PORT OF BAY CITY AUTHORITY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2018

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS

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PORT OF BAY CITY AUTHORITY

Annual Financial Report
Year Ended December 31, 2018

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

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Independent Auditor's Report

To the Board of Commissioners
Port of Bay City Authority
P.O. Box 1426
Bay City, Texas 77404-1426

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund information of the Port of Bay City Authority (the “Port”), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Port’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the general fund information of the Port as of December 31, 2018, and the respective changes in financial position 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 and budgetary comparison information and pension related schedules and OPEB related schedules on pages 9 through 13 and 52 through 55, respectively, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2019, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commission's internal control over financial reporting and compliance.

Kennemer, Masters & Lunsford, LLC

May 9, 2019
Lake Jackson, Texas

As commissioners of the Port of Bay City Authority (the "Port"), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended December 31, 2018. We encourage readers to consider this information presented here in conjunction with the Port's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Port exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $ 24,341,145 (net position). Of this total amount, $ 15,811,892 (unrestricted net position) may be used to meet the Port's ongoing obligations to citizens and creditors within the Port's fund designation.

- The Port's total net position increased by $ 1,454,837.

- As of the close of the current fiscal year, the Port's governmental fund reported an ending fund balance of $ 15,717,996 or 1,721.49% of the total general fund expenditures. The amount of $ 8,264,727 (unassigned fund balance) is available for use within the Port's fund designation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Port's finances, in a manner similar to a private-sector business. They present the financial picture of the Port from an economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Port (including infrastructure) as well as all liabilities (including long-term debt).

The s*tatement of net position* presents information on all of the Port's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four reported as net position. Over time, 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 s*tatement of activities* presents information showing how the Port's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Port as being principally supported by taxes (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges (business activities). The Port is a single purpose government.

The government-wide financial statements can be found on pages 16 and 17 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Port, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Port is a single purpose government and uses only one governmental fund.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The fund financial statements can be found on pages 20 through 23 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 49 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Port's budget and actual schedule for the General Fund, pension related schedules and OPEB related schedules. Required supplementary information can be found on pages 52 through 55 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the Port, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $ 24,341,145 as of December 31, 2018. Net position of the Port's governmental activities increased by $ 1,454,837 from $ 22,886,308 to $ 24,341,145.

The Port's Net Position

	2018	2017
Current and other assets	$ 17,825,349	$ 15,897,496
Capital assets (Net of accumulated depreciation)	8,529,253	8,865,783
Total assets	26,354,602	24,763,279
Total deferred outflows of resources	39,257	24,115
Current and other liabilities	193,902	188,495
Long-term liabilities	48,573	44,190
Total liabilities	242,475	232,685
Total deferred inflows of resources	1,810,239	1,560,539
Net Position:		
Net investment in capital assets	8,529,253	8,865,783
Unrestricted	15,811,892	14,020,525
Total net position	$ 24,341,145	$ 22,886,308

Governmental activities. Governmental activities increased the Port's net position by $ 1,454,837. Total revenues for governmental activities amounted to $ 2,656,274, of which property taxes amounted to 61.41%. The following table provides a summary of the Port's operations for the years ended December 31, 2018 and 2017.

Changes in the Port's Net Position

	2018	2017
Program Revenues:		
Charges for services	$ 654,664	$ 840,399
Operating grants and contributions	7,441	
General Revenues:		
Tax revenues	1,631,199	1,565,337
Investment income	362,970	708,265
Total revenues	2,656,274	3,114,001
Expenses:		
Navigation	1,154,129	1,186,551
Promotion and development	47,308	49,200
Total expenses	1,201,437	1,235,751
Change in net position	1,454,837	1,878,250
Net position - beginning	22,886,308	21,008,058
Net position - ending	$ 24,341,145	$ 22,886,308

Financial Analysis of the Port's Funds

As noted earlier, the Port uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Port's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Port's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Port's governmental fund reported a fund balance of $ 15,717,996. 52.58% of this total amount constitutes unassigned fund balance, 47.38% of this amount constitutes committed fund balance and 0.04% of this amount constitutes non-spendable fund balance for prepaid expenditures.

The governmental fund balance increased by $ 1,891,127.

General Fund Budgetary Highlights

The Port amended the budget in the year ending December 31, 2018 increasing budgeted revenue by $ 80,164 and decreasing budgeted expenditures by $ 472,588. Actual revenues exceeded budgeted revenues by $ 244,126, due to increased rental revenue and investment income. Budgeted expenditures exceeded actual expenditures by $ 7,843, primarily due to a reduction of repairs and maintenance expected from the budget.

Capital Assets. The Port's investment in capital assets for its governmental activities as of December 31, 2018, amounts to $ 8,529,253 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, machinery and equipment, buildings, docks and wharves, and infrastructure.

Capital Assets
Net of Accumulated Depreciation

	2018	2017
Land	$ 3,703,507	$ 3,703,507
Construction in progress		70,000
Machinery and equipment	7,601	12,669
Buildings	566,973	596,966
Docks and wharves	3,631,265	3,806,495
Infrastructure	619,907	676,146
Total	$ 8,529,253	$ 8,865,783

Additional information on the Port's capital assets can be found in Note 5 on page 37.

