

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

**FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTARY SCHEDULES**

**Year Ended December 31, 2017  
with Report of Independent Auditors**



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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

**Year Ended December 31, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Galveston Employees' Retirement Plan for Police (the "Plan"), a component unit of the City of Galveston, which comprise the statement of plan net position as of December 31, 2017, and the related statement of changes in plan net position for the year then ended, and the 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 Police

## **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, 2017, and 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 through 4 and 20 through 23, 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.

*Whitley Penn LLP*

Houston, Texas  
July 31, 2018

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the City of Galveston Employees’ Retirement Plan for Police (the “Plan”) provides an overall review of the Plan’s financial activities for the year ended December 31, 2017. 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 Plan Net Position presents the Plan’s assets and liabilities and the resulting net position, which is 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 Plan 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 Plan Net Position for the Plan is as follows (in 000’s):

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Assets</b>				
Investments, at fair value	\$ 20,308	\$ 19,612	\$ 696	4%
Receivables	<u>262</u>	<u>199</u>	<u>63</u>	32%
Total Assets	20,570	19,811	759	4%
<b>Liabilities</b>				
Accounts payable	<u>26</u>	<u>26</u>	<u>          </u>	0%
<b>Net position - restricted for pension benefits</b>	<u>\$ 20,544</u>	<u>\$ 19,785</u>	<u>\$ 759</u>	4%

The Plan’s net position increased by \$759,340, or 4%, in 2017. This was due primarily to an increase in the number of active employees and covered payroll and a contribution rate increase from 2016 increasing overall contributions as well as an increase in the net appreciation on investments.

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)**

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
<b>Additions</b>				
Total contributions	\$ 2,859	\$ 2,512	\$ 347	14%
Net Income on Investments	2,608	1,494	1,114	75%
Total Additions	<u>5,467</u>	<u>4,006</u>	<u>1,461</u>	<u>36%</u>
<b>Deductions</b>				
Benefits	4,548	4,323	225	5%
Administrative expenses	160	126	34	27%
Total Deductions	<u>4,708</u>	<u>4,449</u>	<u>259</u>	<u>6%</u>
Change in net position	759	(443)	1,202	271%
<b>Net position - restricted for pension benefits</b>				
Beginning of Year	<u>19,785</u>	<u>20,228</u>	<u>(443)</u>	
End of Year	<u>\$ 20,544</u>	<u>\$ 19,785</u>	<u>\$ 759</u>	4%

Net investment income increased by 75% in 2017. The market continued to improve in 2017 which led to increases in overall market value from 2016. In addition, contributions were higher in 2017 as compared to 2018 due to an increase in active employees and covered payroll.

**Next Year’s Rates**

The 2017 plan contribution rates for the City and Employees are 12.83% and 12% respectively. This represents no change from 2016.

**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 POLICE**

**STATEMENT OF PLAN NET POSITION**

	<b>December 31, 2017</b>
<b>Assets</b>	
Investments at fair value:	
Money market funds	\$ 741,018
Government agencies	1,284
Bonds	5,726,292
Domestic equities	8,613,020
Exchange traded funds	4,948,102
Alternative investments (REIT)	278,349
Total investments at fair value	20,308,065
Receivables:	
Accrued interest and dividends	55,327
Promissory notes from participants	206,345
<b>Total Receivables</b>	261,672
 <b>Total Assets</b>	 20,569,737
 <b>Liabilities</b>	
Accounts payable	25,580
Total Liabilities	25,580
 <b>Net position - restricted for pension benefits</b>	 \$ 20,544,157

See accompanying notes to the financial statements.

