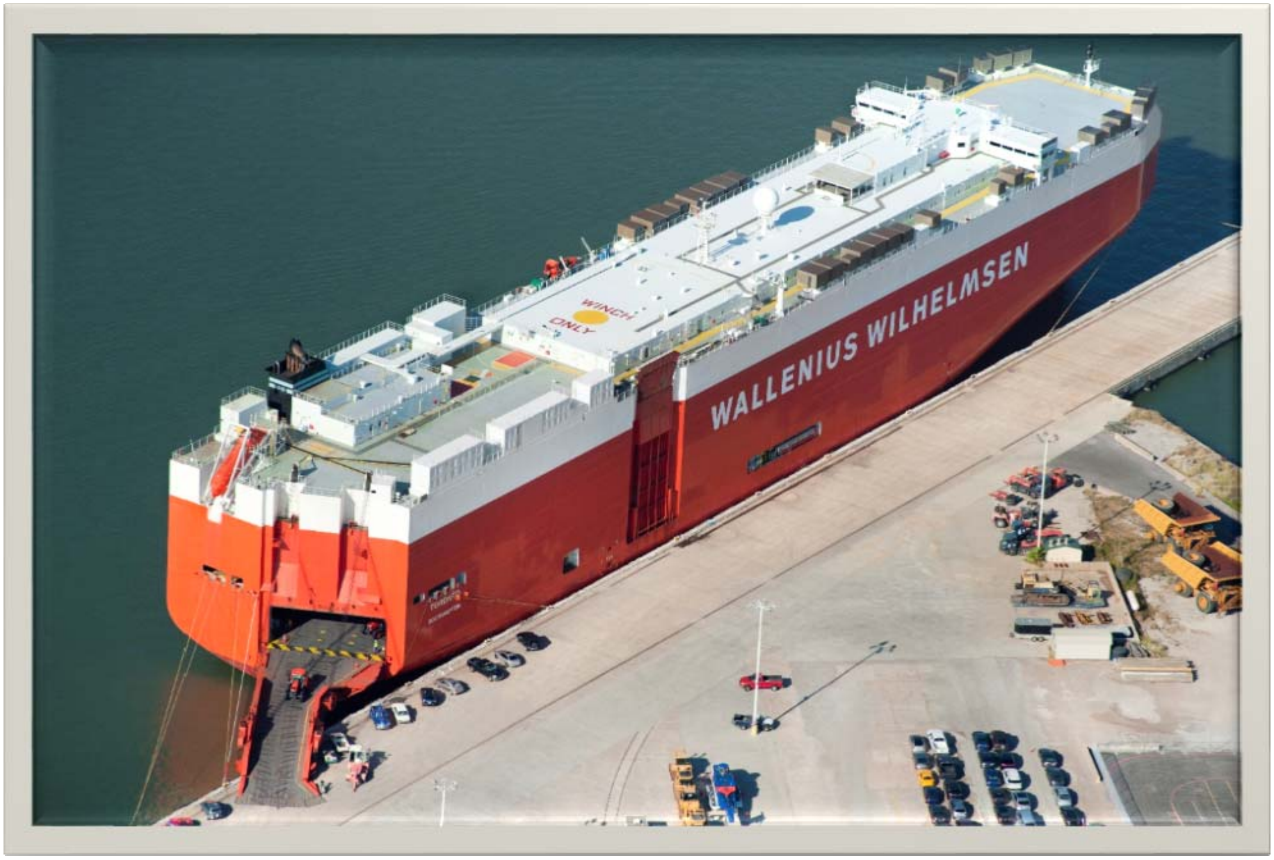
Local Economic Condition and Outlook

The Port of Galveston is one of Texas's major seaports. It operates as a self-supporting enterprise and does not rely on any local tax dollars for operations. The Port generated $33 million in revenues in 2016 with an annual estimated economic impact to the state of $2.3 billion. A landlord port with facilities and property totaling approximately 850 acres on Galveston Island and the adjacent Pelican Island, the Port of Galveston facilitates the movement of a diverse mix of domestic and international cargoes. One of the top 50 ports in the nation and one of the busiest in Texas, the Port moved 5.2 million tons of cargo and had over 1.73 million cruise passenger movements in 2016.

Based on the most recent economic impact study commissioned by the Port (a November 2016 study by Martin Associates which excluded the effect of non-maritime operations, marina operations in the Pier 19-21 area and the recently-completed BMW vehicle distribution center), the Port generated 13,892 jobs in Texas in 2015. With the completion of several major capital projects in 2016, jobs associated with Port activity have increased. 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.

Since 2011, the Port has paid in excess of $39.6 million to vendors located within the City of Galveston. This is an average annual expenditure of $6.6 million spent locally over the past six years. Additionally, the Port operates cruise parking lots subject to sales tax through which the local government receives 2% of parking revenues or $123 thousand in 2016.

In 2016, the Port completed three major capital improvement projects representing an investment of over $33 million in Port, related government and private funds. These three projects consisted of: the construction of a state of the art Vehicle Processing Center for new BMW vehicles (completed in January 2016); construction of a regional intermodal transportation terminal for the City of Galveston (completed in late December 2015); and, construction of a 60,000 square foot expansion to Cruise Terminal Two (completed in May 2016).



The new Vehicle Processing Center (VPC) was constructed as a public-private partnership with Wallenius Wilhelmsen (WWL) Vehicle Services America and is located in the east end of the Port at Pier 10. The Port's investment in the facility, which includes utilization of various grants and cash expenditures, is in excess of \$6.3 million. WWL spent a similar amount and the City of Galveston, through its Industrial Development Corporation (IDC), contributed \$1.35 million to construct the VPC. This facility consists of a 35,000 square foot building for vehicle processing and includes a 12,000 square foot body shop and car wash. The complex is located on 19.6 acres of land located in Foreign Trade Zone 36. The VPC supplies vehicles to 42 BMW and Mini Cooper dealers in the states of Texas, Oklahoma, Louisiana, and Arkansas and is projected to process approximately 33,000 units annually. Ground breaking occurred in April 2015 with the facility receiving its first shipment of BMWs and Mini Coopers on January 28, 2016. The VPC is projected to have a substantial economic benefit to the region over the next 20 years. The economic impact is projected to be around \$311 million with \$164 million being direct economic impact.

The Galveston Downtown Transit Terminal (the "Transit Terminal") was constructed as a partnership between the City of Galveston and the Port through the use of two Federal Transportation Administration Grants along with Port funds. The total cost of the facility was approximately \$7.3 million. The Transit Terminal, located at 25th and Strand, consists of a regional bus transportation hub including an indoor waiting area, public restrooms, and 3,654 square feet of commercial retail space. The facility also includes 159 parking spaces. The retail area is fully leased. The Transit Terminal was officially opened on February 25, 2016 and is fully operational. This facility serves the transit needs for the City Island bus service as well as parking for visitors exploring the downtown area or taking cruises from either of the Port's two cruise terminals.

The Port of Galveston is the 4th largest cruise port in North America and ranks 7th worldwide. (Cruise ports are measured by the number of passengers embarking and disembarking.) For continued growth, and to accommodate larger cruise ships committed to cruising from the Port, the Port committed to an expansion of Cruise Terminal Two. The expansion increased the size of the terminal from 90,000 square feet to 150,000 square feet. The additional square footage allows more room for passenger processing and permits servicing of vessels carrying in excess of 4,500 passengers. The expanded facility also permits simultaneous embarkation and disembarkation operations, a key factor cruise lines consider when selecting a home port for operations. Included in this expansion are various waterside improvements including dock and wharf improvements, additional moorings and updates to the existing structure. Total expenditures related to these projects are in excess of $16.3 million. The expansion is being funded through Series 2014 Subordinate Lien Revenue Note and the wharf expansion and mooring improvements are being funded through Series 2011 Revenue Bond. In 2014, the Port had over 1.28 million passenger movements. In 2015 passenger movements increased to over 1.67 million. Passenger movements increased again in 2016 to 1.73 million. Port staff expect that passenger embarkations and disembarkations will exceed 1.9 million in 2017.

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

In 2016, the Port exported approximately 2.5 million 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. As part of the new agreement, ADM committed to invest $10 million in capital improvements in the facility. ADM completed the first of these facility improvements in June 2016. The improvements required a full facility shutdown, resulting in a decrease in a decrease in the volume of grain shipped through the Port in 2016.

In 2016, the Port saw a slight decrease in growth in its refrigerated fruit/bananas business. Tonnage decreased 6% following substantial growth in 2013, 2014 and 2015. Tonnage growth in prior years was the result of capital investments by Del Monte Fresh Produce, N.A., Inc. in their facility of approximately $12 million. At the same time, the Port invested $10 million to improve the wharf and expansion of the pier used by Del Monte's ships. In 2015, the stevedore providing service to Del Monte invested $3 million in a shore based crane. The crane doubles the potential throughput capacity of the facility.

Port tonnage in the general cargo category increased 18% from approximately 52,000 short tons in 2015 to almost 62,000 short tons in 2016. This was a direct result of increased wind project cargo shipped through the Port. The Port will see a continued increase in wind project cargo shipments through 2017 since it has been selected by a major manufacturer to handle all of its shipments. In addition, in 2016 the amount of liquid bulk cargo shipped thru the Port increased 44% to 1,303,500 short tons. This reflects increased activity at the leased bulk liquid facility on Pelican Island. Shipments of bulk fertilized decreased approximately 9% in 2016 (to 565,000 short tons from 2015 tonnage of 621,000 tons) due to draft limitation issues at the facility. The berth at the facility has since been dredged to remedy this problem. Finally, in 2016, the tonnage of roll-on/roll-off cargo shipped thru the Port decreased 25%. This was due principally to an economic downturn in the destination countries served by shippers operating in the Port.