Economic Factors and Next Year's Budgets and Rates

The Port's 2019 budget was adopted at $ 1,442,487, an increase of $ 521,596 from the 2018 budget. The tax rate of 0.053890 for each $ 100 was set for 2019 operations.

Request for Information

This financial report is designed to provide a general overview of the Port's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Port of Bay City Authority, P.O. Box 1426, Bay City, Texas, 77404-1426.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

PORT OF BAY CITY AUTHORITY
STATEMENT OF NET POSITION
December 31, 2018

	Total Governmental Activities
ASSETS	
Cash and cash equivalents	$ 2,779,639
Investments	13,378,989
Prepaid expenses	6,269
Receivables, Net:	
Taxes	1,236,361
Accounts	46,599
Due from other governments	307,974
Accrued interest	34,757
Net pension asset	34,761
Capital Assets (Net of Accumulated Depreciation):	
Land	3,703,507
Machinery and equipment	7,601
Buildings	566,973
Docks and wharves	3,631,265
Infrastructure	619,907
Total assets	26,354,602
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	39,257
Total deferred outflows of resources	39,257
LIABILITIES	
Accounts payable	20,220
Security deposits payable	73,445
Unearned revenue	100,237
Noncurrent Liabilities:	
Total OPEB liability	48,573
Total liabilities	242,475
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources	1,810,239
Total deferred inflows of resources	1,810,239
NET POSITION	
Net investment in capital assets	8,529,253
Unrestricted	15,811,892
Total net position	$ 24,341,145

The notes to the financial statements are an integral part of this statement.

PORT OF BAY CITY AUTHORITY
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government: Total Governmental Activities
GOVERNMENTAL ACTIVITIES				
Navigation	$ 1,154,129	$ 654,664	$ 7,441	$(492,024)
Promotion & development	47,308			(47,308)
Total governmental activities	$ 1,201,437	$ 654,664	$ 7,441	(539,332)
GENERAL REVENUES				
Tax revenue				1,631,199
Investment income				362,970
Total general revenues				1,994,169
Change in net position				1,454,837
Net position - beginning				22,886,308
Net position - ending				$ 24,341,145

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

PORT OF BAY CITY AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
December 31, 2018

	General Fund
ASSETS	
Cash and cash equivalents	$ 2,779,639
Investments	13,378,989
Prepaid expenditures	6,269
Receivables, Net:	
Taxes	1,236,361
Accounts	46,599
Due from other governments	307,974
Accrued interest	34,757
Total assets	17,790,588
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	
Total deferred outflows of resources	-0-
Total assets and deferred outflows of resources	17,790,588
LIABILITIES	
Accounts payable	20,220
Security deposits payable	73,445
Unearned revenue	100,237
Total liabilities	193,902
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources	1,878,690
Total deferred inflows of resources	1,878,690
FUND BALANCES	
Non-spendable	6,269
Committed	7,447,000
Unassigned	8,264,727
Total fund balances	15,717,996
Total liabilities, deferred inflows of resources and fund balances	$ 17,790,588

The notes to the financial statements are an integral part of this statement.

PORT OF BAY CITY AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION

December 31, 2018

Total fund balance – governmental fund balance sheet	$ 15,717,996
Amounts reported for *governmental activities* in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include $ 15,818,531 in assets less $ 7,289,278 in accumulated depreciation.	8,529,253
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to $ 69,982.	69,982
Pension deferred outflows of resources of $ 39,257 less pension deferred inflows of resources of $ 1,531.	37,726
Payable for total OPEB liability are not reported in the funds.	(48,573)
Net pension asset are not reported in the funds.	34,761
Net position of governmental activities – statement of net position	$ 24,341,145

The notes to the financial statements are an integral part of this statement.

PORT OF BAY CITY AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
Year Ended December 31, 2018

	General Fund
REVENUES	
Tax revenue	$ 1,779,100
Intergovernmental revenue	7,441
Rental revenue	641,717
Investment income	362,970
Miscellaneous	12,947
Total revenues	2,804,175
EXPENDITURES	
Current:	
Navigation:	
Personnel	290,855
Professional fees	36,056
Contracted services	51,944
Utilities	90,970
Repairs and maintenance	227,952
Operating costs	58,057
Administrative costs	91,088
Promotion and development	47,308
Capital Outlay	18,818
Total expenditures	913,048
Excess of revenues over expenditures	1,891,127
Fund balance - beginning	13,826,869
Fund balance - ending	$ 15,717,996

The notes to the financial statements are an integral part of this statement.