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

**STATEMENT OF CHANGES IN PLAN NET POSITION**

	<u>December 31, 2017</u>
<b>Additions</b>	
Contributions:	
Employer	\$ 1,486,691
Employees	1,371,859
Total contributions	<u>2,858,550</u>
Investment income:	
Net appreciation on investments	2,271,032
Interest	144,758
Dividends	247,325
Less investment expenses	<u>(55,169)</u>
Net investment	<u>2,607,946</u>
<b>Total Additions</b>	5,466,496
<b>Deductions</b>	
Benefits:	
Retirement	4,499,130
Survivor	30,900
Disability	18,000
Administrative expenses	<u>159,126</u>
<b>Total Deductions</b>	<u>4,707,156</u>
Net increase in plan net position	759,340
<b>Change in net position</b>	
Net position - beginning	<u>19,784,817</u>
Net position - ending	<u>\$ 20,544,157</u>

See accompanying notes to the financial statements.

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**NOTES TO THE FINANCIAL STATEMENTS**

**A. Description of the Plan**

The City of Galveston Employees’ Retirement Plan for Police (the “Plan”), a component unit of the City of Galveston, is a single-employer defined benefit pension plan created by City ordinance to provide retirement and incidental benefits for employees of the City of Galveston, Texas, Police Department.

The Plan is qualified under Sections 401(a) and 414(h)(2) of the Internal Revenue Code of 1986, as amended (the “Code”), and the members’ contributions to the Plan qualify as tax-deferred contributions under Code Section 414(h). 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 November 20, 1998, the Galveston City council adopted Article 6243p of the Texas Revised Civil Statutes (the “Statutes”) thereby providing for the replacement of the provisions of the City Code pertaining to the Plan with those of the Statute as the authority governing the Plan. The Plan was amended and restated effective January 1, 2009, to acknowledge the authority of Article 6243p of the Texas Revised Civil Statutes, as amended from time to time; to incorporate amendments to the Prior Plan; and to comply with changes in the law.

All full-time employees of the City of Galveston Police Department are eligible to participate in the Plan. Eligible employees, who were members of the previous plan on November 30, 1980, were given a one-time option of electing to participate as of December 1, 1980. Participation is mandatory for eligible employees hired on and after December 1, 1980.

**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.

**Retirement Benefits**

For employees with retirement benefits commencing after June 30, 2008, *Group A* consists of members with 15 or more years of service as of January 1, 2006, who were members as of June 30, 2008. *Group B* consists of members who either (a) had less than 15 years of service as of January 1, 2006, and who were members as of June 30, 2008, or (b) were employed on or after July 1, 2008.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**A. Description of the Plan - continued**

**Retirement Benefits (continued)**

*Normal and Late Retirement* - Eligibility is attainment of age 65. Benefits for Group B members will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years. Benefits for Group A members shall be the greater of (i) the monthly amount determined as 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, and (ii) the sum of the Preserved Benefit and Post Transition Accrued Benefit payable after the Member attains age sixty-five (65).

*Early Pension* - Eligibility for an unreduced early pension for Group A members is attainment of age 45 with 20 years of service. Eligibility for an unreduced early pension for Group B members is attainment of age 50 with 20 years of service. Unreduced early retirement benefits for Group B members will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years. Eligibility for a Group A or Group B member for a reduced early pension is attainment of age 55 with between 10 and 20 years of service, or age 62. Reduced early pension benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180<sup>th</sup> for each of the first 60 months and 1/360<sup>th</sup> for each of the next 60 months by which the starting date of the benefits precedes the normal retirement date.

*Special Early Pension* - Eligibility for special early pension benefits for Group B members is completion of 20 or more years of service and attainment of age 45, but before attainment of age 50. Benefits will be equal to 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, reduced by 1/180<sup>th</sup> for each month by which the starting date of payments precedes the first of the month immediately following the member's 50th birthday. Eligibility for special early pension benefits for Group A members is either (a) completion of at least 20, but less than 25, years of service and attainment of age 45 or (b) 25 or more years of service regardless of age. Benefits will be equal to the member's choice of (i) 2.11% of average monthly base pay multiplied by the years of benefit service, limited to 30 years, (ii) the sum of his Preserved Benefit and his Post Transition Accrued Benefit, with one sum payable prior to age sixty-five (65) and a lower sum payable after age sixty-five (65), or (iii) a level monthly Pension that is the Actuarial Equivalent of the leveling option.