Long Term Financial Planning

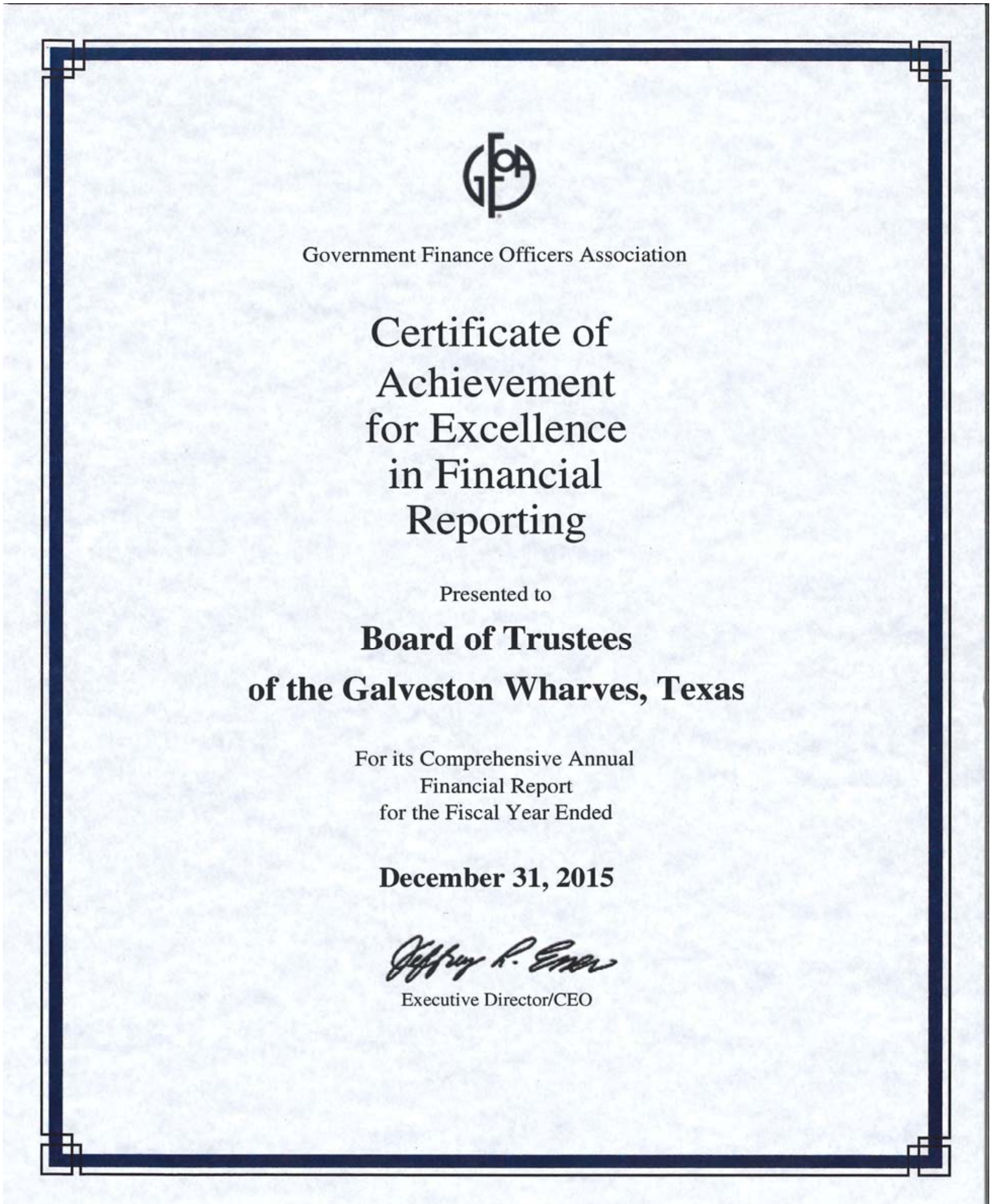
In 2016, the Port received various Federal Port Security Grants, local Industrial Development Corporation (4B Sales Tax) (IDC) grants, and notification of funding from Texas Department of Transportation for Port infrastructure improvements. These grants range from 100% funding of specific projects to projects with a 25% or more Port cost share. Generally, the grants received by the Port 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 additional improvements and additions to its facilities. Continuing to seek Federal, state, and local grants and leveraging grant proceeds with local share contributions will also be a financing tool. Plans for financing additional facilities include replacing or increasing bonded indebtedness as existing issues are retired and as increased cash flow from operations permits.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to The Board of Trustees of the Galveston Wharves for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2015. This was the 23rd consecutive year that the Port of Galveston has achieved this prestigious award. In order to receive a Certificate of Achievement, candidates must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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



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, 2015

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.

Acknowledgements

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

The coming year represents an exciting time for the Port as we welcome an additional cruise ship, an expansion of the Vehicle Processing Center and the completion of various infrastructure improvements that will position the Port for continued growth.

Respectfully Submitted,

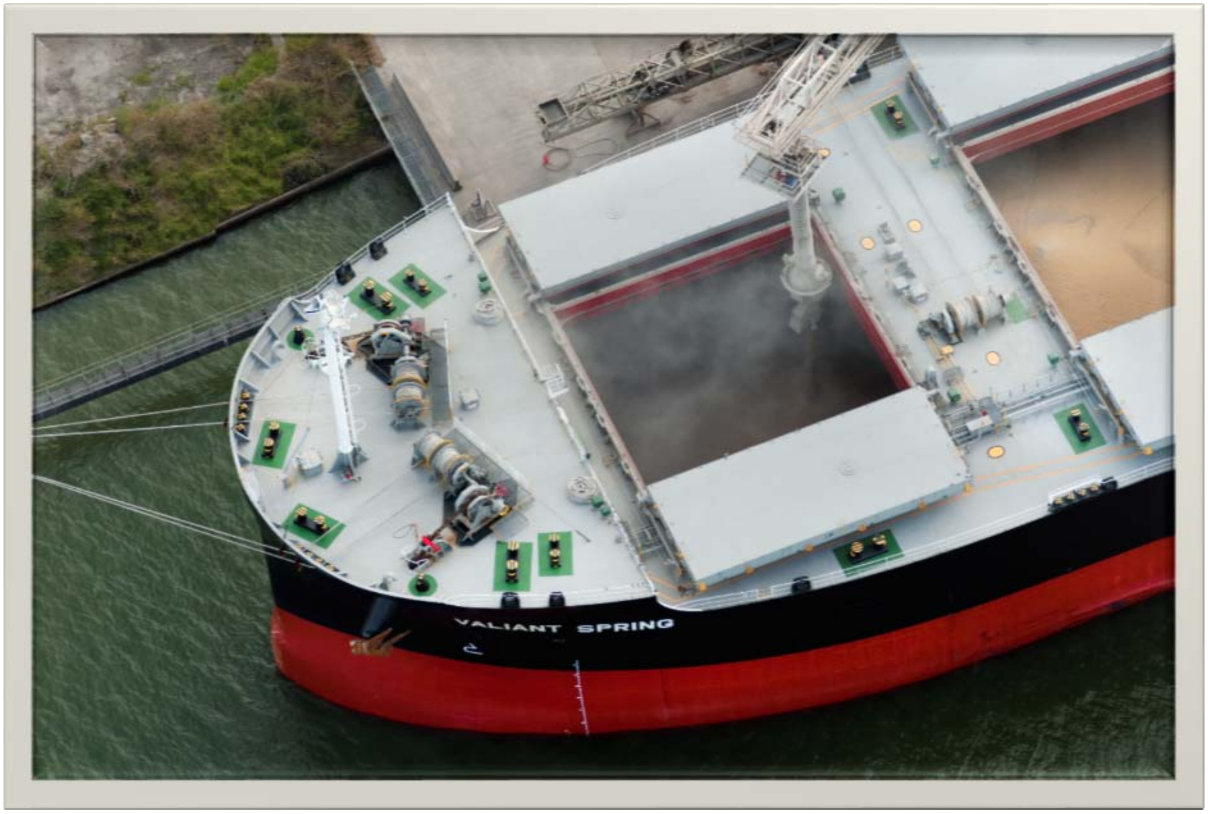
Peter Simons
Interim Port Director

Mark R. Murchison
Director of Finance

Financial Section

Port of Galveston

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT



Port of Galveston
Galveston, Texas

whitleypenn

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying statements of net position and the related statements of revenues, expenses and changes in net position and cash flows of the Board of Trustees of the Galveston Wharves (the "Wharves"), a component unit of the City of Galveston, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Wharves' basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Trustees of
The Galveston Wharves

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Trustees of the Galveston Wharves, as of December 31, 2016, and the respective changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and required pension system supplementary information on pages 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2017 on our consideration of the Wharves' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Wharves' internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
April 3, 2017

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT

Management's Discussion and Analysis

Port of Galveston
Galveston, Texas

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

Overview of the Financial Statements

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

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

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

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

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

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):

	2016	2015	Increase (Decrease) over prior year
Current assets	$ 38,085	$ 48,381	-21%
Capital assets	152,026	147,902	3%
Other non current assets	1,858	2,057	-10%
Total Assets	191,969	198,340	-3%
Deferred outflows of resources	1,146	452	
Current liabilities	6,687	13,690	-51%
Long Term Liabilities	49,194	52,279	-6%
Net Pension Liability*	3,147	2,479	
Total Liabilities	59,028	68,448	-14%
Deferred inflows of resources	229	134	71%
Net Position			
Net investment in capital assets	115,232	115,313	0%
Restricted	7,869	6,704	17%
Unrestricted	10,757	8,193	31%
Total Net Position	$ 133,858	$ 130,210	3%

The Port's combined net position increased $3.7 million between fiscal years 2015 and 2016, to approximately $133.9 million. Net Investment in Capital Assets increased by $7.1 million to $115 million. Restricted Net Position increased $1.1 million to $7.8 million and Unrestricted Net Position decreased $4.6 million to $10.8 million.

- Current assets decreased $10 million or 21%
  - Unrestricted cash decreased by $1.8 million which is attributable to the construction of the Cruise Terminal 2 Expansion and related water front improvements along with other capital improvements. During the first quarter of 2017 the Port received $500 thousand from security grants as reimbursement for costs incurred in 2016 along with a payment of $221 thousand related to settlement of a 2012 business interruption insurance claim.
  - Receivables decreased $533 thousand largely due to normal timing.
  - Restricted cash decreased $7.9 million to $19.7 million for a 28% decrease from 2015 due to the utilization of restricted cash to fund ongoing capital projects completed in 2016 including the Cruise Terminal 2 expansion, the Galveston Intermodal Transit Terminal and the BMW Vehicle Process Center, all of which became operational in 2016.

  - Capital Assets net of depreciation increased $4.1 million. 2016 depreciation expense is $6.5 million.

  - Other Non-current Revenues decreased $199 thousand. The decrease is due to lower unearned revenues.

  - Deferred Outflows representing the inclusion of GASB 68 increased $694 thousand or 154% to $1.1 million.

- The Port's total liabilities decreased by approximately $9.4 million during the year ended December 31, 2016.

  - Current Liabilities decreased by $3.9 million when compared to 2015. Current liabilities related to major construction of capital projects decreased $4.6 million. All other payables increased $786 thousand from 2015.
  - Long Term Liabilities decreased $6 million. The normal reclassification of long term debt to current liability representing scheduled debt service reduced long term debt $5 million. During 2016 the Port incurred major maintenance dredging costs which reduced the dredging equalization reserve by $929 thousand. Long term accrued paid time off increased $133 thousand from 2015.

  - Deferred inflows increased $95 thousand or 70% to $229 thousand.

Changes in Net Position

Total Net Position increased $3.6 million over 2015. Net Investments in Capital Assets remained stable at $115 million with an increase in capital assets including construction of $11.6 million which was offset by increased accumulated depreciation of $6.5 million and decreased debt of $4 million. Additional assets costing $185,000 were deemed impaired and written off in 2016. An addition of$903,000 in construction in progress was deemed to be expense in nature and was reclassified to expense accounts. Restricted assets increased $1.1 million due to accumulations in the reserve, interest and sinking cash funds. Unrestricted position increased $2.5 million.

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):

	2016	2015	Increase (Decrease) over prior year
Operating Revenues			
Vessels and cargo services	$ 21,326	$ 20,900	2%
Building and facilities rental and fees	13,163	12,116	9%
Total Operating Revenues	34,489	33,016	4%
Operating Expenses			
Personnel services	8,462	8,892	-5%
Maintenance and operations	10,989	9,041	22%
Sales and office	5,412	6,011	-10%
Annual City payment	189	188	1%
Depreciation	6,549	6,005	9%
Total Operating Expenses	31,600	30,137	5%
Net Operating Income	2,889	2,879	0%
Non-Operating Revenue (Expense)			
Earnings on investments	289	232	25%
Interest expense	(2,125)	(2,275)	-7%
Gain (loss) on disposal of equipment		3	100%
Total Non-Operating Revenues (Expenses)	(1,836)	(2,040)	-10%
Income Before Capital Grants and Contributions and Special Items	1,053	839	26%
Capital Grants and Contributions	3,149	4,893	-36%
Extraordinary items	(553)	(570)	-3%
Changes in Net Position	3,649	5,162	-29%
Beginning Net Position	130,210	126,552	3%
Ending Net Position	$ 133,858	$ 130,210	3%

Net Operating Income increased $11 thousand from $2.88 million in 2015 to $2.9 million in 2016.