PORT OF BAY CITY AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
Year Ended December 31, 2018

Net change in fund balance – total governmental fund	$ 1,891,127
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation, $ 285,348, exceeded capital outlay, $ 18,818, in the current period.	(266,530)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the fund. Deferred property tax revenues for the general fund decreased by $ 147,901.	(147,901)
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The costs of assets disposed was $ 70,000 (cost of $ 70,000 less accumulated depreciation of $ -0-).	(70,000)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of change in compensated absences.	1,635
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of change in the total OPEB liability.	(6,018)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This is the amount of change in the net pension asset.	52,524
Change in net position of governmental activities	$ 1,454,837

The notes to the financial statements are an integral part of this statement.

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PORT OF BAY CITY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Port of Bay City Authority (the "Port") was created in open commissioners' court on February 22, 1960 under Article 8263(h) of Vernon's Texas Civil Statute, and is charged with working with the U.S. Army Corps of Engineers in maintaining the navigability of the Colorado River and regulating certain port facilities on the Colorado River and Intracoastal Waterway in Matagorda County, Texas. It is governed by a six-member board of commissioners who are elected by Matagorda County residents for staggered six-year terms.

The accounting and reporting policies of the Port relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

Reporting Entity

The Board of the Port is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the Port is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 61, *"The Financial Reporting Entity."* There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government and its component units. The Port is a single-purpose government with only one fund type and no component units thus the government-wide financial statements referred to above report all of the information of the Port. While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds..

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program. The Port reported charges for services related to rental revenue as *program revenues*. Program revenues also include operating grants and contributions that are restricted to meeting operational requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The Port does not have any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Property taxes are recognized under the susceptible to accrual concept and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase.

The Port reports the following major governmental fund:

> The G*eneral Fund* is the Port's only fund. It accounts for all financial resources of the Port. The major revenue source includes property taxes, rental revenue and investment income. Expenditures include all costs associated with the daily operations of the Port.

Budgetary data

Prior to the start of a fiscal year, the governing board of the port shall adopt an operating budget for the upcoming fiscal year. The adopted budget and any subsequent amendments shall be passed and approved by a resolution of the governing board and shall be made a part of the governing board minutes. Budget amendments may be made from time to time at the discretion of the governing body.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Board. Line items may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Appropriations not exercised in the current year lapse at the end of the year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrance Accounting

The Port does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations generally lapse at the end of the year.

Cash and Investments

The Port considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the Port in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the Port is the responsibility of the Matagorda County Appraisal District (MCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. MCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the Port, may challenge orders of the MCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on October 1, 2018, upon which the levy for the 2019 year was based, was $ 3,346,131,858. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20 % delinquent collection fees for attorney costs

The tax rates assessed for the year ended December 31, 2018, to finance general fund operations was $ 0.053890 per $ 100 valuation.

As of December 31, 2018, the Port had collected $ 642,239 of the 2019 levy (levied October 1, 2018), which is deferred and set aside for 2018 operations. Additionally, property taxes receivable of $ 1,166,379 and $ 100,397 from the 2018 levy and prior year levies, respectively, are recorded as deferred inflows of resources, net of allowance for uncollectible taxes of $ 30,415. Allowances for uncollectible taxes are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the Port is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

The Port utilizes the consumption method to account for inventory. Under this method, inventory is considered an expenditure when used rather than when purchased. Significant inventories are reported on the balance sheet at cost, using the first-in, first-out method, with an offsetting reservation of fund balance in the governmental fund financial statements since they do not constitute "available spendable resources" even though they are a component of current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government-wide financial statements and prepaid expenditures in the fund financial statements.

Capital Assets

Capital assets, which include land, infrastructure, buildings, machinery and equipment, and docs and wharves, are reported in the governmental activities columns in the government-wide financial statement. The Port started capitalizing expenditures beginning during the year ended December 31, 2004. Capital assets acquired prior to January 1, 2004 have not been reported. The Port chose not to capitalize any assets before that time period. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are being depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	15-25
Buildings	25-40
Machinery and equipment	5-15
Docks and Wharves	10-40

Compensated Absences

It is the Port's policy to permit employees to accumulate earned but unused vacation, sick pay and compensated time benefits. There is no liability for accumulated sign leave since the Port does not have a policy to pay these amounts when employees separate from service. All vacation and compensated time off pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of an employee resignation or retirement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, “Items Previously Reported as Assets and Liabilities”, had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Pension Plans

The fiduciary net position of the Texas County & District Retirement System (TCDRS) 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 TCDRS’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.

Fund Balance

The Board of Commissioners meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The Port’s Unassigned General Fund Balance is maintained to provide the Port with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board. Fund Balance of the Port may be committed for a specific source by formal action of the Board of Commissioners. Amendments or modifications of the committed fund balance must also be approved by formal action by the Board. When it is appropriate for fund balance to be assigned, the Board has delegated authority to the Commissioners. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

The Port implemented GASB 54, “Fund Balance, Reporting and Governmental Fund Type Definitions”, for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal resolution by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Port's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

As of December 31, 2018, non-spendable fund balance related to prepaid expenditures includes $ 6,269 committed fund balance related to dredging, spoil disposal, capital improvements and the barge terminal construction includes $ 7,447,000, and unassigned fund balance includes $ 8,264,727 in the general fund.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position invested in capital assets consist of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Restricted net position, as presented in the government-wide statement of net position, is reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation. The Port has no restricted net position for the year ended December 31, 2018.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2. NEW PRONOUNCEMENTS

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The statement was implemented and did not have a material effect on the financial statements of the Port. This statement is effective for periods beginning after June 15, 2017.

