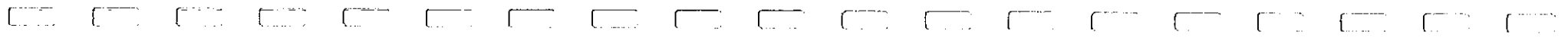


**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

**Year Ended December 31, 2015
with Report of Independent Auditors**

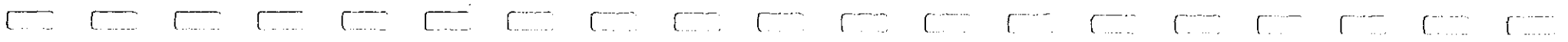


**CITY OF GALVESTON EMPLOYEES’
RETIREMENT PLAN FOR CITY EMPLOYEES
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

Year Ended December 31, 2015

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
City of Galveston Employees' Retirement
Plan for City Employees

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Galveston Employees' Retirement Plan for City Employees (the "Plan"), a component unit of the City of Galveston, which comprise the statement of net position as of December 31, 2015, and the related statement of changes in net position for the year then ended, and the related notes to the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan'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 Plan'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
City of Galveston Employees' Retirement
Plan for City Employees

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan, as of December 31, 2015, and the 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 required supplementary pension information on pages 3 and 4 and 20 through 23 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.



Houston, Texas
July 7, 2016

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the City of Galveston Employees' Retirement Plan for City Employees (the "Plan") provides an overall review of the Plan's financial activities for the year ended December 31, 2015. Readers should consider the information here in conjunction with the financial statements, notes to the financial statements and required supplementary information, in order to enhance their understanding of the Plan's financial performance.

Financial Statements

The Statement of Fiduciary Net Position presents the Plan's assets and liabilities and the resulting net position, which are held in trust for retirement benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities. The Statement of Changes in Fiduciary Net Position, on the other hand, provides a view of current year additions to and deductions from the Plan. The Plan is a single employer defined benefit pension plan. The Plan is a component unit of the City of Galveston, Texas (the "City"), and, as such, its reports are included in the Fiduciary Funds of the City as restricted assets.

Financial Highlights

The Plan presents its financials solely on the accounts of the Plan. The accrual basis of accounting is used by the Plan, whereby revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability has been incurred. Investments are reported at fair value.

A summary of the Statement of Fiduciary Net Position for the Plan is as follows (in 000's):

	Change	
	2015	2014
	\$	%
Assets		
Investments, at fair value	\$ 42,900	\$ 44,726
Other assets	68	44
Total Assets	42,968	44,770
		(1,802)
		-4%
		55%
		-4%
Liabilities		
Accounts payable	26	24
	26	2
	8%	
Net position - restricted for pension benefits	<u>\$ 42,942</u>	<u>\$ 44,746</u>
	<u>\$ (1,804)</u>	-4%

The Plan's net position decreased by \$1.8 million, or 4%, in 2015. This decrease was primarily due to an decline in the market, resulting in an overall depreciation of investment values in the amount of \$1.6 million.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

A summary of the Statement of Changes in Fiduciary Net Position is as follows (in 000's):

			Change	
	2015	2014	\$	%
Additions				
Total contributions	\$ 3,284	\$ 3,060	\$ 224	7%
Net investment income	(857)	1,803	(2,660)	-148%
Total Additions	<u>2,427</u>	<u>4,863</u>	<u>(2,436)</u>	<u>-50%</u>
Deductions				
Benefits	4,103	3,820	283	7%
Administrative expenses	127	123	4	3%
Total Deductions	<u>4,230</u>	<u>3,943</u>	<u>287</u>	<u>7%</u>
Change in net position	(1,803)	920	(2,723)	-296%
Net position - restricted for pension benefits, Beginning of the year	<u>44,745</u>	<u>43,826</u>	<u>919</u>	<u>2%</u>
Net position - restricted for pension benefits, End of the year	<u>\$ 42,942</u>	<u>\$ 44,746</u>	<u>\$ (1,804)</u>	<u>-4%</u>

Net investment income decreased by 148% in 2015. This is due depreciation of investments of \$1.6 million caused by a decline in the market, in comparison to 2014, when investments experienced overall appreciation of \$.9 million.