2016 revenues increased $1.5 million:

Vessel and Cargo Revenues increase 2% or $426 thousand.

- Cruise Passenger revenue for the twelve month period ending December 31, 2016 (2016) were $299K or 3.45% over revenues for the twelve month period ending December 31, 2015 (2015). The increase in revenue is the result of an overall increase in passenger movements for 2016 over 2015 for Carnival Cruise Lines ($134K), Disney ($15K) and Royal Caribbean International ($150K).
- Ship Services revenue for 2016 was $696K or 21.77% over 2015. The increase in revenue is primarily due to renegotiated rates with Disney to include stevedoring and pilot services. This will also be reflected below by an increase in ship service expenses.

- Wharfage revenue for 2016 was $84K or 3.27% over 2015. The increase in revenue is due to increases in liquid bulk ($49K) and wind energy/general cargo ($321K) offset by decreases in Rail on/Rail off ($156K), fertilizer ($113K) and bananas and fruit ($17K).
- Dockage revenue for 2016 was $272K or 5.49% under 2015. The decrease in revenue is due to decreases in research vessels ($207K), liquid bulk ($77K), fertilizer ($70K), bananas and fruit ($54K) and wind energy/general cargo ($42K) offset by increases in Ro-Ro ($114K), grain ($16K), cruise ($44K) and other minor variances ($4K).
- Lay Dockage revenue for 2016 was $381K or 24.90% under 2015. The decrease in revenue is due to decreases in lay grain vessels ($261K), regular lay vessels ($114K), and lay barge ($6K).

Building and Facilities Rental and Fees increased 9% or $1 million.

- Terminal Access Fee revenue for 2016 was $306K or 58.01% over 2015. The increase in revenue is due to an increase in vehicular access to the Port's cruise terminal along with the discontinuance of the recording of a reserve for uncollectable amounts related to litigation. The reserve was being recorded in 2015but we ceased recording the reserve in 2016 after the Port prevailed on the merits before the Federal Maritime Commission.

- Licenses, Fees and Miscellaneous revenue for 2016 was $714K or 1,175% over 2015 primarily due to fees charged for one of the Port's tenant's use of the Port's dredging disposal area in the amount of $640K.

- Rental revenue for 2016 was $427K or 13.98% over 2015. The increase in revenue is primarily due to by rents received from the lease of the Vehicle Processing Center (VPC) that began in 2016 ($677K), the lease of west end parking for the VPC operations ($92K), increased rent from Mitchell Historic Properties ($18K) and other minor variances ($14K), primarily related to CPI increases, offset by no supplemental rents being recognized for Gulf Copper in 2016 based on their revenue projections ($347K) and decreased cruise terminal concessions percentage rent ($27K).

- Rail and Switching 2016 was $138K or 12.96% under 2015. The decrease in revenue is primarily a decrease in Grain cargo movements. Grain cargo is transported to the Port's facilities via rail. The Port receives a percentage of the switching and other fees charged by the rail operator for transporting cargo, storage of cars and other miscellaneous fees.

- Parking revenue for 2016 was $169K or 6.32% under 2015. The decrease in revenue is due to decreases in paid surface cruise parking ($461K) and other parking operations ($32K) offset by income from the SMP Garage ($228K) and the Galveston Transit Terminal ($96K). The decrease in cruise parking is primarily due to a loss in market share.

- Security Cost Recovery revenue for 2016 was $30K or 3.05% under 2015. The Port's Security Cost Recovery charges are assessed against dockage charges and cargo tonnage. The decrease in revenue is consistent with the aforementioned net decreases in dockage and wharfage.

- Revenue Producing Services revenue for 2016 was $6K or 5.01% under 2015.

Operating Expenses increased $1.5 million or 5%.

- Salaries and Related Expenses for 2016 were $430K or 5% under 2015. The decrease in expense is primarily due to savings related to the Port joining the City's health insurance plan and adopting a modified Health Reimbursement Arrangement (HRA) plan ($909K), offset by increases in net pension liability ($93K), salaries ($134K), payroll taxes ($34K) and cruise-related contract labor ($219K).

- Maintenance and Operating expenses increased by $1.9 million or 22%. Several factors caused the 2016 increase including major maintenance on the FMT loading bridges ($272 thousand), increased security grant expenses ($453 thousand), additional ship services expense due primarily to renegotiated contract with Disney under which the Port now pays and is reimbursed for various stevedoring and pilot services ($686 thousand). Custodial expense increased $124 thousand due to addition janitorial services related to the SMP garage, Transit Terminal and the CT2 expansion completed in 2016. These additions also caused Utilities to increase $67 thousand. Additionally, various normal dock repairs were $114 thousand higher than 2015. Worker's compensation cost was $73 thousand higher due to 2015 including a prior period refund and the reclassification of certain employees to higher-rated categories in 2016. Various other smaller maintenance and operations costs comprise the reminder of the change.

- Office and Sales Expenses for 2016 were $599 thousand or 10% lower than in 2015. Marketing incentives paid to the cruise lines decreased $158 thousand in 2016. Lower litigation costs of $308 thousand, the 2015 write off of $339K thousand related to the west end development and marketing study resulted in a reduction totaling $805 thousand. These reductions were offset by increased property rents of $305 thousand due to the rental of additional cruise parking and rental of space related to the VPC. The remaining variance is comprised of other smaller variances totaled $99 thousand.

- **Other Non-Operating Revenues/Expenses –** Other Non-Operating Revenues/Expenses include interest income and interest expense. Interest Income increased $57 thousand or 24% in 2016 due to higher returns while interest expense decreased $150 thousand or 7% due to lower outstanding debt balances.

- **Total Cargo Tonnage** for the twelve months ending December 31, 2016 decreased 7% from the 12 months ending December 31, 2015, with 5,205,784 Short Tons in 2016 vs. 5,603,307 Short Tons in 2015, a decrease of 397,523 tons.
  - Bulk Grains movements were 606 thousand tons lower than 2015 from 3.1 million tons in 2015 decreasing to 2.5 million tons in 2016 or 19.7% lower.
  - Fresh Fruit and Vegetables movements were 33.9 thousand tons lower in 2016 decreasing from 520.7 thousand tons in 2015 to 486.8 thousand tons in 2016.
  - Bulk Fertilizer movements were 55 thousand tons lower in 2016 than 2015 decreasing from 621 thousand tons in 2015 to 565 thousand tons in 2016 for a decrease of 8.9%.
  - Liquid Bulk increased 44% or 399 thousand tons.
  - General Cargo increased 18% or 9.5 thousand tons.

Passenger Movements were 63 thousand higher in 2016 increasing from 1.67 million in 2015 to 1.73 million in 2016. (A movement consists of an embarkation or a disembarkation of a passenger.)

Capital Assets and Debt Administration

Capital Assets

At year-end 2016, capital assets before depreciation, which includes both depreciable and non-depreciable assets along with construction work in progress, totaled $243.7 million. This is an increase of $10.7 million over 2015. Accumulated depreciation as of year-end 2016 increased by $6.5 million. The net change in Capital Assets was a $4.1 million increase from 2015. The following is a comparison of capital assets for the years ended December 31, 2015 and 2016 (in 000's):

	2016	2015
Land	$ 16,499	$ 16,499
Channel Deepening	11,207	11,339
Construction in progress	2,981	22,453
Total capital assets, non depreciable	30,687	50,291
Railway property and buildings	4,261	4,261
Wharves property and buildings	197,757	167,683
Operating equipment	8,189	8,054
Office equipment	2,820	2,777
Total capital assets being depreciated	213,027	182,775
Less allowance for depreciation	(91,688)	(85,165)
Total assets being depreciated, net	121,339	97,610
Total capital assets	$ 152,026	$ 147,901

Construction work in progress decreased $19.5 million while depreciable assets increased $30.3 million. In 2016 three major capital improvement projects were completed, the BMW Vehicle Processing Center, the Galveston Downtown Transit Terminal and the Cruise Terminal 2 expansion. In 2015 management conducted a stringent review of all capital assets and identified specific impaired assets which included $339 thousand related to a West End Development project and $80 thousand related to a specific plan proposed for a third cruise terminal (this specific plan was deemed not practical and other proposed methods are more efficient). Actual depreciation expense in 2016 is $6.5 million.

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

Long-Term Debt

At year-end, the Port had $40.3 million in bonds and contracts payable and $16.9 million in notes and leases outstanding, representing an increase of 18.1% over the prior year. The notes payable are a Series 2014 Note Payable ($13M), a Community Disaster Loan and a Capital Lease. Changes in Long-term debt for the year ended December 31, 2016, are summarized below (in 000's):

Debt Category	2016	2015
Revenue Bonds	$ 20,624	$ 22,205
Contracts payable	11,393	14,013
Notes and leases payable	15,930	16,525
Total	$ 47,947	$ 52,743

On October 2, 2014, the City of Galveston issued Subordinate Lien Wharves and Terminal Revenue Notes totaling $13 million guaranteed primarily by the Port's revenue. These notes are payable to Moody National Bank, NA ($6 million), Texas First ($4 million), and Home Town Bank, NA ($3 million). These notes were used for Cruise Terminal 2 addition and expansion along with required water front improvements. Final redemption of these notes is August 1, 2026.

Bond Ratings

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

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

Economic Factors and Next Year's Rates

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

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

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

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

The Port's major tenants continue to grow. Roll-On/Roll-Off (Ro/Ro) cargo carrier activity will continued to increase with the addition of new vehicle manufacturer BMW who is now importing premium automobiles. The Port's trade in fresh fruits and vegetables should continue to expand with improvements to the refrigerated warehouse facilities, the increasing use of refrigerated containers and the full-time use of a cargo crane to unload and load ships. Cruise ship business continues to bolster the Port's business with the addition of a fourth year round cruise ship in 2016, the homeporting of larger ships as the cruise lines rotate new vessels into Galveston, the return of Disney Cruise Lines for the a long-term commitment to seasonal sailings and ongoing discussions with other cruise lines regarding the addition of other cruise ships utilizing the currently available open cruise terminal days. Due to revisions of the lease agreement with ADM, grain has a minimum annual guaranteed payment beginning with 2015. Even the ship yards that cater to the off shore oil industry are finding additional work not directly tied to the off shore oil exploration activity. In 2017 the Port is expecting a record year for wind project cargo. As a result, the Port anticipates increased cargo movement and robust cruise ship activity for year 2017.

Contacting the Port's Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Port's finances and to demonstrate the Port's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 123 Rosenberg, 8th Floor, Galveston, TX 77550 or P.O. Box 328, Galveston, TX 77553.