GASB No. 83 "Certain Asset Retirement Obligations" was issued in November 2016. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for periods beginning after June 15, 2018.

GASB No. 84 "Fiduciary Activities" was issued in January 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for periods beginning after December 15, 2018.

GASB No. 85 "Omnibus 2017" was issued in March 2017. This statement was implemented and did not have a material effect on the Port's financial statements. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB No. 86 "Certain Debt Extinguishment Issues" was issued in May 2017. This statement was implemented and did not have a material effect on the Port's financial statements. The requirements of this statement are effective for periods beginning after June 15, 2017.

GASB No. 87 "Leases" was issued in June 2017. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for periods beginning after December 15, 2019.

GASB No. 88 "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" was issued in April 2018. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" was issued in June 2018. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90 "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61" was issued in August 2018. The management of the Port does not expect the implementation of this standard to have a material effect on the financial statements of the Port. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

NOTE 3. DEPOSITS, INVESTMENTS, AND DERIVATIVES

The Port classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net position at December 31, 2018 are as follows:

	Total
Cash and Cash Equivalents:	
Financial Institution Deposits:	
Demand deposits	$ 2,779,639
	2,779,639
Investments:	
Agency securities	13,378,989
Total	$ 16,158,628

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk than in the event of a financial institution failure, the Port’s deposits may not be returned to them. The Port requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the Port’s depository must have a bond or in lieu thereof, deposited or pledged securities with the Port or an independent third party agent, an amount equal to the highest daily balance of all deposits the Port may have during the term of the depository contract, less any applicable FDIC insurance.

At December 31, 2018, the carrying amount of the Port's cash, savings, and time deposits was $ 2,779,639. The financial institutions balances were $ 2,783,004 at December 31, 2018. Bank balances of $ 437,452 were covered by federal depository insurance and $ 2,345,552 were covered by securities pledges in the Port’s name.

NOTE 3. DEPOSITS, INVESTMENTS, AND DERIVATIVES (Continued)

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the Port to invest its funds in areas that primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The Port's investment compliance requirements and types of investments are governed by the Public Funds Investment Act (PFIA). The Port believes it has complied with the requirements of the PFIA.

Weighted Average - As of December 31, 2018, the Port held agency securities totaling $ 13,378,989 with a weighted average maturity of 790 days.

Credit Risk - As of December 31, 2018, the agency securities (which represent 100.00% of the investment portfolio) are rated Aaa, are fully insured, registered, or the Port's agent holds securities in the Port's name; therefore, the Port is not exposed to credit risk.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, investment maturities shall not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the Port's cash flow requirements.

Fair Value Measures

Financial Accounting Standards Board Accounting Standards Codification 820-10, *Fair Value Measurements* (FASB Codification 820-10), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Codification 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NOTE 3. DEPOSITS, INVESTMENTS, AND DERIVATIVES (Continued)

Fair Value Measures (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Port's assets at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Agency securities	$ 13,378,989	$	$	$ 13,378,989
Total assets at fair value	$ 13,378,989	$ -0-	$ -0-	$ 13,378,989

Derivatives

Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The Port made no direct investments in derivatives during the year ended December 31, 2018, and holds no direct investments in derivatives at December 31, 2018.

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of December 31, 2018, for the Port's general fund, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Receivables:	
Property taxes	$ 1,266,776
Accounts	46,599
Due from other governments	307,974
Accrued interest	34,757
Gross receivables	1,656,106
Less: Allowance for Uncollectible	30,415
Net total receivables	$ 1,625,691

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Inflows of Resources and Unearned Revenues

Governmental funds defer the recognition of revenue in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of December 31, 2018, the deferred inflows of resources reported in the governmental funds were as follows:

	Deferred Inflows of Resources
Current property taxes collected (October 1, 2018 Levy)	$ 642,329
Current property taxes receivable (October 1, 2018 Levy)	1,166,379
Delinquent property taxes receivable (October 1, 2017 and prior)	69,982
Total deferred inflows of resources from governmental funds	$ 1,878,690

Governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. As of December 31, 2018, deferred inflows of resources reported on the governmental activities were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Current property taxes collected (October 1, 2018 Levy)	$	$ 642,329
Current property taxes receivable (October 1, 2018 Levy)		1,166,379
Differences between expected and actual experience	20,695	
Changes in assumptions	4,735	430
Net difference between projected and actual earnings	2,070	1,101
Contributions made subsequent to measurement	11,757	
Total deferred inflows of resources from governmental funds	$ 39,257	$ 1,810,239

As of December 31, 2018, there were $ 100,237 of unearned revenues reported related to rentals.