Next Year's Rates

The 2016 plan contribution rates for the City and Employees are 9% and 6% respectively. This represents no change from 2015.

Contacting the Plan's Financial Management

This financial report is designed to provide members and other users with a general overview of the Plan's finances and to show the Plan's accountability for the funds it receives. If you have questions about this report, you may contact the Plan's Administrator at 1011 Tremont, Galveston, TX 77550 or by phone at 409-765-9311.

BASIC FINANCIAL STATEMENTS

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES
STATEMENT OF FIDUCIARY NET POSITION**

	December 31, 2015
Assets	
Investments at fair value:	
Money market funds	\$ 1,187,481
Common and preferred stock	3,250,166
Equity mutual funds	25,382,955
Bond mutual funds	13,079,166
Total Investments at fair value	<u>42,899,768</u>
Receivables:	
Accrued interest and dividends	43,543
Other receivables	24,870
Total Assets	<u>42,968,181</u>
Liabilities	
Accounts payable	<u>25,833</u>
Net position - restricted for pension benefits	<u><u>\$ 42,942,348</u></u>

See accompanying notes to the financial statements.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

	Year Ended December 31, 2015
Additions	
Contributions:	
Employer	\$ 1,968,772
Employees	1,315,516
Total contributions	<u>3,284,288</u>
Investment income:	
Net depreciation of investments	(1,616,692)
Dividends	994,148
Less investment expenses	<u>(234,207)</u>
Net investment income	<u>(856,751)</u>
Total additions	<u>2,427,537</u>
Deductions	
Benefits:	
Retirement	3,798,795
Survivor	145,936
Disability	32,377
Rollover	125,856
Administrative expenses	<u>127,457</u>
Total deductions	<u>4,230,421</u>
Net decrease in net position	(1,802,884)
Net position restricted for pension benefits	
Net position - beginning	44,745,232
Net position - ending	<u>\$ 42,942,348</u>

See accompanying notes to the financial statements.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

A. Description of the Plan

The City of Galveston Employees' Retirement Plan for City Employees (the "Plan"), a component unit of the City of Galveston (the "City"), is a single-employer defined benefit pension plan created by City ordinance under the authority of Title 8, Subchapter A of the Texas Government Code, to provide retirement and incidental benefits for employees of the City who are not Participants of the retirement plans for the police department employees or firefighters. 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).

Effective January 1, 2009, the Plan was amended and restated to allow employees to repurchase years of service under the Plan. Members wishing to repurchase years of service must deposit the present value of the increase in the present value of the member's accrued benefit in the Plan. The amendment also included modifications to the requirements for the payout of lump sum amounts, so that no consent is required for amounts less than \$1,000. The following brief description of the Plan, as amended and restated, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete details.

The City of Galveston, Texas, is the Plan sponsor. All active employees of the City are Participants of the Plan except for part-time employees, temporary employees performing emergency service, employees compensated on a fee basis, employees who are Participants of the City of Galveston Employees' Retirement Plan for Police, employees who are Participants of the Galveston Firefighters' Pension Fund and leased employees. Participation is mandatory for all employees hired after January 1, 1957.

Plan Administration

A Plan Administrator appointed by a seven-Participant Board of Trustees administers the Plan. Some of the more significant responsibilities of the Plan Administrator are:

- to construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits under the Plan;
- to receive from the City and from Participants such information as shall be necessary for the proper administration of the Plan;
- to receive and review the periodic valuation of the Plan made by the Plan's actuary;
- to receive and review reports of the financial condition and of the receipts and disbursements of the Trust Fund from the Trustee;
- to appoint or employ for the Plan any agent he deems advisable, including, but not limited to, legal counsel, accountants, consultants and actuaries;
- to adopt such rules and regulations for the administration of the Plan as he deems necessary or desirable, with such rules and regulations being subject to review by the Board.