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT

PORT OF GALVESTON

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT

Basic Financial Statements

Port of Galveston
Galveston, Texas

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

STATEMENT OF NET POSITION

December 31, 2016

	2016
Assets	
Current Assets - Unrestricted:	
Cash and cash equivalents	$ 4,156,467
Accounts receivable, net of allowance for doubtful accounts	13,404,138
Prepaid assets	623,336
Current Assets - Restricted:	
Cash and cash equivalents	19,701,579
Current portion of investment in direct financing lease	199,146
Total Current Assets	38,084,666
Non-Current Assets	
Capital Assets:	
Capital assets, non depreciable	19,480,160
Capital assets, net of depreciation	132,545,872
Total Capital Assets	152,026,032
Other Assets:	
Net investment in direct financing lease - less current portion	1,858,698
Total Non-Current Assets	153,884,730
Total Assets	191,969,396
Deferred Outflows of Resources	
Deferred outflows - pension items	1,146,128
Liabilities	
Current Liabilities (payable from current assets):	
Accounts payable	2,899,341
Accrued expenses	714,511
Accrued compensated absences	260,244
Payable to other government	188,561
Long term debt due within one year	614,055
Interest payable	737,747
Total Current Liabilities (payable from current assets)	5,414,459
Current Liabilities (payable from restricted assets):	
Long term debt due within one year	4,420,000
Total Current Liabilities (payable from restricted assets)	4,420,000
Total Current Liabilities	9,834,459
Long-Term Liabilities:	
Accrued compensated absences	607,236
Unearned revenues and rents	2,337,245
Long term debt due in more than one year	43,102,527
Net pension liability	3,147,175
Total Long-Term Liabilities	49,194,183
Total Liabilities	59,028,642
Deferred inflows of resources	
Deferred gain on refunding	50,100
Deferred pension activities	178,512
Total Deferred inflows of resources	228,612
Net Position	
Net investment in capital assets	115,231,634
Restricted for debt service	7,869,709
Unrestricted	10,756,927
Total Net Position	$ 133,858,270

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended December 31, 2016

	2016
Operating Revenues	
Charges for services:	
Vessels and cargo services	$ 21,325,885
Building and facilities rental and fees	13,162,987
Total Operating Revenues	34,488,872
Operating Expenses	
Personnel services	8,462,458
Maintenance and operations	10,987,938
Sales and office	5,412,002
Annual City payment	188,561
Depreciation	6,549,259
Total Operating Expenses	31,600,218
Operating Income	2,888,654
Non-Operating Revenue (Expenses)	
Earnings on investments	288,856
Interest expense	(2,125,727)
Gain on disposal of equipment	
Total Non-Operating Revenues (Expenses)	(1,836,871)
Income (Expense) Before Contributions and Special Items	1,051,783
Capital grants and contributions	3,149,100
Extraordinary item- clean up and repair- Hurricane Ike	(552,828)
Change in Net Position	3,648,055
Total Net Position - Beginning	130,210,215
Total Net Position - Ending	$ 133,858,270

See notes to the financial statements.

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

Cash flows from operating activities	
Cash receipts from customers	$ 34,087,603
Cash payments to employees	(8,538,816)
Cash payments to suppliers for goods and services	(20,309,333)
Cash payments to City of Galveston	(188,561)
Net cash provided (used) by operating activities	5,050,893
Cash flows from capital and related financing activities	
Payments received on capital and direct financing leases	199,146
Principal payments, scheduled debt service	(4,844,860)
Payments on extraordinary items, hurricane damage	(552,828)
Receipts from capital grant	3,149,100
Interest paid, long-term debt	(2,282,544)
Acquisition and construction of capital assets	(11,709,582)
Net cash provided (used) by capital and related financing activities	(16,041,568)
Cash flows from investing activities	
Receipts of interest	288,690
Net cash provided (used) by investing activities	288,690
Net increase (decrease) in cash and cash equivalents	(9,745,059)
	(956,926)
Cash and cash equivalents, beginning of year	33,603,105
Cash and cash equivalents, end of year	$ 23,858,046
Cash and cash equivalents per statement of net position:	
Unrestricted	$ 4,156,467
Restricted	19,701,579
Cash and cash equivalents, end of year	$ 23,858,046

Reconciliation of Operating Income to Net Cash Provided by Operating Activites:

Operating income	$	2,888,654
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		6,549,259
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(216,249)
(Increase) decrease in prepaid assets		18,821
Increase (decrease) in accounts and wages payable		(447,987)
Increase (decrease) in accrued expenses		(3,480,711)
Increase (decrease) in payable to other government		484
Increase (decrease) in Unearned revenues and rents		(185,020)
Increase (decrease) in accrued compensated absences		(133,389)
(Increase) decrease in deferred outflows - pension		88,278
Increase (decrease) deferred inflows - pensions		37,614
Increase (decrease in net pension liability		(68,861)
Total adjustments		2,162,239
Net cash provided (used) by operating activities	$	5,050,893

See notes to the financial statements.

Note 1 - Summary of Significant Accounting Policies

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

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

The following is a summary of the most significant policies:

A. Reporting Entity

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

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

Galveston Port Facilities Corporation

The Galveston Port Facilities Corporation (the “Corporation”) was incorporated on June 17, 2002, under the provisions of the Texas nonprofit corporation act as a financing facility for the future financing of expansion and renovation of Port’s facilities. The Corporation provides services exclusively for the benefit of the Galveston Port and is governed by a board of directors composed of the seven members of the primary government and two additional directors appointed by the Galveston City Council. Because of the nature and significance of the Corporation’s relationship with the primary government entity is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, the Corporation’s activities have been included in the accompanying financial statements. Separate financial statements for the Corporation are not prepared.

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Implementation of New Standards

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

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

C. Cash and Cash Equivalents

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

Note 1 - Summary of Significant Accounting Policies (continued)

D. Investments

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

E. Prepayments

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

F. Restricted Assets

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

G. Capital Assets

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

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

H. Compensated Employee Absences

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

I. Unearned Revenues and Rents

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

Note 1 - Summary of Significant Accounting Policies (continued)

J. Pensions

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

K. Use of Estimates

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

L. Deferred Outflows/Inflows of Resources

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

M. Net Position

Net position flow assumption

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

Restricted Net Position

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

Note 2 - Cash and Temporary Investments

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

Deposit Custodial Credit Risk

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

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

Note 2 - Cash and Temporary Investments (continued)

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

Checking and time deposits		
Cash on hand	$	8,300
Deposits with financial institution:		
Checking		3,984,850
Held by City of Galveston		2,670,250
		6,663,400
Temporary investments		
U.S. Treasury bills		4,686,770
Local Government investment pools		12,507,876
		17,194,646
Total cash and temporary investments	$	23,858,046

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

Unrestricted		
Cash and temporary investments	$	4,156,467
Restricted		
Cash and temporary investments		19,701,579
Total cash and temporary investments	$	23,858,046

Note 2 - Cash and Temporary Investments (continued)

Restricted Cash and Temporary Investments

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

	2016
Interest and sinking and debt service reserves	
Terminal Revenue Refunding Bonds Series 2011	$ 2,558,765
Terminal Revenue Bonds Series 2011	
Interest and Sinking Fund	1,889,118
Series 2004B and Series 2013 C.O.	
Interest, Sinking and Reserve Funds	3,678,444
Series 2014 Subordinate Lien Notes	
Interest and Sinking Fund	240,599
City of Galveston franchise payment	182,000
Bond proceeds	11,152,653
	$ 19,701,579

Investment Policies

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

- obligations of the United States or its agencies and instrumentalities;
- direct obligations of this state or its agencies and instrumentalities;
- a certificate of deposit or share certificate issued by a depository institution with an office in this state or as otherwise described in the statutes;
- a fully collateralized repurchase agreement that has a defined termination date, is secured by the obligations and pledged as defined in the statutes; and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;
- a securities lending program that meets all of the detailed conditions defined in the statutes;
- a bankers' acceptance that has a stated maturity of 270 days or fewer from the date of its issuance, will be liquidated in full at maturity, is eligible for collateral for borrowing from a Federal Reserve Bank and is accepted by a bank as defined in the statutes;
- commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance, is rated or fully secured as defined in the statutes;
- a no-load money market mutual fund that is registered with and regulated by the Securities and Exchange Commission, provides information and investment objectives as required by the statutes, has a dollar-weighted average stated maturity of 90 days or fewer;

Note 2 - Cash and Temporary Investments (continued)

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

Interest Rate Risk

In order to limit interest and market risk from changes in interest rates, the Port adopted Investment Policy sets a maximum stated maturity date of one year in operating funds, 210 days in debt service funds and three years in bond reserve funds. As of December 31, 2016, the Port investments consisted of the following investment types and weighted average maturities:

	Fair Value	Average Maturity (days)	Percentage of Total Portfolio
Investments			
U.S. Treasury bills	$ 4,686,770	26	27%
Local Government investment pools	12,507,876	51	73%
Total Investments	$ 17,194,646		100%
Weighted average maturity (days)		44	

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

Note 2 - Cash and Temporary Investments (continued)

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

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

In accordance with GASB Statement No. 79, Certain External Investment Pools and Pool Participants, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Note 3 - Accounts Receivable

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

	2016
Accounts receivable, trade	$ 5,783,336
Grants receivable	8,092,253
Interest receivable	4,099
Less allowance for doubtful accounts	(475,550)
Net accounts receivable	$ 13,404,138

Note 4 - Capital Assets

Changes in capital assets during the year ended December 31, 2016, are summarized as follows:

	Balance at December 31, 2015	Additions	Retirements	Transfers / Reclassification	Balance at December 31, 2016
Capital assets not being depreciated:					
Land	$ 16,499,295	$	$	$	$ 16,499,295
Channel Deepening	11,338,742		(132,212)		11,206,530
Construction in progress	22,453,342	11,164,774		(30,637,251)	2,980,865
Total capital assets not being depreciated	50,291,379	11,164,774	(132,212)	(30,637,251)	30,686,690
Capital assets being depreciated:					
Railway property and buildings	4,260,563				4,260,563
Wharves property and buildings	167,682,740	311,020	(390)	29,763,946	197,757,316
Operating equipment	8,054,451	166,629		(31,920)	8,189,160
Office equipment	2,777,415	67,159	(26,087)	1,717	2,820,204
Total capital assets being depreciated	182,775,169	544,808	(26,477)	29,733,743	213,027,243
Less accumulated depreciation for:					
Railway property and buildings	(2,312,289)	(53,682)			(2,365,971)
Wharves property and buildings	(77,557,847)	(5,180,459)		(27,595)	(82,765,901)
Operating equipment	(4,056,051)	(937,681)		27,595	(4,966,137)
Office equipment	(1,238,541)	(325,264)	(26,087)		(1,589,892)
	(85,164,728)	(6,497,086)	(26,087)		(91,687,901)
Total assets being depreciated, net	97,610,441	(5,952,278)	(52,564)	29,733,743	121,339,342
Total capital assets	$ 147,901,820	$ 5,212,496	$ (184,776)	$ (903,508)	$ 152,026,032

Depreciation expense for the year amounted to $6.5 million

Note 4 - Capital Assets (continued)

During the course of the year and prior years, certain project expenditures in the amount of $903,508 were charged to the Construction Work in Progress account; upon completion of the projects, these were deemed to be expenditures in nature and were re-classed to an expense account rather than placed into service as capital assets.