The leveling option would maintain the same benefit payment throughout retirement. The payment under this leveling option shall be the actuarial equivalent of the member's early retirement pension or special early retirement pension otherwise payable.

A member 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. Payment of the deferred vested pension is to commence at age sixty-five (65). If the member has completed at least 10, but less than 20, years of service, the deferred vested pension may commence at age 55. Payment of the deferred vested pension for a Group B member who has completed at least 20 years of service may commence at age 50. Payment of the deferred vested pension for a Group A member who has completed at least 20, but less than 25, years of service may commence at age 45.

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

**NOTES TO THE FINANCIAL STATEMENTS *(continued)***

**A. Description of the Plan - continued**

**Severance Benefits**

The minimum severance benefit is a refund of the member's accumulated contributions. After becoming eligible to receive benefits, a retired member 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 member forfeits any further rights or benefits under the Plan. Payments of a member'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 member, regardless of 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 latter 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 member's monthly rate of pay at the time of the disability, reduced by any primary social security benefits actually paid to the member and workers' compensation or any other disability payments. 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).

**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.

The spouses of members who die after commencement of a normal, early, special early or disability retirement will receive a monthly pension for life equal to fifty percent (50%) of the pre- and post-age sixty-five (65) [or sixty-two (62) for those who retired before January 1, 1998] benefit.

The spouse of a disabled member who dies prior to age sixty-five (65) will receive a monthly pension equal to fifty percent (50%) of the monthly pension the deceased would have received had the member worked up to the date of death at his rate of pay in effect at the time disability. The total benefit payments payable shall not be less than the member's total contribution accumulation or Two Thousand Five Hundred (\$2,500), whichever is larger.

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**A. Description of the Plan - continued**

**Participation Summary Data**

Below is a summary of the participant data for the Plan as of December 31, 2017, the date of the Plan’s last actuarial valuation:

Retirees and beneficiaries receiving benefits	143
Terminated and vested	19
Disabled	1
Active Employees	<u>157</u>
Total Participants	<u><u>320</u></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.

**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.

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies - continued**

**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.

**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.

Investments are reported at fair value. Fair value measurements are based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The Plan’s investments at fair value measurements at December 31, 2017 are as follows:

<u>Plan Asset</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Money market funds	\$ 741,019	\$ 741,019	\$	
Government agencies	1,284		1,284	
Bonds	5,726,291		5,726,291	
Domestic equities	8,613,020		8,613,020	
Exchange traded funds	4,948,102	4,948,102		
Real estate investment trust	278,349	278,349		
	<u>\$20,308,065</u>	<u>\$ 5,967,470</u>	<u>\$ 14,340,595</u>	<u>\$</u>

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**C. Cash, Investments and Related Activity - continued**

**Investments - continued**

**Realized Gains and Losses**

During 2017, the Plan realized a gain of \$4,878,280 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 increase in the fair value of investments during 2017 was \$401,604. 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 \$2,607,505.

**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, 2017, the Plan’s investments that were not subject to custodial credit risk were the investments in U.S. Government Agencies, corporate and foreign bonds and common equity 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 65% of the total trust will be invested in corporate stocks, and that no more than 5% of the Plan will be invested in corporate bonds or stocks issued by any one corporation. The fund shall not invest in commodities and futures contracts, private placements, options or derivatives. The Plan’s portfolio at December 31, 2017, is allocated in the following manner:

<b>Plan Asset</b>	<b>Fair Value</b>	<b>Percentage of Total Portfolio</b>
Money market funds	\$ 741,018	4%
Government agencies	1,284	0%
Bonds	5,726,292	28%
Domestic equity mutual funds	8,613,020	42%
International equity mutual funds	4,948,102	24%
Balanced equity mutual funds	278,349	2%
	\$ 20,308,065	100%