PORT OF BAY CITY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2018

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 3,703,507	$	$	$ 3,703,507
Construction in progress	70,000		70,000	
Total capital assets not being depreciated	3,773,507	-0-	70,000	3,703,507
Capital Assets Being Depreciated:				
Machinery and equipment	25,339			25,339
Buildings	1,053,153			1,053,153
Docks and wharves	8,855,896			8,855,896
Infrastructure	2,161,818	18,818		2,180,636
Total capital assets being depreciated	12,096,206	18,818	-0-	12,115,024
Accumulated Depreciation:				
Machinery and equipment	12,670	5,068		17,738
Buildings	456,187	29,993		486,180
Docks and wharves	5,049,401	175,230		5,224,631
Infrastructure	1,485,672	75,057		1,560,729
Total accumulated depreciation	7,003,930	285,348	-0-	7,289,278
Total capital assets being depreciated, net	5,092,276	(266,530)	-0-	4,825,746
Governmental activities capital assets, net	$ 8,865,783	$(266,530)	$ 70,000	$ 8,529,253

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Navigation	$ 285,348
Total depreciation expense-governmental activities	$ 285,348

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN

Plan Description - The Port provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of more than 735 non-traditional defined benefit plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX 79768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

All eligible employees of the Port are required to participate in TCDRS.

The plan provisions are adopted by the Board of Commissioners of the Port, within the options available in the state statutes governing TCDRS. Plan provisions for the Port were as follows:

	Plan Year 2017	Plan Year 2018
Employee deposit rate	7.00%	7.00%
Employer deposit rate	9.75%	9.64%
Matching ratio (Port to employee)	2 to 1	2 to 1
Years required for vesting	8	8
Service retirement eligibility (expressed as age/years of service)	60/8, 0/20	60/8, 0/20

Employees Covered by Benefit Terms:

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

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	2
	2

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Contributions - The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee compensation, and the employer matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the employer. Under the state laws governing TCDRS, the contribution rate for each employer is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. Participating employers are required to contribute at the actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience. In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs.

Employees of the Port were required to contribute 7% of their annual compensation during the fiscal year. The Port's required contribution rates of 9.64% and 9.75% in calendar years 2018 and 2017, respectively. The Port's contributions to TCDRS for the year ended December 31, 2018 were $ 11,757.

Net Pension Liability/Asset - The Port's Net Pension Liability/(Asset) (NPL/NPA) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability/(Asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation Rate	2.75% per year
Long-term investment return	8.10% per year

Except where indicated in the section of this GASB 68 report entitled "Actuarial Methods and Assumptions Used for GASB Calculations", the assumptions used in this analysis for the December 31, 2017 financial reporting metrics are the same as those used in the December 31, 2017 actuarial valuation analysis for the Port.

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Following is a description of the assumptions used in the December 31, 2017 actuarial valuation analysis for the Port. This information may also be found in the Port December 31, 2017 Summary Valuation Report.

Economic Assumptions:

<u>TCDRS System-Wide Economic Assumptions</u>

Real rate of return	5.25%
Inflation	2.75%
Long-term investment return	8.00%

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit promotion and longevity component that on average approximates 1.4% per year for a career employee.

<u>Employer Specific Economic Assumptions</u>

Growth in membership	0.00%
Payroll growth	0.00%

The payroll growth assumption is for the aggregate covered payroll of an employer.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TCDRS.

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on the January 2018 information for a 10 year horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon. The most recent analysis was performed in 2017. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Asset Class	Benchmark	Target Allocation[1]	Geometric Real Rate of Return (Expected minus Inflation)[2]
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.55%
Private Equities	Cambridge Associates Global Private Equity & Venture Capital Index[3]	16.00%	7.55%
Global Equities	MSCI World (net) index	1.50%	4.85%
International Equities – Developed	MSCI World Ex USA (net)	11.00%	4.55%
International Equities - Emerging	MSCI EM Standard (net) index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index[4]	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index[5]	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund Of Funds Composite Index	18.00%	4.10%
Total		100.00%	

[1] *Target asset allocation adopted at the April 2018 TCDRS Board meeting.*
[2] *Geometric real rates of return in addition to assumed inflation of 1.96% per Cliffwater's 2018 capital market assumptions.*
[3] *Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.*
[4] *Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.*
[5] *Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.*

Discount Rate – The discount rate is the single rate of return that, when applied to all projected benefit payment results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.

2. The actuarial present value of projected benefit payments not include in (1), calculated using the municipal bond rate.