Contributions

The City and Employees currently contribute 9 percent and 6 percent, respectively of covered compensation to the pension plan.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Retirement Benefits

Plan Participants are eligible for normal retirement at age 65. Normal retirement date is the last day of the month in which a Participant reaches his 65th birthday and completes five years of vesting service. Payments commence on the first day of the following month. The normal retirement benefit under the Plan equals the greater of 2.25% of Average Monthly Compensation on December 31, 2003, multiplied by a Participant's years of benefit service on December 31, 2003, or 2.25% of Average Monthly Compensation multiplied by a Participant's years of benefit service. The maximum normal retirement benefit is \$4,167 per month. Service retirement benefits are payable for the Participant's lifetime. In the event the Participant's death precedes that of his or her spouse, one half of the Participant's pension will be continued to the spouse for his or her lifetime or until remarried.

The Plan permits early retirement after age fifty-five (55) and ten years of vesting service or after age sixty-two (62) and five years of vesting service. If a Participant chooses to receive this benefit on or after early retirement, the Participant receives a benefit equal to the normal retirement benefit multiplied by the Participant's years of Benefit Service as of his early retirement date. If the Participant's pension commences prior to his normal retirement date, the foregoing monthly benefit is reduced by 1/180th for each of the first sixty (60) months and 1/360th for each of the next sixty (60) months preceding age sixty-five (65) calculated from the starting date of the payments. This reduction does not apply to Participants who have completed 20 or more years of vesting service as of December 31, 2003; Participants who completed fifteen years of vesting service as of December 31, 2003, and twenty years of vesting service at date of termination; or individuals who were Participants on June 1, 1994, were hired after the age of 45 and who have completed 10 years of vesting service. Early retirement benefits are payable for the Participant's lifetime. In the event the Participant's death precedes that of his or her spouse, one-half of the Participant's pension will be continued to the spouse for his or her lifetime or until remarried.

An active Participant of the Plan who neither has a right to a Deferred Vested Pension under the Plan nor is drawing a monthly Pension from the Plan may repurchase the period or periods of prior Service he or she served under this Plan. The amount which the Participant must deposit into the fund shall equal the present value, on the date of repayment, of the increase in the present value of the Participant's Accrued Benefit under the Plan which results from the Participant's repurchased service. A Participant who requests the calculation of the amount needed to repurchase prior Service shall bear the cost of the calculation, regardless of whether the Participant actually chooses to make such repurchase. The repayment of Participant contributions shall be deemed an after-tax contribution under the Plan.

A Participant shall be eligible for a deferred vested pension if his employment is terminated for reasons other than death, disability or any of the aforementioned retirement provisions on or after five (5) or more years of service and prior to age sixty-five (65). Payment of the deferred vested pension is to commence at age sixty-five (65). If the Participant has completed at least ten (10) years of service, the deferred vested pension may commence at age fifty-five (55).

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Retirement Benefits - continued

A Participant who meets the requirements for a deferred vested pension shall receive a non-forfeitable right to the accrued pension benefit payable monthly in accordance with the following schedule:

Years of Vesting Service	Percentage %
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

If the payment commences prior to age sixty-five (65), the amount determined above shall be reduced by 1/180th for each of the first sixty (60) months and 1/360th for each additional month by which the starting date of pension payment precedes age sixty-five (65).

Optional Forms of Benefits

A Participant who takes normal or early retirement or receives a vested termination benefit under the Plan may elect to receive a lump sum distribution of his or her accumulated contributions and a reduced monthly benefit. If the single sum value of a Participant's benefit is less than \$15,000, the Participant may elect to receive the entire value of his or her accrued benefit paid in a lump sum.