Commitments relating to construction in progress as of December 31, 2016, are as follows:

	Total Commitment	Construction in Progress	Remaining Commitment
Cruise Terminal 2 Wharf & Mooring Improvements	$ 2,933,896	$ 2,390,190	$ 543,706
Port securtity grant 2015 EMW FEMA	815,000	84,625	730,375
Projects under $200,000	562,095	506,050	56,045
Totals	$ 4,310,991	$ 2,980,865	$ 1,330,126

Note 5 - Long Term Debt

During the year ended December 31, 2016, the following changes occurred in the Port's general long-term debt issues:

Issue	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016	Amount Due Within One Year
Revenue Bonds					
Series 2011 Refunding	$ 21,690,000	$	$ (1,530,000)	$ 20,160,000	$ 1,600,000
Premium on Series 2011	514,953		(51,070)	463,883	
Contracts Payable					
Series 2013A&B	8,380,000		(2,720,000)	5,660,000	2,820,000
Premium on 2013 A&B	362,281		(173,895)	188,386	
Series 2004B	2,873,672			2,873,672	
Accreted intest on Capital Appreciation Bonds	2,397,073	274,075		2,671,148	
Capital Lease Payable					
Capital Lease	2,344,712		(268,150)	2,076,562	279,076
Notes Payable					
Series 2014	13,000,000			13,000,000	
Federal Community Disaster Loan	1,180,080		(326,710)	853,370	334,979
	$ 52,742,771	$ 274,075	$ (5,069,825)	$ 47,947,021	$ 5,034,055

Note 5 - Long Term Debt (continued)

Long-term bonded debt at December 31, 2016, was composed of the following issues:

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

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

As of December 31, 2016, the annual debt service requirements for bonded debt until maturity are as follows:

	Revenue Bonds		
Fiscal Year	**Principal**	**Interest**	**Total**
2017	$ 1,600,000	$ 948,794	$ 2,548,794
2018	1,680,000	866,794	2,546,794
2019	1,765,000	780,669	2,545,669
2020	1,855,000	690,169	2,545,169
2021	1,950,000	595,044	2,545,044
2022	2,055,000	494,919	2,549,919
2023	2,150,000	395,169	2,545,169
2024	2,255,000	294,647	2,549,647
2025	2,365,000	183,375	2,548,375
2026	2,485,000	62,122	2,547,122
	$ 20,160,000	$ 5,311,702	$ 25,471,702

Note 5 - Long Term Debt (continued)

	Contracts Payable		
Fiscal Year	Principal	Interest	Total
2017	$ 2,820,000	$ 148,200	$ 2,968,200
2018	2,840,000	45,900	2,885,900
2019	1,483,051	1,676,949	3,160,000
2020	1,390,621	1,769,379	3,160,000
	$ 8,533,672	$ 3,640,428	$ 12,174,100

Revenue Bonds

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

Contracts Payable

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

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

Note 5 - Long Term Debt (continued)

Notes Payable

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

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

	Notes Payable		
Fiscal Year	**Principal**	**Interest**	**Total**
2017	$ 334,978	$ 595,389	$ 930,367
2018	343,433	586,936	930,369
2019	174,959	578,825	753,784
2020	1,773,750	577,200	2,350,950
2021	2,012,916	498,446	2,511,362
2022	2,102,500	409,072	2,511,572
2023	2,201,667	315,721	2,517,388
2024	2,301,667	217,967	2,519,634
2025	2,406,250	115,773	2,522,023
2026	201,250	8,936	210,186
	$ 13,853,370	$ 3,904,265	$ 17,757,635

Capital Lease Payable

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

Fiscal Year	**Future Minimum Lease Payments**
2017	$ 357,060
2018	1,809,389
	2,166,449
Less interest portion	(89,887)
Capital lease payable	$ 2,076,562

Note 5 - Long Term Debt (continued)

Compensated Absences

Compensated absences liability activity for the year is as follows:

Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
$ 1,058,036	$ 256,023	$ (446,579)	$ 867,480

The amount due within one year is estimated to be $260,244.

Note 6 - Lease Agreements

Direct Financing Lease - Dockside Elevator

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

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

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

The Galveston Port accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2016:

	2016
Minimum lease rental payments receivable:	
Due within one year	$ 489,106
Due after one year	4,564,995
	5,054,101
Unearned income, direct financing lease:	
Due within one year	289,960
Due after one year	2,706,297
	2,996,257
Net investment in direct financing lease	$ 2,057,844

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

Note 6 - Lease Agreements (continued)

Advance Facility Rental

In 1977, the Port received approximately $10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2016, the amount that applies to future periods was approximately $3.3 million. This amount is presented as unearned revenues and rentals on the face of the financial statements.

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

Fiscal Year	Future Minimum Lease Payments
2017	$ 489,106
2018	489,106
2019	489,106
2020	489,106
Thereafter	3,097,677
Total	$ 5,054,101

Railroad Facilities

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

Operating Leases

The Port leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2016, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Fiscal Year	Future Lease Payments
2017	$ 3,570,605
2018	3,671,657
Total	$ 7,242,262

Note 7 - Employee Retirement System (Pension Plan)

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

Normal Retirement

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

Death benefit

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

Late retirement

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

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

Early retirement

Early retirement is permitted on the first day of any month coinciding with or following the date as of which the participant completes at least 10 one-year periods of service and the sum of the participant's age and service equals 70. Upon reaching early retirement age prior to termination of employment, a participant may retire and elect to receive at any time up to the normal retirement date an amount equal to his or her accrued benefit payable under normal retirement but based only 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 ten 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, it will be reduced to reflect such early commencement. A participant is 100% vested after five years of vesting service.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

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

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

Contributions

The Wharves will pay contributions for a plan year as determined by the actuary to fund plan benefits and at such times as the Port may decide. The Port reserves the right to reduce, suspend or discontinue contributions to the plan. Currently the Port is making semi-monthly contributions such that payments equal to the prior year funding requirement is met. In the event that the funding requirement exceeds semi-monthly contributions an additional contribution is normally scheduled to fund the annual required contribution. The Port made contributions for the 2015 and 2016 calendar years of $400,000 and $420,000 respectively.

Actuarial Assumptions

The annual contribution was determined through an actuarial valuation performed as of January 1, 2016. The actuarial assumptions used are as follows:

Actuarial Assumptions:	
Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period in Years	25 - Closed
Asset Valuation Method	Market Value
Investment rate of return	7.5%
Projected Salary Increases	3.0 %
Interest credit for cash balance	5.0%
Rate of inflation	3.5%
Ad-hoc Cost-of-living Increases	None
Mortality Rates	RP 2000 Combined Mortality Table, projected to 2015 with separate tables for males and females.
Retirement Rates	The latter of attainment of age 65 or the completion of five years of vesting service.
Experience Study	The most recent experience study was completed in 2011 to review the investment rate of return and the salary scale. There has not been a recent experience study to review the demographic assumptions.

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

Discount Rate

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

The long-term rate of return on the pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) and developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Fixed income equities securities	2.0%
Common stock	4.2%
Domestic equities - large cap	4.2%
Domestic equities - mid cap	5.3%
Domestic equities - small cap	5.3%
International equities	4.3%
Natural resources	5.3%
Emerging markets	5.3%
Cash	0.00%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	$ 4,559,327	$ 3,147,175	$ 1,933,740

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

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	$ 14,502,240	$ 12,023,524	$ 2,478,716
Changes for the year:			
Service Cost	169,079		169,079
Interest	1,071,934		1,071,934
Difference between expected and actual experience	156,762		156,762
Changes in assumptions	(239,557)		(239,557)
Contributions - employer		400,000	(400,000)
Net Investment income		153,997	(153,997)
Benefit payments, including refunds, of employee contributions	(757,719)	(757,719)	
Administrative expense		(65,437)	65,437
Other changes		1,199	(1,199)
Net changes	400,499	(267,960)	668,459
Balance at 12/31/2015	$ 14,902,739	$ 11,755,564	$ 3,147,175

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

For the year ended December 31, 2016, the Port recognized pension expense of $534,955.

At December 31, 2016, the Port reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 104,508	$ 18,807
Changes in assumptions		159,705
Differences between projected and actual earnings	621,620	
Contributions subsequent to the measurement date	420,000	
Totals	$ 1,146,128	$ 178,512

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

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

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

Years	Net Deferred Outflows (Inflows) of Resources
2017	$ 112,234
2018	131,040
2019	158,637
2020	145,705
	$ 547,616

Note 8 - Deferred Compensation Plans

Deferred Compensation Plan

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

Employees Retirement Accumulation Plan

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

The Port had no employees covered by a collective bargaining plan in the year 2016; therefore, all Port's employees participated in the plan.

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

Note 8 - Deferred Compensation Plans (continued)

Employees Retirement Accumulation Plan (continued)

In January 1995, the Port amended its single employer defined benefit plan. The amendment established a Cash Balance Account that placed six percent of employees' annual base wages in a Cash Balance Account. The contribution will be made from the defined benefit pension plan assets and replaced the Port's obligation for making annual contributions to the Employees Retirement Accumulation Plan. The cash balance contributions are vested one hundred percent in employees' accounts at the end of each pay period. The Cash Balance Account funds will be administered by the Port Pension Plan Administrative Committee, remain in the plan's trust fund and be invested in accordance with the policies of the administrative committee and the trust fund. On September 30, 2005, the six percent cash balance feature of the pension plan was terminated and replaced by a 5.5% contribution made to the plan by the Port. At this time the contribution credits to the Cash Balance Plan ceased but account balances continue to receive interest credit based on the five year Treasury Bill rate as of the last day of the year preceding the year of receiving the interest credit on balances held as of December 31 of the interest credit year. The remaining one half of a percent is used to purchase disability insurance as a substitution for social security.

During the year ended December 31, 2016, employees contributed $450,028 and the Port contributed $323,550 to the plan.

Defined Contribution Pension Plan

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

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

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

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

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

Note 9 - Commitments, Contingencies, and Uncertainties

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

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

The Port's is subject to claims and lawsuits arising from the normal course of business. The Port's legal counsel routinely evaluates such claims and management may make provision for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2016 and 2015.