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**C. Cash, Investments and Related Activity - continued**

**Investments – continued**

**Rate of Return**

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.68 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:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Money Market Mutual Fund	\$ 741,018	\$ 741,018	\$ -	\$ -	\$ -
Corporate Bonds	2,092,280		2,092,280		
Municipal Bonds	3,634,012	360,253	1,200,611	2,073,148	
Government Agencies	1,284		746	538	
	<u>\$ 6,468,594</u>	<u>\$ 1,101,271</u>	<u>\$ 3,293,637</u>	<u>\$ 2,073,686</u>	<u>\$ -</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. The Plan's debt investments' ratings at December 31, 2017, are presented below:

Rated Debt Investments	Fair Value	Quality Ratings			
		Aaa/A1	A2-A3	Baa1-Baa3	Unrated
Money Market Mutual Fund	\$ 741,018	\$ 741,018	\$ -	\$ -	
Corporate Bonds	2,092,280	1,645,847	446,433		
Municipal Bonds	3,634,012	2,785,590	199,966		648,456
Government Agencies	1,284	1,284	-	-	
	<u>\$ 6,468,594</u>	<u>\$ 5,173,739</u>	<u>\$ 646,399</u>	<u>\$ -</u>	<u>\$ 648,456</u>

**D. Net Pension Liability**

The components of the net pension liability of the plan at December 31, 2017 were as follows:

Total pension liability	\$ 52,850,837
Plan fiduciary net position	<u>20,544,157</u>
Plan net pension liability	<u>\$ 32,306,680</u>
Plan fiduciary net position as a percentage of the total pension liability	38.87%

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**D. Net Pension Liability- continued**

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2018 using the following actuarial assumptions:

Investment rate of return	8.00%
Administrative expense	0.50% per annum
Salary increases	4.00% per annum for wage inflation

The mortality rates were based on the RP-2014 Blue Collar Mortality Table for males and females with generational projection using Scale MP-2015

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates 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 (assumed 2.5%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocations as of January 1, 2018 (see the discussion of the pension plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	6.5%
Fixed Income	4.0%
Cash	0.0%

**Discount Rate**

The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal 12.00% of payroll and that member contributions would equal 12.00% of compensation. 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 investments was applied to all period of benefit payments to determine the total pension liability.

**CITY OF GALVESTON EMPLOYEES’  
RETIREMENT PLAN FOR POLICE**

**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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Net Pension Liability	\$ 38,706,487	\$ 32,306,680	\$ 26,988,002

**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, 2017, aggregate contributions were approximately \$11.4 million.