Severance Benefits

The minimum severance benefit is a refund of the Participant's accumulated contributions. After becoming eligible to receive benefits, a retired Participant may elect to receive a refund of his contribution accumulation, if any. Such election must be made prior to the commencement of any benefit payments and the Participant forfeits any further rights or benefits under the Plan. Payments of a Participant's contribution accumulation and other single-sum benefits shall be paid in one lump sum or in installments without interest accruing thereon.

Disability Benefits

A Participant, regardless of the Participant's age and years of service, terminated by reason of total and permanent disability, is eligible for a monthly pension, payable until death or when the disability ceases, whichever occurs earlier, commencing upon the later of certification of the disability or 90 days after date of disability. The pension amount prior to age sixty-five (65) is calculated at 60% of the Participant's monthly rate of pay at the time of the disability, reduced by any workers' compensation, Railroad Retirement or any other disability plan payments, excluding primary social security disability. The pension amount will not exceed One Thousand Five Hundred Dollars (\$1,500) per month. On and after age sixty-five (65), the pension amount is calculated as for normal retirement benefits assuming a constant rate of pay and service from disability to age sixty-five (65).

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Description of the Plan - continued

Death Benefits

The minimum in-service death benefit after completing five (5) years of service will be Two Thousand Five Hundred Dollars (\$2,500) or the Participant's contribution accumulation, whichever is greater, less any payments paid to or on behalf of the deceased.

The Plan provides for a monthly pension for a surviving spouse or dependent children, if the Participant should die while actively employed and has completed five (5) or more years of service. The monthly benefit, commencing on the first day of the month after the date of death, payable for life or until remarriage, whichever occurs earlier, is equal to fifty percent (50%) of the normal retirement benefits considering average compensation and service at date of death. In the event of surviving children and no surviving spouse, or surviving dependent children upon the death of the surviving spouse, each dependent child is eligible for a monthly pension, payable until the attainment of age eighteen (18) or until such child's death prior to attaining age eighteen (18). If there is more than one child under the age eighteen (18), then such benefit is divided proportionately among those children under age eighteen (18) at the time of Participant's death.

Participation Summary Data

Below is a summary of the participant data for the Plan as of January 1, 2016, the date of the Plan's last actuarial valuation:

Retirees and beneficiaries currently receiving benefits	329
Terminated employees entitled to but not receiving benefits	55
Fully-vested active employees	243
Non-vested active employees	216
Total Participants	<u>843</u>

B. Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Contributions

Plan Participant contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

Benefit payments

Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies - continued

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. Actual results could differ from those estimates.

Fair Value

Plan investments are presented at fair value or estimated fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Other investments not having an established market are recorded at estimated fair value.

Administrative Expenses

The Plan pays all administrative expenses incurred in the administration of the Plan, including expenses and fees of the trustee. All fees are paid from the trust fund. Expenses are recorded when incurred.

Refunds Paid

Participants are eligible for a refund of their contributions upon termination of service. No interest is paid on refunds. Terminated employees must request a refund of contributions. Contribution refunds are recorded when paid.

C. Cash, Investments and Related Activity

Cash and Cash Equivalents

The Plan considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of money market funds. Cash balances were covered by federal depository insurance or by collateral held by the Plan's agent in the Plan's name.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

C. Cash, Investments and Related Activity - continued

Investments

The Plan's investment policy provides for investments in fixed income securities and equities. Statutes of the State of Texas authorize the Plan to invest surplus funds in a manner provided by the Government Code, Chapter 802, Subchapter C. The following was the Board's adopted asset allocation policy as of December 31, 2015:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Equities	25%	70%
Fixed Income	25%	60%
Alternatives	0%	30%
Cash	1%	50%

Realized Gains and Losses

During 2015, the Plan realized a net loss of \$4,360,455 from the sale of investments. The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments during 2015 was \$1,616,692. This amount takes into account all changes in fair value that occurred during the year. The unrealized gain on investments held at year-end was \$433,320.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name. At December 31, 2015, the Plan's investments that were not subject to custodial credit risk were the investments in corporate and foreign bonds and common equity and preferred stock securities as they are registered in the name of the Plan and held by the agent.