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

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

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

Note 10 - Risk Management

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

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

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

Note 10 - Risk Management (continued)

Arbitrage Compliance

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

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

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

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

Note 11 - Concentration of Credit Risk

Five customers generating operating revenues in excess of $17 million annually comprise approximately 50 percent of total operating revenues for the year ended December 31, 2016. In the normal course of business, the Port extends unsecured credit to its customers.
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Note 12 - Extraordinary Items

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

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

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

Note 13 - Combining Schedule for Port (POG) and Galveston Port Facilities Corporation (GPFC) for the year ended December 31, 2016

	POG	GPFC	Eliminations	Totals
Current assets	$ 33,701,399	$ 4,383,267	$	38,084,666
Capital assets	142,787,248	9,238,784		152,026,032
Other non current assets	1,858,698			1,858,698
Total Assets	178,347,345	13,622,051		191,969,396
Deferred outflows of resources	1,146,128			1,146,128
Current liabilities	9,117,992	716,467		9,834,459
Long Term Liabilities	49,189,183	5,000		49,194,183
Total Liabilities	58,307,175	721,467		59,028,642
Deferred inflows of resources	228,612			228,612
Net Position				
Net investment in capital assets	105,992,850	9,238,784		115,231,634
Restricted	7,869,709			7,869,709
Unrestricted	7,095,127	3,661,800		10,756,927
Total Net Position	$ 120,957,686	$ 12,900,584	$	$ 133,858,270

Note 13 - Combining Schedule for Port (POG) and Galveston Port Facilities Corporation (GPFC) for the year ended December 31, 2016 (continued)

	POG	GPFC	Eliminations	Totals
Operating Revenues				
Vessels and cargo services	$ 7,818,888	$ 13,506,997	$	$ 21,325,885
Building and facilities rental and fees	21,421,290	507,545	(8,765,848)	13,162,987
Total Operating Revenues	29,240,178	14,014,542	(8,765,848)	34,488,872
Operating Expenses				
Personnel services	7,431,023	1,031,435		8,462,458
Maintenance and operations	6,387,700	13,366,086	(8,765,848)	10,987,938
Sales and office	3,459,185	1,952,817		5,412,002
Annual city payment	188,561			188,561
Depreciation	5,854,437	694,822		6,549,259
Total Operating Expenses	23,320,906	17,045,160	(8,765,848)	31,600,218
Net Operating Income	5,919,272	(3,030,618)		2,888,654
Non-Operating Revenue (Expense)				
Earnings on investments	288,618	238		288,856
Interest expense	(2,125,727)			(2,125,727)
Total Non-Operating Revenues (Expenses)	(1,837,109)	238		(1,836,871)
Income Before Capital Grants and Contributions and Special Items	4,082,163	(3,030,380)		1,051,783
Capital Grants and Contributions	3,149,100			3,149,100
Extraordinary items	(552,828)			(552,828)
Changes in Net Position	6,678,435	(3,030,380)		3,648,055
Beginning Net Position	114,279,251	15,930,964		130,210,215
Ending Net Position	$ 120,957,686	$ 12,900,584	$	$ 133,858,270

Required Supplemental Information

Port of Galveston
Galveston, Texas

2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

	2015	2014
Total pension liability		
Service Cost	$ 169,079	$ 183,481
Interest	1,071,934	1,040,307
Change in assumptions	(239,557)	(56,421)
Difference between expected and actual experience	156,762	
Benefit payments, including refunds, of employee contributions	(757,719)	(704,816)
Net change in total pension liability	400,499	462,551
Total pension liability - beginning	14,502,240	14,039,689
Total pension liability - ending	$ 14,902,739	$ 14,502,240
Plan Fiduciary Net Position		
Contributions - employer	$ 400,000	$ 540,004
Net Investment income	153,997	782,143
Benefit payments, including refunds, of employee contributions	(757,719)	(704,816)
Administrative expense	(64,238)	(85,919)
Net change in plan fiduciary net position	(267,960)	531,412
Plan fiduciary net position - beginning	12,023,524	11,492,112
Plan fiduciary net position - ending	$ 11,755,564	$ 12,023,524
Wharves' net pension liability - ending	$ 3,147,175	$ 2,478,716
Fiduciary net position as a percenrtage of the total pension liability	79%	83%
Covered-employee payroll	$ 3,174,196	$ 3,289,226
Wharves' net pension liability as a percentage of covered employee payroll	99%	75%

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

SCHEDULE OF WHARVES' PENSION CONTRIBUTIONS
Last 10 fiscal years

	2016	2015	2014	2013	2012
Actuarially determined contribution	$ 415,085	$ 377,727	$ 398,283	$ 540,004	$ 669,776
Contributions in relation to the actuarially determined contribution	420,000	400,000	540,004	540,004	669,776
Contribution deficiency (excess)	$ (4,915)	$ (22,273)	$(141,721)	$ -	$ -
Covered-employee payroll	3,289,226	3,289,226	3,484,519	3,627,781	3,921,729
Contributions as a percentage of covered-employee payroll	12.77%	12.16%	15.50%	14.89%	17.08%

	2011	2010	2009	2008	2007
Actuarially determined contribution	$ 595,057	$ 595,057	$ 541,408	$ 319,782	$ 274,395
Contributions in relation to the actuarially determined contribution	595,057	595,057	541,408	319,782	274,395
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	3,889,073	3,990,184	4,146,487	4,096,280	3,963,526
Contributions as a percentage of covered-employee payroll	15.30%	14.91%	13.06%	7.81%	6.92%

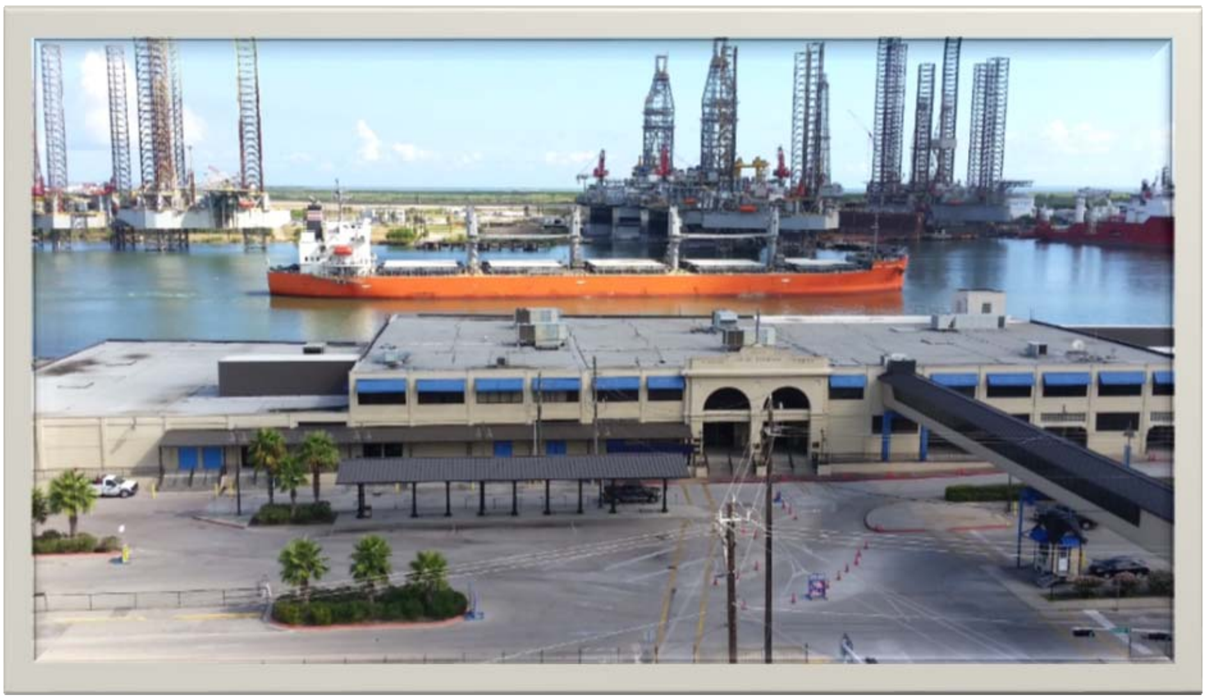
Actuarial Assumptions:

Valuation Date	December 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period in Years	25 - Closed
Asset Valuation Method	Market Value
Investment rate of return	7.5%
Projected Salary Increases	3.0%
Interest credit for cash balance	5.0%
Rate of inflation	3.5%

Statistical Section

Port of Galveston
Galveston, Texas

2016 COMPREHENSIVE ANNUAL FINANICAL REPORT



Statistical Section Categories

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CONDENSED STATEMENT OF NET POSITION

Last Ten Fiscal Years

Description	2016	2015	2014	2013
Assets				
Unrestricted Current Assets	$ 18,183,941	$ 20,584,656	$ 21,289,662	$ 23,855,430
Restricted Current Assets	19,900,725	27,796,300	34,491,857	21,643,798
Properties and Facilities, Net	152,026,032	147,901,820	136,548,043	137,638,530
Other Assets	1,858,698	2,057,844	2,256,990	2,456,136
Total Assets	191,969,396	198,340,620	194,586,552	185,593,894
Deferred outflow of resources	1,146,128	451,726	540,004	
Liabilities				
Current Liabilities (payable from non-restricted assets)	5,414,459	10,558,641	7,900,565	5,109,981
Current Liabilities (payable from restricted assets)	4,420,000	4,250,000	4,115,000	5,324,294
Long Term Debt (net of current portion)	43,709,763	48,638,548	52,707,229	43,566,405
Unearned revenues	2,337,245	2,522,265	2,665,129	2,844,814
Net Pension Liability	3,147,175	2,478,716	2,547,577	
Total Liabilities	59,028,642	68,448,170	69,935,500	56,845,494
Deferred inflows of resources	228,612	133,961	142,594	188841
Net Position				
Net investment in capital assets	115,231,634	115,312,854	106,323,197	103,644,735
Restricted	7,869,709	6,704,602	6,321,160	6,020,683
Unrestricted	10,756,927	8,192,759	12,404,105	18,894,141
Total Net Position	$ 133,858,270	$ 130,210,215	$ 125,048,462	$ 128,559,559

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.

2012	2011	2010	2009	2008	2007
$ 26,711,814	$ 15,432,593	$ 25,064,376	$ 21,687,683	$ 41,213,126	$ 21,127,290
22,538,833	22,812,482	33,752,774	32,014,012	37,456,831	22,995,060
127,239,959	118,050,502	101,418,433	100,546,191	92,136,296	84,020,395
2,655,282	2,904,883	11,607,319	11,809,757	12,012,194	
179,145,888	159,200,460	171,842,902	166,057,643	182,818,447	128,142,745
5,836,253	8,789,144	8,636,926	7,275,344	25,723,976	7,548,543
3,780,000	1,355,000	2,815,000	2,685,000	3,210,000	1,975,000
51,255,689	52,359,120	64,215,178	69,185,320	71,099,866	46,827,755
3,149,585	4,842,624	5,648,989	6,583,319	3,890,466	4,128,701
64,021,527	67,345,888	81,316,093	85,728,983	103,924,308	60,479,999
87,905,458	79,080,947	64,626,839	61,322,438	53,395,029	46,389,768
5,782,618	3,572,747	7,422,212	5,732,986	8,106,371	5,306,646
21,436,285	9,200,878	18,477,758	13,273,236	17,392,739	15,966,332
$ 115,124,361	$ 91,854,572	$ 90,526,809	$ 80,328,660	$ 78,894,139	$ 67,662,746

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

CHANGES IN NET POSITION

Last Ten Fiscal Years

Description	2016	2015	2014	2013
Operating Revenues:	$ 34,488,872	$ 33,015,643	$27,711,092	$24,767,493
Operating Expenses:				
Personnel Services	8,462,458	8,891,974	8,858,156	8,845,314
Maintenance and Operations	10,987,938	9,040,972	8,911,837	7,105,943
Office & Sales Expense	5,412,002	6,010,986	3,804,123	2,428,240
Annual City Payment	188,561	188,076	187,302	187,302
Depreciation	6,549,259	6,005,248	5,837,831	5,640,607
Total Operating Expenses	31,600,218	30,137,256	27,599,249	24,207,406
Net operating Income (Loss)	2,888,654	2,878,387	111,843	560,087
Non-Operating Revenue (Expenses):				
Direct Financing Lease				
Earnings on Investments	288,856	232,073	225,801	201,126
Income from Capital Lease				
Interest Expense	(2,125,727)	(2,275,468)	(1,970,803)	(2,115,837)
Bond issuance costs				
Other Debt Expense			(170,521)	(225,146)
Net Gain/(Loss) on Disposal of Equipment		3,279		1,840
Operating Grants				
Total Non-Operating Revenues (Expenses)	(1,836,871)	(2,040,116)	(1,915,523)	(2,138,017)
Income (Expense) Before Contributions and Special Items	1,051,783	838,271	(1,803,680)	(1,577,930)
Capital Grants and Contributions	3,149,100	4,893,290	2,263,814	15,958,039
Extra-Ordinary Items due to Hurricane Ike (Net)	(552,828)	(569,808)	(1,963,657)	(944,908)
Changes in Net Position	$ 3,648,055	$ 5,161,753	$ (1,503,523)	$ 13,435,201