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

**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, 2017:

Actuarial services	\$ 46,685
Professional fees	112,441
	<u>159,126</u>

**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Last Six Years**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total pension liability						
Service costs	\$ 1,073,161	\$ 1,106,580	\$ 1,054,361	\$ 1,140,739	\$ 1,102,269	\$ 993,168
Interest	3,932,216	3,834,917	3,646,049	3,669,170	3,680,250	3,562,223
Differences between expected and actual experience	(358,201)	519,531	157,590	(502,743)	(1,187,769)	341,329
Changes of assumptions	2,398,032	223,990	590,641	(2,527,532)	55,368	386,446
Benefit payments, including refunds of member contributions	(4,547,830)	(4,322,870)	(4,114,277)	(3,808,422)	(3,864,220)	(3,772,922)
Net change in total pension liability	2,497,378	1,362,148	1,334,364	(2,028,788)	(214,102)	1,510,244
Total pension liability - beginning	50,353,459	48,991,311	47,656,947	49,685,735	49,899,837	48,389,593
Total pension liability - ending {a}	<u>\$ 52,850,837</u>	<u>\$ 50,353,459</u>	<u>\$ 48,991,311</u>	<u>\$ 47,656,947</u>	<u>\$ 49,685,735</u>	<u>\$ 49,899,837</u>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 1,438,108	\$ 1,255,887	\$ 1,257,637	\$ 1,240,469	\$ 1,114,126	\$ 1,117,059
Contributions - member	1,420,442	1,255,887	1,254,637	1,240,469	1,113,812	1,153,530
Net investment income	2,607,946	1,493,582	(486,296)	1,101,143	3,283,808	1,671,225
Benefit payments, including refunds of member contributions	(4,548,030)	(4,322,871)	(4,114,277)	(3,808,422)	(3,864,219)	(4,066,072)
Administrative expenses	(159,126)	(126,110)	(86,285)	(85,937)	(113,501)	(86,605)
Net change in plan fiduciary net position	759,340	(443,625)	(2,174,584)	(312,278)	1,534,026	(210,863)
Plan fiduciary net position - beginning	19,784,817	20,228,442	22,403,026	22,715,304	21,181,278	21,392,141
Plan fiduciary net position - ending {b}	<u>\$ 20,544,157</u>	<u>\$ 19,784,817</u>	<u>\$ 20,228,442</u>	<u>\$ 22,403,026</u>	<u>\$ 22,715,304</u>	<u>\$ 21,181,278</u>
Net pension liability - ending {a} - {b}	<u>\$ 32,306,680</u>	<u>\$ 30,568,642</u>	<u>\$ 28,762,869</u>	<u>\$ 25,253,921</u>	<u>\$ 26,970,431</u>	<u>\$ 28,718,559</u>
Fiduciary net position as a percentage of the total pension liability	38.9%	39.3%	41.3%	47.0%	45.7%	42.4%
Covered employee payroll	\$ 11,432,183	\$ 10,465,725	\$ 10,455,308	\$ 10,337,242	\$ 9,281,758	\$ 9,612,750
Fund's net pension liability as a percentage of covered employee payroll	282.6%	292.1%	275.1%	244.3%	290.6%	298.8%

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

Note: GASB 67 was implemented in fiscal year 2014, therefore information for entire ten years is not available. Calculations were performed beginning with fiscal year 2012

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Last Ten Years**

**Schedule of the City of Galveston's Contributions**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 1,438,108	\$ 1,255,887	\$ 1,257,637	\$ 1,240,469	\$ 1,114,126
Contributions in relation to the contractually required contribution	1,438,108	1,255,887	1,257,637	1,240,469	1,114,126
Contribution deficiency (excess)	-	-	-	-	-
Covered payroll	\$ 11,432,183	\$ 10,465,725	\$ 10,455,308	\$ 10,337,242	\$ 9,281,758
Contributions as a percentage of covered payroll	12.6%	12.0%	12.0%	12.0%	12.0%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 1,117,059	\$ 1,070,099	\$ 1,229,688	\$ 1,136,739	\$ 1,236,886
Contributions in relation to the contractually required contribution	1,117,059	1,070,099	1,229,688	1,136,739	\$ 1,236,886
Contribution deficiency (excess)	-	-	\$ -	\$ -	\$ -
Covered payroll	\$ 9,612,750	\$ 8,917,493	\$ 10,247,408	\$ 9,472,812	\$ 12,086,542
Contributions as a percentage of payroll	11.6%	12.0%	12.0%	12.0%	10.2%

Contributions to the Fund are based on negotiations between the members and the City rather than an actuarially determined rate. The funding policy of the City of Galveston's Employees' Retirement Plan for Police requires contributions from both the City and the police. The City's contribution rate is currently 12.00% of member payroll. Member contributions were 12% until October 2016 when the rate increased to 12.83%.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Year Ended December 31, 2017**