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future value, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. Our alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balance as of December 31, 2016	$ 308,895	$ 316,815	$(7,920)
Changes for the Year:			
Service cost	17,892		17,892
Interest on total pension liability [1]	26,470		26,470
Effect of plan changes [2]			-0-
Effect of economic/demographic gains or losses	428		428
Effect of assumptions changes or inputs	(5,051)		(5,051)
Refunds of contributions			-0-
Contributions – employer		11,589	(11,589)
Contributions – employee		8,415	(8,415)
Net investment income		46,566	(46,566)
Benefit payment,			-0-
Administrative expense		(255)	255
Other changes [3]		265	(265)
Balance as of December 31, 2017	$ 348,634	$ 383,395	$(34,761)

[1] *Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*
[2] *No plan changes valued.*
[3] *Relates to allocation of system-wide items.*

Sensitivity Analysis - The following presents the net pension liability/(asset) of the Port, calculated using the discount rate of 8.10%, as well as what the Port's net pension liability/(asset) would be if it were calculated using a discount rate of 1 percentage-point lower (7.10%) or 1 percentage-point higher (9.10%) than the current rate:

	1% Decrease In Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase In Discount Rate (9.10%)
Total pension liability	$ 413,361	$ 348,634	$ 294,857
Fiduciary net position	383,395	383,395	383,395
Net pension liability/(asset)	$ 29,966	$(34,761)	$(88,538)

NOTE 6. TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM PENSION PLAN - Continued

Pension Expense (Income):	Year Ended 12-31-17
Service cost	$ 17,892
Interest on total pension liability [(1)]	26,470
Effect of plan changes	-0-
Administrative expenses	255
Member contributions	(8,415)
Expected investment return net of investment expenses	(26,457)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	(1,304)
Recognition of assumption changes or inputs	(287)
Recognition of investment gains or losses	3,151
Other [(2)]	(265)
Pension expense (income)	$ 11,040

[(1)] *Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*
[(2)] *Related to allocation of system-wide items.*

Deferred Inflows and Outflows - At December 31, 2018, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,695	$ 1,101
Difference between projected and actual investment earnings	2,070	
Changes in assumptions	4,735	430
Contributions subsequent to the measurement date [(3)]	11,757	
Totals	$ 39,257	$ 1,531

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expenses as follows:

Year Ended December 31,	
2018	$(1,560)
2019	(708)
2020	5,089
2021	5,613
2022	1,591
Thereafter [(4)]	15,944

[(3)] *If eligible employer contributions were made subsequent to the measurement date through the employer's fiscal year end, the employer should reflect these contributions, adjusted as outlined in GASB No. 71.*
[(4)] *Total remaining balance to be recognized in future years, if any. Note that additional deferred inflows and outflows of resources may impact these numbers.*

NOTE 7. HEALTH CARE COVERAGE

The Port's employees were covered by a health insurance plan by joining together with Matagorda County in their self-insurance pool under an interlocal agreement. The pool is treated as an internal service fund of Matagorda County and is administered by Texas Association of Health Employee Benefits, a third party administrator acting on behalf of the self-funded pool. The plan is authorized by Chapter 172 of the Local Government Code and is documented by contractual agreement between Matagorda County and TAX HEBP. The Port contributed $ 21,780 for active employees and $ 11,416 for retirees to Matagorda County for the year ended December 31, 2018.

The agreement between the County and HEBP renews automatically annually for an additional one-year term without the necessity of any action by the parties other than payment of the appropriate premium or contribution. Either party may elect not to renew the agreement by giving written notice at least thirty days prior to the end of the original term or any renewal term. HEBP purchased specific stop-loss coverage of $ 100,000, with an aggregate attachment factor based on the number of employees, from Texas Association of Counties, Health and Benefit Pool/Blue Cross Blue Shield of Texas. The contract is renewable October 1, 2018, and terms of coverage and contribution costs are included in the contractual provisions. Each member, to the extent its benefit plan is self-insured, remains responsible for the payment of benefits under the benefit plan in the event HEBP fails to make such payments. The pool has claims that are probable but not reasonably estimable for the Port individually, therefore, no liability has been accrued.

Further information on estimated liabilities for unpaid claims can be obtained by contacting Matagorda County at 1700 Seventh Street, Room 326, Bay City, TX 77414 or calling 979-244-7611.

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description - The Port's defined benefit OPEB plan provides medical and prescription drug benefits to plan members of the Port. The plan is a single-employer defined benefit OPEB plan administered by the Port. Local Government Code Section 157.101 assigns the authority to establish and amend benefit provisions to the Board of Commissioner. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided - The plan provides medical and prescription drug benefits for retirees. Benefits are provided by a self-insured plan through the Texas Association of Counties Health and Employee Benefits Pool for the medical plan under age 65. The Medicare Supplement is underwritten by Hartford Life & Accident Insurance Company. A Medicare supplement is available for Medicare eligible retirees with the Port. The retiree is responsible for paying any additional costs for dependent coverage elected.

The following table provides a summary of the number of participants in the plan as of December 31, 2018:

Inactive plan members or beneficiaries currently receiving benefits	0
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	1
	1

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - Continued

Contributions - Local Government Code Section 157.102 assigns to the Board of Commissioners the authority to establish and amend contribution requirements of the plan members. The Port may contribute all, part of, or none of the premium payment. The Port's contribution, if any, will be determined annually by the Board of Commissioner during the Port budget process and will be effective on a fiscal year basis. The Port does not contribute toward the cost of coverage for retirees who do not meet the eligibility requirements. The Port pays no more for retiree healthcare than the premium it pays for active employees.

The plan is funded on a pay-as-you-go basis. For the year ended December 31, 2018, the total benefit payments made to the plan was $ -0-. The total benefit payments made include explicit benefit payments made by the Port of $ -0-.