Concentration of Credit Risk

The allocations of assets among various asset classes are set by the board. The Plan will contract with investment managers to use different investment approaches but maintain a balanced portfolio. Statutes of the State of Texas authorize the Plan to invest surplus funds in a manner provided by the Government Code, Chapter 802, Subchapter C. The Plan provides that no more than 10% of the Plan's market value will be invested in any one common equity security and no more than 30% of the market value will be invested in any one industry.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

C. Cash, Investments and Related Activity - continued

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -1.94 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Interest Rate Risk

The Plan's investment policy does not address interest rate risk beyond the applicable investments above as defined by state statutes and provisions. Information about the exposure of the Plan's debt type investments to this risk, using the segmented time distribution model is as follows:

The Plan's portfolio at December 31, 2015, is allocated in the following manner:

Investment Type	Investment Maturities (in Years)			
	Fair Value	Less than 1	6-10	>10
Money Market Mutual Fund	\$ 1,187,481	\$ 1,187,481	\$ -	\$ -
Common Stock	3,250,166	3,250,166	-	-
Equity Mutual Funds	25,382,955	25,382,955	-	-
Bond Mutual Funds	13,079,166	-	11,296,700	1,782,466
	<u>\$ 42,899,768</u>	<u>\$ 29,820,602</u>	<u>\$ 11,296,700</u>	<u>\$ 1,782,466</u>

Credit Risk

Generally, credit risk is the risk that an issuer of a debt-type investment will not fulfill its obligations to the holder of the investment. This is measured by assignment of a rating by a nationally-recognized rating organization. The Plan's investment policy allows for investment in bonds rated BBB (or equivalent) or better. Below investment grade allocation in excess of 25% of the aggregate fixed income portfolio must have approval from the Board. The Plan's debt investments' ratings at December 31, 2015, are presented below:

Rated Debt Investments	Quality Ratings			
	Fair Value	AAA	BBB	Unrated
Money Market Mutual Fund	\$ 1,187,481	\$ 1,187,481	\$ -	\$ -
Common Stock	3,250,166	3,250,166	-	-
Equity Mutual Funds	25,382,955	25,382,955	-	-
Bond Mutual Funds	13,079,166	-	10,950,154	2,129,012
	<u>\$ 42,899,768</u>	<u>\$ 29,820,602</u>	<u>\$ 10,950,154</u>	<u>\$ 2,129,012</u>

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. Net Pension Liability

The components of the net pension liability of the plan at December 31, 2015 were as follows:

Total pension liability	\$ 58,689,316
Plan fiduciary net position	<u>(42,942,348)</u>
Plan net pension liability	<u><u>\$ 15,746,968</u></u>

Plan fiduciary net position as a percentage of the total pension liability	73.17%
--	--------

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016 using the following actuarial assumptions:

Investment rate of return	7.50%	net of pension plan investment expense, including inflation
Inflation	3.25%	
Annual pay increases	3.25%	per year, plus promotion, step and longevity increases that vary by service

The mortality rates were based RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct), projected to 2024 using Scale AA.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. Net Pension Liability - continued

Long Term Expected Rate of Return

The long-term expected rate of return on 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) are 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 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 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Current Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	26.7%	6.16%
Mid cap domestic	14.4	6.69
Small cap domestic	8.5	5.77
International developed	8.2	6.08
Fixed income		
Core	21.4	1.33
Global	4.1	1.71
Multisector	5.0	1.82
Alternatives	10.6	2.86
Cash	1.1	0.17
Total	<u>100.0%</u>	
Weighted Average		4.35%

Discount Rate

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City 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, the 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.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

D. Net Pension Liability - continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.50% as well as what the City's net pension liability would be if it were to be calculated using the discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.50%) than the current rate:

	Current		
	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$ 22,168,503	\$ 15,746,968	\$ 10,275,476

E. Tax Status

The Plan obtained its latest determination letter dated June 9, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code Section 401(a) and that, therefore, the Plan is tax-exempt.