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

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

2012	2011	2010	2009	2008	2007
$24,482,964	$24,843,317	$24,678,500	$20,870,753	$22,489,156	$22,098,700
8,819,701	8,281,209	7,657,539	6,945,120	6,664,020	6,268,721
6,990,167	7,329,099	7,101,626	6,440,171	5,564,899	4,475,158
2,333,548	2,869,070	2,595,201	3,195,543	2,774,130	2,447,375
187,302	182,000	182,000	182,000	182,000	182,000
4,999,706	4,112,167	4,212,567	3,942,434	3,500,057	3,302,772
23,330,424	22,773,545	21,748,933	20,705,268	18,685,106	16,676,026
1,152,540	2,069,772	2,929,567	165,485	3,804,050	5,422,674
	428,542	467,500	467,500	467,500	512,500
122,618	81,193	375,976	344,028	982,330	1,251,475
(2,500,263)	(2,991,863)	(3,157,474)	(3,304,340)	(3,081,362)	(2,517,326)
	(432,241)			(747,438)	
	(24,366)	(40)	(67,706)		2,340
	1,962,345	3,421,521	540,163	5,909,385	
(2,377,645)	(976,390)	1,107,483	(2,020,355)	3,530,415	(751,011)
(1,225,105)	1,093,382	4,037,050	(1,854,870)	7,334,465	4,671,663
11,154,694	716,170		6,092	123,938	2,340,495
13,340,200	(481,789)	6,161,099	3,283,299	3,772,990	
$ 23,269,789	$ 1,327,763	$ 10,198,149	$ 1,434,521	$ 11,231,393	$ 7,012,158

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

OPERATING REVENUE STATEMENT

Last Ten Fiscal Years

Description	2016	2015	2014	2013
Switching	$ 929,527	$ 1,067,920	$ 763,624	$ 496,996
Wharfage	2,661,602	2,577,208	2,659,003	2,304,942
Passenger Charge	8,946,032	8,647,317	6,157,648	5,271,205
Parking Fees	6,143,976	6,312,896	4,851,414	4,117,693
Dockage	5,826,700	6,479,532	5,683,806	5,345,099
Equipment Rental				
Ship Service Revenues	3,891,550	3,195,913	3,449,474	2,892,874
Shed Hire				
Revenue Producing Svcs.	114,358	120,388	114,505	119,137
Rentals	3,478,455	3,051,766	3,049,244	3,446,461
Security Cost Recovery	832,440	526,823	283,566	148,554
Miscellaneous	714,323	56,067	40,730	65,547
Total Operating Revenues	$ 34,488,872	$ 33,015,641	$ 27,711,092	$ 24,767,492

2012	2011	2010	2009	2008	2007
$ 629,707	$ 968,353	$ 1,089,685	$ 878,609	$ 998,713	$ 1,093,779
2,927,094	2,113,569	1,873,470	1,583,092	1,615,490	1,263,005
4,854,694	3,760,158	3,438,848	3,032,155	2,348,848	3,143,038
4,203,115	3,307,542	3,208,581	3,132,854	2,910,778	3,736,096
4,715,107	6,580,882	7,084,880	5,451,920	5,926,759	5,654,473
2,471,125	2,064,344	1,703,452	1,474,313	1,646,860	173,475
4,216			38,756	33,433	
124,191	146,204	467,740	349,995	371,812	498,900
3,718,048	5,098,394	4,703,380	4,365,053	5,799,238	5,777,558
122,430	102,410	101,020	79,476	100,447	175,780
218,318	54,444	405,008	24,086	262,893	151,039
$ 24,482,964	$ 24,843,318	$ 24,678,501	$ 20,870,752	$ 22,486,687	$ 22,096,131

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

SCHEDULE OF TEN LARGEST REVENUE GENERATING CUSTOMERS

Current Year and Nine Years Ago

	2016		
Rank	**Customer Name**	**Amount**	**Percent of Total Operating Revenues**
1.	Carnival Cruise Lines	$ 7,523,778	22%
2.	Royal Caribbean, Int'l.	5,344,416	15%
3.	ADM Grain Co.	2,163,959	6%
4.	Wallenius Wilhelmsen	1,321,302	4%
5.	Galveston Railroad	1,165,545	3%
6.	Del Monte Fresh Fruit	1,151,577	3%
7.	Disney Cruise Line	869,190	3%
8.	GE Energy	715,520	2%
9.	Malin Int'l.	614,580	2%
10.	Gulf Copper	607,566	2%
	Total Ten Largest Customers	21,477,432	62%
	Others	13,011,440	38%
	Total Operating Revenues	$ 34,488,872	100%

Source: Port of Galveston Records

2007		
Customer Name	**Amount**	**Percent of Total Operating Revenues**
Gulf Copper	$ 4,149,276	19%
Carnival Cruise Lines	2,491,242	11%
ADM Grain Co.	2,041,680	9%
Royal Caribbean, Int'l.	1,503,942	7%
Galveston Railroad, L.P.	1,201,600	5%
Del Monte Fresh Fruit Co.	547,240	2%
Wallenius Wilhelmsen	539,693	2%
Biehl & Company	499,809	2%
Agriliance,LLC/CHS	442,531	2%
Malin Int'l.	414,578	2%
Total Ten Largest Customers	13,831,593	63%
Others	8,267,104	37%
Total Operating Revenues	$ 22,098,697	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
2007	$ 8,500,000	$ 11,030,000	$ 19,323,672	$ 9,306,941
2008	8,500,000	36,735,000	19,323,672	8,515,073
2009	8,500,000	34,170,000	19,323,672	8,565,751
2010	8,500,000	31,485,000	19,323,672	8,831,619
2011	-	25,925,000	20,753,455	6,626,054
2012	-	25,925,000	18,552,189	3,739,399
2013	-	25,187,093	19,072,664	1,339,294
2014	-	23,726,023	16,571,412	14,339,294
2015	-	22,204,953	14,013,026	14,180,080
2016	-	20,623,883	11,393,206	13,853,370

Capital Leases	Total	Percentage of Personal Income	Dollars Per Capita
$ 1,614,446	$ 49,775,059	5%	$ 2,801
1,498,772	74,572,517	7%	4,197
1,376,280	71,935,703	8%	4,048
1,246,569	69,386,860	7%	3,905
3,316,379	56,620,888	5%	2,401
3,087,814	51,304,402	4%	2,176
2,849,937	48,448,988	4%	1,952
2,602,368	57,239,097	4%	2,167
2,344,712	52,742,771	4%	2,016
2,076,562	47,947,021	4%	1,798

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PLEDGED NET REVENUE COVERAGE

Last Ten Fiscal Years

Description	2016	2015	2014	2013
Operating Revenues:	$ 34,488,872	$ 33,015,643	$ 27,711,092	$ 24,767,493
Operating Expenses	31,600,218	30,137,256	27,599,249	24,207,406
Net Operating Income (Loss)	2,888,654	2,878,387	111,843	560,087
Add:				
Income from Capital Lease				
Miscellaneous Income				
Interest Income	288,856	232,073	225,801	201,126
Depreciation	6,549,259	6,005,248	5,837,831	5,640,607
Total Net Revenues	$ 9,726,769	$ 9,115,708	$ 6,175,475	$ 6,401,820
Annual Debt Service	$ 6,444,562	$ 6,450,236	$ 5,513,294	$ 5,693,844
Debt Service Coverage	1.51	1.41	1.12	1.12

* - 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.

2012	2011	2010	2009	2008	2007
$ 24,482,964	$ 24,843,317	$ 24,678,500	$ 20,870,753	$ 22,489,156	$ 22,098,700
23,330,424	22,773,545	21,748,933	20,705,268	18,685,106	16,676,026
1,152,540	2,069,772	2,929,567	165,485	3,804,050	5,422,674
122,618	81,193	375,976	344,028	982,330	1,251,475
4,999,706	4,112,167	4,212,567	3,942,435	3,500,056	3,302,772
$ 6,274,864	$ 6,263,132	$ 7,518,110	$ 4,451,948	$ 8,286,436	$ 9,976,921
$ 2,521,208	$ 4,695,925	$ 4,682,086	$ 4,696,288	$ 3,207,889	$ 3,210,340
2.49	1.33	1.61	0.95 *	2.58	3.11

Year Ending Dec. 31	Revenue Bonds, Series 2011	Certificate of Obligations	Notes Payable	Total Principal And Interest Requirements
2017	$ 2,548,794	$ 2,968,200	$ 930,368	$ 6,447,362
2018	2,546,794	2,885,900	930,369	6,363,063
2019	2,545,669	3,160,000	753,784	6,459,453
2020	2,545,169	3,160,000	2,350,950	8,056,119
2021	2,545,044		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	2,547,125		210,186	2,757,311
	$ 25,471,703	$ 12,174,100	$ 17,757,636	$ 55,403,439

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)
2007	58,329	$17,769	$1,036,448	35.5	12	8,400	4.9%
2008	59,186	$17,769	$1,051,676	35.5	12	6,876	5.6%
2009	50,308	$17,769	$893,923	35.5	12	6,047	7.7%
2010	56,391	$17,769	$1,002,012	38.8	12	6,400	8.4%
2011	47,743	$23,581	$1,125,828	38.8	12	6,400	8.9%
2012	48,444	$23,581	$1,142,358	38.8	12	6,450	7.6%
2013	47,762	$24,822	$1,185,548	38.8	12	6,450	7.7%
2014	48,733	$26,410	$1,287,038	38.8	12	6,800	5.6%
2015	49,608	$26,164	$1,297,944	37.3	12	6,813	6.3%
2016	50,180	$26,665	$1,338,050	36.3	12	6,976	4.8%

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

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

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

PRINCIPAL EMPLOYERS IN THE CITY OF GALVESTON

Current Year and Nine Years Ago

	2016		
Employer	**Employees**	**Rank**	**Percent of total employment**
University of Texas Medical Branch	9,000	1	39.38%
American National Insurance Company	1,600	2	7.00%
Galveston Independent School District	1,361	3	5.96%
Landry's Restaurants	1,300	4	5.69%
Moody Gardens	922	5	4.03%
City of Galveston	700	6	3.06%
Fertitta Hospitality	566	7	2.48%
Galveston College	543	8	2.38%
County of Galveston (Island only)	460	9	2.01%
Texas A & M University at Galveston	397	10	1.74%
U.S. Army Corps of Engineers	390	11	1.71%
Total	17,239		75.43%

Source: Galveston Economic Development Partnership and Texas Workforce Commission.