Total OPEB Liability - The Port's total OPEB liability of $ 48,573 was measured as of December 31, 2018, and was determined by the alternative measurement method as of that date.

Assumptions and other inputs - The total OPEB liability in the December 31, 2018 alternative measurement was determined using the following assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Individual Entry-Age
Discount rate	4.10%
Inflation	3.00%
Salary increases	3.50%
Health care trend rates	Initial rate of 8.00% grading to an ultimate rate of 5.00% after 7 years

Mortality rates were based on the RPH-2014 Total Table with projection MP-2018.

The assumptions used in the December 31, 2018 measurement were based on the experience study covering the four-year period ending December 31, 2017, as conducted for the Texas County and District Retirement System.

Discount Rate - For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of a 20-year general obligation bond with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 4.10% (based on the daily rate closest to but not later than the measurement date of the "Bond Buyer GO-20 bond index").

NOTE 8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - Continued

Changes in Total OPEB Liability - The changes in the total OPEB liability as of December 31, 2018 are as follows:

	Total OPEB Liability
Service cost	$ 4,103
Interest on total OPEB liability	1,915
Net change in total OPEB liability	6,018
Total OPEB liability, December 31, 2017	42,555
Total OPEB liability, December 31, 2018	$ 48,573

Sensitivity of the total OPEB liability to changes in the discount rate - The following presents the total OPEB liability of the Port, calculated using the discount rate of 4.10%, as well as what the Port's total OPEB liability would be if it were calculated using a discount rate of 1 percentage-point lower (3.10%) or 1 percentage-point higher (5.10%) than the current rate:

	1% Decrease In Discount Rate (3.10%)	Discount Rate (4.10%)	1% Increase In Discount Rate (5.10%)
Total OPEB liability	$ 56,408	$ 48,573	$ 42,233

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates - The following presents the total OPEB liability of the Port, calculated using the healthcare cost trend rate of 8.00%, as well as what the Port's total OPEB liability would be if it were calculated using a healthcare cost trend rate of 1 percentage-point lower (7.00%) or 1 percentage-point higher (9.00%) than the current rate:

	1% Decrease In Discount Rate (7.00%)	Discount Rate (8.00%)	1% Increase In Discount Rate (9.00%)
Total OPEB liability	$ 41,607	$ 48,573	$ 56,408

Total OPEB Expense:	Year Ended 12-31-18
Service cost	$ 4,103
Interest on total OPEB liability	1,915
Total OPEB expense	$ 6,018

Deferred Inflows and Outflows - At December 31, 2018, the Port did not report any deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources.

NOTE 9. TAX ABATEMENTS

For the year ended December 31, 2018, the Port abated property taxes totaling $ 811,788 under this agreement for a total value abated of $ 1,506,379,602.

The Port enters into property tax abatement agreements with taxpayers under the State Property Tax Abatement Act, Tax Code Chapter 312. Under the act, the Port may enter into a local agreement with a taxpayer that exempts all or part of the increase in the value of the real property and/or tangible personal property from taxation for a period not to exceed 10 years. Tax abatements are an economic development tool available to the Port to attract new industries and to engage in the retention and development of existing businesses through property tax exemptions or reductions.

The Port entered into a property tax abatement agreement for the purpose of attracting or retaining businesses, and creating 600 full time jobs by December 31, 2017. Tax abatements on property tax were granted on assessed land valued at $ 3,891,608 during the year ended December 31, 2013 by the Port to a pipe manufacturing company for ten years granted for the commitment of building a new steel pipe production plant valued at a minimum value of $ 1,314,000,000. If the agreement continues as intended, the abatement period would be for the years ending 2015 through 2024. The Port also agreed to recapture a prorated amount of abated taxes if these conditions were not met through the claw back payment clause. The Port's agreement determines the percentage, amount and duration of the tax abatement, which is not to exceed ten years. In the case that the Company exceeds the job target, the Port has committed to providing an additional surplus job credit incentive to the Company.

NOTE 10. LEASING OPERATIONS

The Port owns various properties which are available for lease, primarily docks and wharves. Minimum future rental lease payments to be received under operating leases as of December 31, 2018 are as follows:

Year Ended December 31,	
2019	$ 28,980
2020	29,551
2021	30,122
2022	22,915
2023	23,486
2024-2028	31,675
2029-2030	12,670
Total Minimum Rental	$ 179,399

The following are the asset carrying values of the property which is available for lease as of December 31, 2018:

Land	$ 401,133
Docks & wharves	8,855,896
Accumulated depreciation on docks & wharves	(5,224,631)
Net value on leased assets	$ 4,032,398

NOTE 11. RISK MANAGEMENT

The Port is exposed to normally expected risks of a public entity of its size and nature. Management is unaware of any unusual or unexpected types of risk. There has been no significant reduction in bond coverage during the year ended December 31, 2018. As of December 31, 2018 management is unaware of any material liability for unpaid claims or unasserted claims.

