

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2010



**Prepared by
Finance Department**

CITY OF GALVESTON, TEXAS
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Introductory Section

City of Galveston



P. O. Box 779 / Galveston, Texas 77553

March 1, 2011

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas:

State law requires that all general purpose local governments publish within 180 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Galveston, Texas for the fiscal year ended September 30, 2010.

This report consists of management's representations concerning the finances of the City of Galveston. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In order to provide a reasonable basis for making these representations, management of the City of Galveston has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Galveston's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Galveston's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Galveston's financial statements have been audited by Null-Lairson, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Galveston for the fiscal year ended September 30, 2010 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Galveston's financial statements for the fiscal year ended September 30, 2010 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The independent audit of the financial statements of the City of Galveston was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas:

requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Galveston's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Galveston's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Galveston is a home rule, full service city incorporated in 1839. Galveston has a council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor, who is elected at large, and six council members elected to represent individual districts. The governing council is responsible, among other things, for passing ordinances, adopting the budget, determining policies, appointing committees, and hiring the government's manager, attorney, secretary, internal auditor, and municipal judge. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Elections are held every two years. Council members, including the Mayor, are limited to serving three terms.

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, water services, sewer services, refuse collection, drainage services, parks and recreational activities, and general administration. Additional services include building inspection, planning, zoning, engineering, and an airport.

Component units of the City, and the services they provide, include:

- The Park Board which provides improvements and maintenance to City waterfront parks and beaches
- Galveston Redevelopment Authority, which provides funds from four tax reinvestment zones and three public improvement districts for development and improvement projects within specific geographic areas of the City
- The Galveston Housing Finance Corporation which provides home mortgages and loans to lending institutions for the purpose of making home mortgages
- The City of Galveston Property Finance Authority, Inc. which was created by State Statute for the purpose of acquiring, owning, holding, leasing, and selling real or personal property to or for the benefit of the City for the furtherance of its public purposes
- The Board of Trustees of the Galveston Wharves which manages, controls, and maintains the port of Galveston
- The Industrial Development Corporation which provides funding for public works, beach re-nourishment, parks and economic development projects
- The City of Galveston Employee's Retirement Plan for City employees, the Galveston Firefighters' Pension Fund, and the City of Galveston Employee's Retirement Plan for Police

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas:

The annual budget serves as the foundation for the City of Galveston's financial planning and control. All departments of the City are requested to submit requests for appropriation to the government's manager around the middle of June each year. The City Manager uses these requests as the starting point for developing a proposed budget. The government's manager then presents this proposed budget to the council for review the first week of August. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than seven days before September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department with the Finance Director and City Manager's approval. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and Island Transit Fund, this comparison is presented on pages 26 and 27 of the Basic Financial Statements. For governmental funds, other than the General Fund and Island Transit Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection for each governmental fund for which a budget has been adopted.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Galveston operates.

Galveston Economic Climate Overview:

An overall positive outlook is projected for U.S. gross domestic product (GDP), probably in the 3 to 4 percent range for the 2011 year. "Upside factors seem likely to outweigh downside factors. Gradual improvements in credit availability, solid consumer spending, moderate job creation and less uncertainty about new regulations and taxes should work to reinforce the economic recovery. Downside risks remain, mostly in the form of drags from housing, state and local finance, and uncertain financial spillover from the euro debt crisis. Recent data indicate that the risks of a double-dip recession and deflation have ebbed. Although the regenerating channels of credit and finance remain vulnerable to shocks, renewed signs of a self-sustaining recovery in consumer and business spending are growing as the underlying factors behind the recession and subpar recovery continue to unwind. While housing, municipal finance and labor market slack continue to detract from a more robust recovery, the near-term outlook has improved".¹

Regional data reflects mixed results. "Houston continued to struggle even as the U.S. recovery solidified, the global economy rocketed forward and oil service companies earned record profits. The metropolitan area has lost 5,000 jobs since July, and the unemployment rate jumped from 8.2 to 8.9 percent between June and November. A series of policy barriers to local growth remain in place—cap and trade, the end of manned space flight, a slow return to Gulf of Mexico drilling—but even these should be a receding threat. Perhaps the major revision of jobs data that comes every March will resolve some of the contradictions".²

The City continues to recover from Hurricane Ike, a storm that struck the Island on September 13, 2008. The storm was officially a category 2 hurricane; however the enormous size of the system's hurricane force winds resulted in a category 4-5 storm surge. The storm surge averaged twelve feet on the island, flooding 70%-75% of the Island's businesses and housing stock. Private and commercial property damage now exceeds \$3 billion. Further damages were incurred to the City's Port (\$500 million), Medical facility

¹ Board of Governors of the Federal Reserve System, National Economic Update, January 27, 2011

² Federal Reserve Bank of Dallas, Houston Economic Update, January, 2011

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas:

(\$1 billion) and City buildings, equipment and infrastructure (\$123 million). The Island remains under a massive reconstruction effort funded by local, state and federal sources.