F. Plan Termination

Although the Board has not expressed any intent to terminate the Plan, upon complete or partial termination of the Plan, each affected Member's accrued benefit, based on his years of Service and Average Monthly Compensation prior to that date of such termination, shall become fully vested and non-forfeitable to the extent then funded.

G. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

H. Commitments and Contingencies

As described in Note A, eligible participants are entitled to payment of their accumulated contributions upon termination. As of December 31, 2015, aggregate contributions were approximately \$11.1 million.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR CITY EMPLOYEES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

I. Administrative Expenses

Administrative expenses are paid from Plan assets and were comprised of the following for the year ended December 31, 2015:

	<u>2015</u>
Actuarial services	\$ 28,085
Legal fees	11,234
Accounting and consulting fees	85,568
Other	2,570
	<u>\$ 127,457</u>

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR EMPLOYEES**

REQUIRED SUPPLEMENTARY INFORMATION

Last Two Calendar Years

**Schedule of Changes in the City of Galveston's Employees' Retirement Plan for Employees
Net Pension Liability and Related Ratios**

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 2,036,695	\$ 2,184,793
Service costs (Pension benefits)	4,465,817	4,291,727
Interest on pension liability	(932,848)	-
Changes of benefit terms	1,385,114	-
Differences between expected and actual experience	(4,102,964)	(3,820,447)
Changes of assumptions	2,851,814	2,656,073
Benefit payments, including refunds of member contributions	55,837,502	53,181,429
Net change in total pension liability	<u>\$ 58,689,316</u>	<u>\$ 55,837,502</u>
Total pension liability - beginning		
Total pension liability - ending {a}		
Plan fiduciary net position		
Contributions - employer	\$ 1,968,772	\$ 1,836,025
Contributions - member	1,315,516	1,224,018
Net investment income	(856,751)	1,803,409
Benefit payments, including refunds of member contributions	(4,102,964)	(3,820,447)
Administrative expenses	(127,457)	(123,414)
Net change in plan fiduciary net position	(1,802,884)	919,591
Plan fiduciary net position - beginning	44,745,232	43,825,641
Plan fiduciary net position - ending {b}	<u>\$ 42,942,348</u>	<u>\$ 44,745,232</u>
Net pension liability - ending {a} - {b}	<u>\$ 15,746,968</u>	<u>\$ 11,092,270</u>
Fiduciary net position as a percentage of the total pension liability	73.2%	80.1%
Covered employee payroll	\$ 21,925,267	\$ 20,400,300
Fund's net pension liability as a percentage of covered employee payroll	71.8%	54.4%

Note to Schedule: Covered-employee payroll is estimated using employee contributions divided by the contribution percentage.

Note: GASB 67 was implemented in fiscal year 2014, therefore information for entire ten years is not available.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR EMPLOYEES**

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of the City of Galveston's Contributions
Last 10 Calendar Years**

	2015	2014	2013	2012	2011
Actuarially required contribution	\$ 1,728,814	\$ 2,040,170	\$ 2,108,505	\$ 2,026,248	\$ 1,786,959
Contributions in relation to the actuarially required contribution	1,968,772	1,836,025	1,583,356	1,616,976	1,645,622
Contribution deficiency (excess)	<u>\$ (239,958)</u>	<u>\$ 204,145</u>	<u>\$ 525,149</u>	<u>\$ 409,272</u>	<u>\$ 141,337</u>
Covered-employee payroll	\$ 21,925,267	\$ 20,400,278	\$ 17,592,844	\$ 17,966,400	\$ 18,284,689
Contributions as a percentage of covered-employee payroll	9.0%	9.0%	9.0%	9.0%	9.0%
	2010	2009	2008	2007	2006
Actuarially required contribution	\$ 1,772,588	\$ 1,909,866	\$ 1,514,397	\$ 1,502,821	\$ 1,269,296
Contributions in relation to the actuarially required contribution	1,713,543	1,532,371	1,261,150	1,099,108	1,286,823
Contribution deficiency (excess)	<u>\$ 59,045</u>	<u>\$ 377,495</u>	<u>\$ 253,247</u>	<u>\$ 403,713</u>	<u>\$ (17,527)</u>
Covered-employee payroll	\$ 19,039,367	\$ 18,171,916	\$ 17,331,890	\$ 16,604,915	\$ 15,784,874
Contributions as a percentage of covered-employee payroll	9.0%	8.4%	7.3%	6.6%	8.2%