**Notes to Schedule of Contributions**

Valuation date:	January 1, 2017	January 1, 2016																				
Methods and assumptions used to determine contribution rates:																						
Asset valuation method	Adjusted market value, with asset gains and losses recognized over 5-years. The adjusted market value is adjusted to remain within a corridor range of 90% to 110% of fair market value.	Adjusted market value, with asset gains and losses recognized over 5-years. The adjusted market value is adjusted to remain within a corridor range of 90% to 110% of fair market value.																				
Actuarial cost method	<u>The Entry Age Normal Actuarial Cost Method.</u> The present value of the projected benefit (PVB) is determined as of the date the member entered the plan (or would have entered if the plan had always been in effect). The present value of future salary (PVFS) is	<u>The Entry Age Normal Actuarial Cost Method.</u> The present value of the projected benefit (PVB) is determined as of the date the member entered the plan (or would have entered if the plan had always been in effect). The present value of future salary																				
Amortization method	The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee valuation payroll based on an assumed annual payroll growth of 3.5% per year.	The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee valuation payroll based on an assumed annual payroll growth of 3.5% per																				
Investment rate of return	8.00%	8.00%																				
Administrative expense	0.50% per annum	0.50% per annum																				
Salary increases	4.00% per annum for wage inflation  3.00% grading down to 0.00% per annum for longevity and promotion based on years of service.  The total annual assumed salary increase for wage inflation plus longevity and promotion is based on years of service according to the following table:  <table border="0" style="margin-left: 40px;"> <thead> <tr> <th>Years of Service</th> <th>Salary Increase</th> </tr> </thead> <tbody> <tr> <td>1 - 5</td> <td>7.00%</td> </tr> <tr> <td>6 - 10</td> <td>6.00%</td> </tr> <tr> <td>11 - 15</td> <td>5.00%</td> </tr> <tr> <td>16+</td> <td>4.00%</td> </tr> </tbody> </table>	Years of Service	Salary Increase	1 - 5	7.00%	6 - 10	6.00%	11 - 15	5.00%	16+	4.00%	4.00% per annum for wage inflation  6.24% grading down to 0.00% per annum for longevity and promotion based on years of service.  The total annual assumed salary increase for wage inflation plus longevity and promotion is based on years of service according to the following table:  <table border="0" style="margin-left: 40px;"> <thead> <tr> <th>Years of Service</th> <th>Salary Increase</th> </tr> </thead> <tbody> <tr> <td>1 - 5</td> <td>10.24%</td> </tr> <tr> <td>6 - 10</td> <td>6.08%</td> </tr> <tr> <td>11 - 15</td> <td>5.56%</td> </tr> <tr> <td>16+</td> <td>4.00%</td> </tr> </tbody> </table>	Years of Service	Salary Increase	1 - 5	10.24%	6 - 10	6.08%	11 - 15	5.56%	16+	4.00%
Years of Service	Salary Increase																					
1 - 5	7.00%																					
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1 - 5	10.24%																					
6 - 10	6.08%																					
11 - 15	5.56%																					
16+	4.00%																					
Overtime Pay	10% of base pay	10% of base pay																				
Payroll Growth	3.5% per annum	4.0% per annum																				
Valuation Compensation	Base pay rate as of the valuation date increased by the annual salary scale assumption and loaded 10% for overtime (benefit accrual excludes overtime load)	Base pay rate as of the valuation date increased by the annual salary scale assumption and loaded 10% for overtime (benefit accrual excludes overtime load)																				
Mortality Rates:	RP-2014 Blue Collar Mortality Table for males and females with generational projection using Scale MP-2015	RP-2014 Blue Collar Mortality Table for males and females with generational projection using Scale MP-2015																				

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Last Six Years**

**Schedule of Investment Returns**  
Fiscal Years Ending December 31,

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual money-weighted rate of return, net of investment expense	13.68%	7.75%	-2.26%	4.96%	16.03%	3.59%

Note: GASB 67 was implemented in fiscal year 2014, therefore information for prior years is not available. Calculations were performed beginning with 2012