2007		
Employees	**Rank**	**Percent of total employment**
12,408	1	47.00%
1,476	2	5.59%
1,221	4	4.63%
1,245	3	4.72%
840	6	3.18%
820	7	3.11%
687	8	2.60%
0	0	0.00%
979	5	3.71%
402	9	1.52%
312	10	1.18%
20,390		77.23%

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

TONNAGE HANDLED THROUGH FACILITIES, PORT ACTIVITY, INWARD/OUTWARD (IN SHORT TONS)

Last Ten Fiscal Years

Description	2016	2015	2014	2013
Bulk Grain	2,466,931	3,073,498	1,553,860	914,099
Bulk Fertilizer	565,277	620,731	721,562	542,121
Bulk Liquid	1,303,459	904,659	1,666,465	2,127,632
Bulk Cement				
Other Bulk Cargoes				
Bananas & Other Fruit	486,797	520,697	504,542	439,178
Other General & Ro RoCargo	383,320	483,722	495,067	429,382
Livestock				11,897
Total Tons Handled	5,205,784	5,603,307	4,941,496	4,464,309
Inward	2,631,508	5,296,181	3,103,258	3,314,967
Outward	2,574,276	307,126	1,838,238	1,149,342
Total Inward & Outward	5,205,784	5,603,307	4,941,496	4,464,309
Number of Vessels (Includes ships & barges)	752	810	846	912

2012	2011	2010	2009	2008	2007
1,088,386	3,592,228	4,361,157	3,037,793	3,696,415	4,131,026
700,104	413,890	376,278	370,384	335,687	461,457
2,080,702	2,518,378	2,753,381	1,820,621	1,213,185	1,017,712
					54,271
10,818	20,362				3,714
337,912	369,234	358,953	275,617	267,042	258,955
548,476	439,734	369,891	345,362	399,553	264,295
20,178	5,043				
4,786,576	7,358,869	8,219,660	5,849,777	5,911,882	6,191,430
3,404,705	3,493,545	3,610,312	2,628,434	2,088,040	1,974,296
1,381,871	3,865,324	4,609,348	3,221,343	3,823,842	4,217,134
4,786,576	7,358,869	8,219,660	5,849,777	5,911,882	6,191,430
803	774	1,078	944	1,064	1,091

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

Year	Cruise Ship Calls	Cruise Passengers	Vehicles Parked
2007	207	523,303	68,230
2008	133	376,815	53,162
2009	139	394,640	56,786
2010	152	434,524	58,378
2011	152	459,448	59,466
2012	174	604,272	77,624
2013	179	604,994	73,395
2014	181	641,650	87,422
2015	232	834,616	112,363
2016	235	868,923	105,108

Source: Port of Galveston Records

THE BOARD OF TRUSTEES OF THE GALVESTON WHARVES

NUMBER OF EMPLOYEES AND GROSS WAGES PAID

Last Ten Fiscal Years

Year	Average No. Employees (Maintenance)	Average No. Employees (Security)	Average No. Employees (Administration)	Total Average Number of Employees (b)	Gross Wages Paid (a)
2007	20	35	29	84	$ 4,036,240
2008	21	40	28	89	4,384,761
2009	21	39	28	88	4,432,599
2010	22	43	29	94	4,742,606
2011	21	45	32	98	5,027,568
2012	21	45	32	98	5,238,227
2013	18	44	33	95	5,213,368
2014	18	42	33	93	5,266,610
2015	19	43	34	96	5,683,543
2016	21	43	40	104	5,956,898

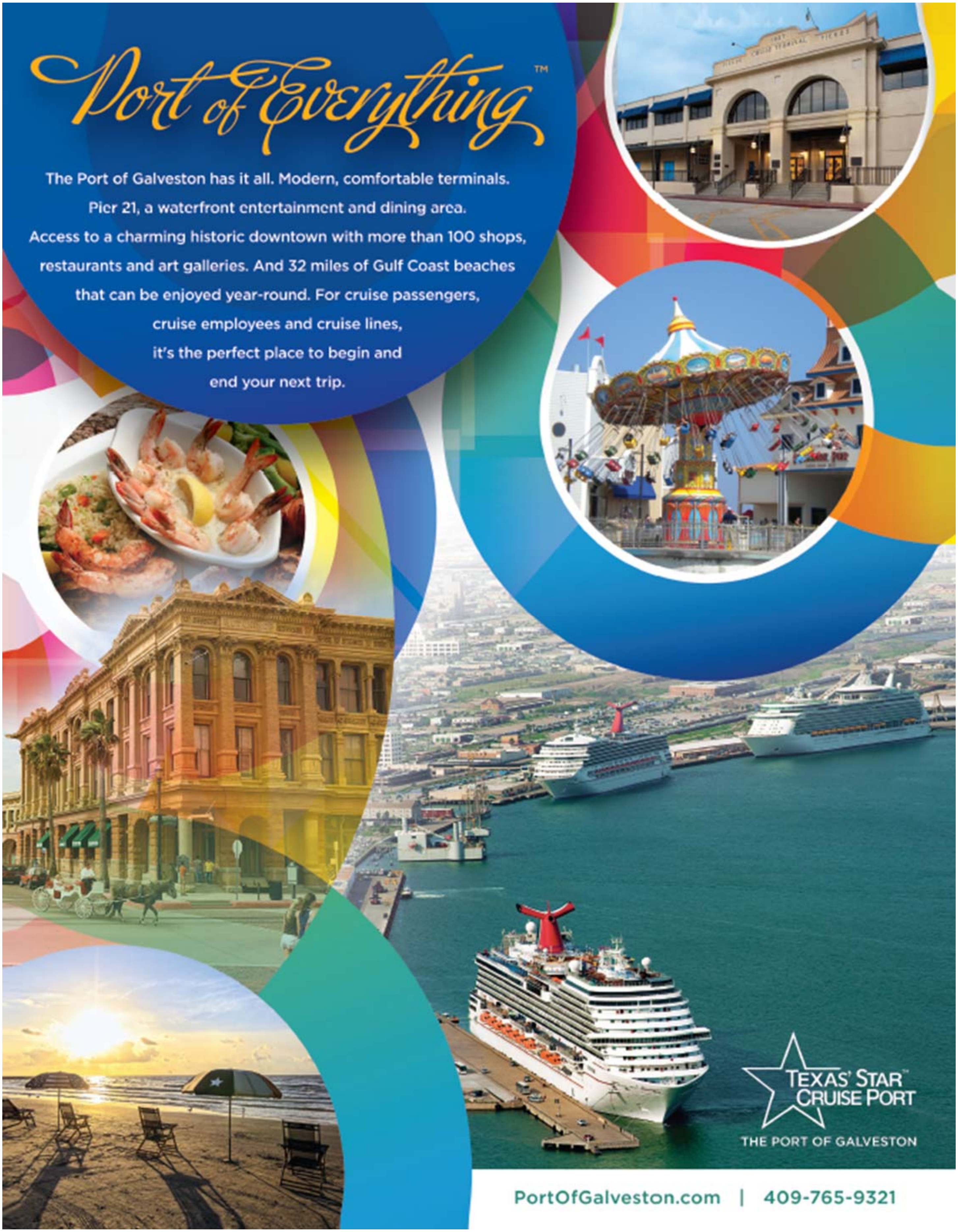
(a) Includes straight time and overtime.

(b) Based on quarterly workers compensation reports.

BOARD OF TRUSTEES OF THE GALVESTON WHARVES
OPERATING FACILITIES
December 31, 2016

East End Ro-Ro Cargo Terminal at Pier 9-15 (Pier 10 Terminal)	Services major roll-On roll-off (RO-RO) cargo shipping ocean lines. Major Ro-Ro Hub Port on Gulf Coast. 41.89 Acres-Expanding additional 19.612 Acres in 2016 to accommodate the Vehicle Processing Center (VPC) for BMW and storage of military goods for ARC.
Vehicle Processing Center (Pier 10 Terminal)	Vechicle Processing Center (VPC) for BMW located on 19.6 Acres in Foreign Trade Zone 36. The VPC will be servicing 42 BMW and Mini Cooper Dealers in the states of Texas, Oklahoma, Louisiana, & Arkansas.
Refrigerated Warehouse Terminal at Pier 16-18	Services importation of refrigerated bananas & 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 expansion (2 acres) in 2015.
Pier 21 Harborside Development	Retail/wholesale waterfront commercial development of outlets for the sale and provision of goods and services to the public, hotels, motels, residential rental units, offices, museums, and a small boat basin for the docking of pleasure craft and recreational vessels, together with related offices, parking facilities and other facilities, incidental, or pertinent, to these operations.
Texas Cruise Ship Terminals On Galveston Island®	Home port to Carnival Cruise Line and Royal Caribbean International Lines. seasonal Home Port to Disney Cruise Lines. Highest cruise passenger volume on the Gulf Coast. Fourth largest (by volume) cruise port in the United States. More than adequate parking for all cruises. Ability to take on additional cruises. Expansion of Cruise Terminal No.1 to accommodate higher volume cruise vessels completed in October 2011. Expansion of Cruise Terminal No. 2 to accommodate larger cruise vessels completed in 2016.
Export Grain Elevator at Pier 30-32	Operated by ADM Grain Company. Handles grain exports from U.S. Mid-West and Southwest regions-serviced by BNSF and UP railroads. Current plans call for expanding the type of commodities handled. Storage capacity, 3,000,000 bushels. Facility rail expansion completed in 2012 to allow handling of three unit trains.
Pier 34 Project and General Cargo Terminal	General cargo unloading facility with substantial adjacent open storage area. Current primary use unloading, loading, and trans-shipping structural members and components for wind-powered electric generating windmills. Construction of specialized rail ladder track for the loading and storage of rail cars with energy cargo completed March 2012.
Pier 35 Bulk Cargo Terminal-Fertilizer	Operated by CHS, Inc. a major importer of urea fertilizer. Facility has storage capacity of 80,000 tons. Serviced by BNSF and UP Railroads. Facility rail track expansion completed in 2012.

West End Roll-On/Roll-Off and General Cargo Piers 37-40	Services four major roll-on/roll-off cargo ocean shipping lines. Miscellaneous breakbulk, explosives, and other roll-on/roll-off cargo for other ocean cargo carriers. Piers also used for vessel repairs.
Vessel Repair Facility at Pier 41	Dockside repairs on research and other vessels primarily related to the offshore oil industry, including drilling ships. Operated by Port tenant. Significant local employer.
The Old Navy Dock on adjacent Pelican Island	Tenant offers a full range of maritime services and emergency pollution response solutions for worldwide deployment.
Shipyard Operation on adjacent Pelican Island	Property is 107 acre plus dock, pier and dry-dock facility operated by a major Port tenant. Facility repairs oil rigs, ships, barges, and research vessels. Major local employer. Major source of rental income to Port.
Pelican Island Storage Terminal	Liquid bulk terminal operated by Port tenant moving carbon black and heavy fuels. Tank storage capacity expanded 100% completed in 2012. Further expansion with guarantee of 40ft. water depth for larger vessels.


Port of Everything™
The Port of Galveston has it all. Modern, comfortable terminals.
Pier 21, a waterfront entertainment and dining area.
Access to a charming historic downtown with more than 100 shops,
restaurants and art galleries. And 32 miles of Gulf Coast beaches
that can be enjoyed year-round. For cruise passengers,
cruise employees and cruise lines,
it's the perfect place to begin and
end your next trip.
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