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR EMPLOYEES**

REQUIRED SUPPLEMENTARY INFORMATION

**Notes to Schedule of Contributions
Last Two Calendar Years**

Valuation date:	December 31, 2015	January 1, 2015
Methods and assumptions used to determine contribution rates:		
Asset valuation method	Fair Value	Fair Value
Actuarial cost method	Entry Age	Entry Age Service Actuarial Cost Method
Amortization method	Level percentage of payroll, open	Level percentage of payroll, closed.
Inflation	3.25%	3.00%
Investment rate of return	7.50%	8.00%
Administrative expense		Assumed to increase 4.0% per year.
Salary increases	3.25% plus promotion, step and longevity increases that vary by service	5.25% per year, compounded annually
Mortality Rates:	Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables for males and for females (sex distinct) projected to 2024 by seal AA.	Employee and healthy annuitant combined rates from the RP-2000 Mortality Table, projected to 2015 using Scale AA, with the separate rates for males and females.
Retirement Rates	Early retirement is allowed for employees who terminate (a) at age 55 to 64 with at least 10 years of service or (b) at age 62 to 64 with at least five years of service. A retirement benefit that commences before age 65 is reduced by a formula that approximates actuarially equivalent reduction.	Active members are assumed to retire once they have both attained age 65 and completed at least 5 years of service. Active members who have already reached their assumed retirement age are assumed to retire on the valuation date.

**CITY OF GALVESTON EMPLOYEES'
RETIREMENT PLAN FOR EMPLOYEES**

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Investment Returns
Last Two Calendar Years**

	2015	2014
Annual money-weighted rate of return, net of investment expense	-1.94%	4.45%

Note: GASB 67 was implemented in fiscal year 2014, therefore information for entire ten years is not available



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July 7, 2016

To the Board of Trustees
City of Galveston Employees' Retirement Plan for City Employees

We have audited the financial statements of the City of Galveston Employees' Retirement Plan for City Employees (the "Plan") for the year ended December 31, 2015, and have issued our report thereon dated July 7, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

The actuarial assumptions used by the Plan's actuary in determining plan contributions as of December 31, 2015, documented in the Plan's most recent valuation report. It should be noted that although the use of a beginning of the year actuarial valuation is allowed under the new accounting standards, we feel it is more appropriate to use a year end valuation due to the recognition of the ultimate net pension liability estimate in the sponsoring entity's financial statements.

Actuarial assumptions are used to determine the Plan's total pension liability and the discount rate used to measure the total pension liability.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

Communications with the actuary during the implementation of the then new accounting standards was particularly difficult. We encountered no significant difficulties in dealing with management in performing and completing our audit.

Dallas

Fort Worth

Houston

To the Board of Trustees
City of Galveston Employees' Retirement Plan for Employees
Page 2

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. There were no passed adjustments as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 7, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues


We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of City of Galveston Employees' Retirement Plan for City Employees and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Whitley Penn LLP



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To the Board of Trustees of the
City of Galveston Employees' Retirement Plan for City Employees
Galveston, Texas

In planning and performing our audit of the financial statements of the City of Galveston Employees' Retirement Plan for City Employees, (the "Plan") as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Plan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the plan's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the Plan, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Whitney Fern LLP". The signature is written in a cursive, flowing style.

Houston, Texas
July 7, 2016

Dallas

Fort Worth

Houston