NOTE 12. EVALUATION OF SUBSEQUENT EVENTS

The Port has evaluated subsequent events through May 9, 2019, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

PORT OF BAY CITY AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
Year Ended December 31, 2018

	General Fund			
	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Tax revenue	$ 1,652,995	$ 1,721,097	$ 1,779,100	$ 58,003
Intergovernmental revenue		7,440	7,441	1
Rental revenue	623,390	531,832	641,717	109,885
Investment income	193,500	287,650	362,970	75,320
Miscellaneous	10,000	12,030	12,947	917
Total revenues	2,479,885	2,560,049	2,804,175	244,126
EXPENDITURES				
Current:				
Navigation:				
Personnel	286,356	291,871	290,855	1,016
Professional fees	46,500	37,550	36,056	1,494
Contracted services	50,666	51,864	51,944	(80)
Utilities	80,000	81,750	90,970	(9,220)
Repairs and maintenance	305,000	255,510	227,952	27,558
Operating costs	50,000	61,100	58,057	3,043
Administrative costs	123,612	99,901	91,088	8,813
Promotion and development	41,345	41,345	47,308	(5,963)
Capital outlay	410,000		18,818	(18,818)
Total expenditures	1,393,479	920,891	913,048	7,843
Excess of revenues over expenditures	1,086,406	1,639,158	1,891,127	251,969
Fund balance - beginning	13,826,869	13,826,869	13,826,869	-0-
Fund balance - ending	$ 14,913,275	$ 15,466,027	$ 15,717,996	$ 251,969

PORT OF BAY CITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Ten Years Ended December 31, 2018 as of measurement date of December 31, 2017

	2017	2016	2015	2014
Total Pension Liability				
Service cost	$ 17,892	$ 17,561	$ 25,996	$ 25,431
Interest on the Total Pension Liability	26,470	22,416	21,566	18,705
Effect of plan changes			(6,562)	
Effect of assumption changes or inputs	(5,051)		515	
Effect of economic/demographic (gains) or losses	428	793	(24,186)	(674)
Benefit payments/refunds of contributions			(11,121)	
Net Change in Total Pension Liability	39,739	40,770	6,208	43,462
Total Pension Liability – Beginning	308,895	268,125	261,917	218,455
Total Pension Liability – Ending (a)	$ 348,634	$ 308,895	$ 268,125	$ 261,917
Plan Fiduciary Net Position				
Employer contributions	$ 11,589	$ 11,077	$ 14,903	$ 15,702
Member contributions	8,415	8,043	9,668	10,733
Investment Income net of investment expense	46,566	20,515	(6,509)	15,357
Benefit payments/refunds of contributions			(11,121)	
Administrative expenses	(255)	(233)	(197)	(192)
Other	265	2,117	(24)	(13)
Net Change in Fiduciary Net Position	66,580	41,529	6,720	41,587
Fiduciary Net Position – Beginning	316,815	275,286	268,566	226,979
Fiduciary Net Position – Ending (b)	$ 383,395	$ 316,815	$ 275,286	$ 268,566
Net pension liability/(asset), ending = (a)-(b)	$(34,761)	$(7,920)	$(7,161)	$(6,649)
Fiduciary Net Position as a Percentage of Total Pension Liability	109.97%	102.56%	102.67%	102.54%
Pensionable Covered Payroll	$ 120,215	$ 114,902	$ 138,116	$ 153,336
Net Pension Liability as a Percentage of Covered Payroll	(28.92)%	(6.89)%	(5.18)%	(4.34)%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for ten years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 68, they should not be shown. Therefore, we have shown only years for which the new GASB statements have been implemented.

PORT OF BAY CITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Ten Years Ended December 31, 2018

Year Ended December 31,	Actuarially Determined Contribution(1)	Actual Employer Contribution(1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll(2)	Actual Contribution as a % of Covered Payroll
2009	$ 7,867	$ 7,867	$ -0-	$ 88,001	8.9%
2010	8,518	8,518	-0-	88,820	9.6%
2011	9,593	9,593	-0-	97,393	9.8%
2012	11,986	11,986	-0-	120,585	9.9%
2013	15,108	15,108	-0-	149,876	10.1%
2014	15,702	15,702	-0-	153,336	10.2%
2015	13,591	14,903	(1,312)	138,116	10.8%
2016	11,077	11,077	-0-	114,902	9.6%
2017	9,413	11,589	(2,176)	120,215	9.6%
2018	9,155	11,757	(2,602)	120,461	9.8%

(1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year.
(2) Payroll is calculated based on contributions as reported to TCDRS.

PORT OF BAY CITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
For the Ten Years Ended December 31, 2018

	2018
Total OPEB Liability	
Service cost	$ 4,103
Interest on the total OPEB liability	1,915
Net Change in Total OPEB Liability	6,018
Total OPEB Liability - Beginning	42,555
Total OPEB Liability - Ending	$ 48,573
Covered Employee Payroll	$ 120,461
Total OPEB Liability as a Percentage of Covered Employee Payroll	40.32%

Notes to Schedule:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

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