Immediately following the hurricane the United States Congress allocated \$6.5 billion in emergency funding for disaster recovery assistance to 13 States and Puerto Rico. On November 26, 2008, the US Department of Housing and Urban Development (HUD) announced the first of three allocations, amounting to \$2.1 billion. The funds are administered through the State, and Texas relegated administration to the Texas Department of Rural Affairs (TDRA) as the lead state agency. The Texas allocation of HUD funds have been distributed through various COG's. The Houston-Galveston Area Council (H-GAC) awarded \$267 million to the City of Galveston, the highest award of any of the jurisdictions in the Houston-Galveston region. The funds are allocated between housing (60%) and non-housing (40%). On August 16, 2010 H-GAC reported the second round (\$1.7 billion) of the State's amended plan has been accepted by HUD with \$1.032 billion awarded to the Houston-Galveston Area Council region. The City is expected to receive another \$271 million in CDBG round 2 funds, although allocation details remain fluid. Significant known allocations of recovery funds follow:

- \$160 million in CDBG funding for low-moderate income housing repair, restoration or rebuilding activities
- \$70 million of set aside funds for Galveston Island public housing and housing restoration (Round 2, phase 1)
- \$107 million in CDBG funding for infrastructure improvements to water and wastewater systems
- \$16 million in CDBG funding for infrastructure improvements to water and wastewater systems (Round 2, phase 1)
- A special provision was added to the Consolidated Appropriations Act, and an omnibus spending bill was signed December 18, 2009, to permit use of CDBG-D or other federal funds for matching components of other federal assistance in connection with 2008 disaster declarations
- \$19 million in assistance through American Recovery and Reinvestment Act (ARRA) awards, administered through the Texas Water Development Board, for infrastructure improvements to the City's water and wastewater systems
- The 2008 per capita disaster cost formula now exceeds Stafford Act funding match, reducing local match from 25% to 10%. The FEMA public assistance applications have exceeded \$200 million for debris removal, emergency preparatory measures, and various categories of permanent repairs.

The University of Texas Medical Branch (UTMB) is the island's largest employer with a labor force of better than 12,000. Soon after the storm the hospital's board of regents reduced the labor force by nearly 3,000 employees and reduced the Island facility's capacity from 600 to 200 beds. During the year, after encouragement and resource commitments by local leaders the board of regents pledged to restore the hospital's labor force, return to a level one trauma center, and establish capacity at pre-storm levels. On August 1, 2009 the trauma center reopened and is in pursuit of level one certification. Rehiring of professional and nurse staff resulted in reinstatement of some 1,500 employees. Mitigation applications have been submitted to FEMA to elevate critical infrastructure campus-wide, totaling \$463 million. Further, plans are underway to construct a new tower, with the goal of restoring pre-storm capacity.

Before Hurricane Ike the area was enjoying a growing tourism industry, a booming cruise industry, recent opening of a new convention center and golf course developments. Several hotel expansions, various residential developments and the Schlitterbahn Water Park and Resort were byproducts of this growth. Hurricane Ike resulted in substantial damage to the City's Gulf beaches. The Galveston Parks Board, in conjunction with the State General Land Office, timely launched an effort to reconstruct the beaches from 61st Street to 16th Street. The source of sand was from accreting areas around Stewart Beach and Apffel

To the Honorable Mayor,
Members of the City Council and
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Park. The majority of the work was completed March 31, 2009. A funding plan is now underway to restore the Island's west-end beaches. Although the City encountered a significant setback with a recent court ruling concerning the State's open beach policy in connection with public/private ownership, the ruling is under appeal. There remains a concerted effort to pool local public assistance funds between Galveston County, the Parks Board and the City and in turn utilize these collective sources to reestablish beach lost because of Hurricane Ike. The State's General Land Office participation remains to be determined.

On November 4, 2008 Galveston voters approved an extension to the 4-B Economic Development Sales Tax, a local option tax to be used to promote a wide range of civic and commercial projects. The reestablished 4-B use became effective for sales tax proceeds after April 1, 2009. The ballot specified four general concentrations of sales tax proceeds, subordinate only to annual debt service on outstanding bonded debt. The general areas of eligibility are (1) parks, (2) beach renourishment, (3) economic development and (4) streets, drainage and sewer projects. The Industrial Development Corporation Board of Directors is in the process of establishing policy in terms of contemplated projects for the new source of funds. Additionally, in January 2011 a new position has been created with the sole purpose of business retention and attraction.

The Galveston Wharves reported strong earnings for the 2009 year and preliminary 2010 data report even stronger earnings. However, the Island port dock and material handling facilities are in need of a considerable investment in order to remain competitive. During the 2010 year the Port completed a \$63 million dredging project that deepened navigable shipping channels to forty-five feet. The deeper channel will permit the Port to solicit much larger vessels to the Galveston port. On April 27, 2010 the Galveston Wharves governing board entered into an agreement with Bank of Montreal to solicit private investors for the purpose of redeveloping aging public docks and facilities. On February 14, 2011 the report was submitted and the Port's senior management was authorized to proceed. Since the Port is an integral part of Island economic progress the City will conduct an active role in the final negotiations as final terms unfold.

Long-term financial planning

The City Council has established a 90-day target balance for General Fund unrestricted cash and cash equivalents. The General Fund, in spite of cash demands by numerous expenditure driven federal assistance, ended the year with an operating cash balance of \$9.4 million, representing approximately 81 days of maintenance and operation.

Subsequent to Hurricane Ike all capital improvement projects not yet underway were suspended. All available funding was diverted to (1) recovery cash flow needs and/or (2) matching components of FEMA public assistance. Budget plans for issuance of water and wastewater revenue bonds have been discontinued.

Relevant financial policies

The City Council adopted a policy that employee layoffs were to be a last resort in any effort to control costs necessitated from revenue shortfalls as a consequence of Hurricane Ike. In order to address significant shortfalls in sales tax revenues projected during the 2009-2010 fiscal year, a hiring freeze was instituted early in November 2009 as well as several other measures to control interim discretionary spending. These cost control measures permitted a formal budget suspension in February, 2010 amounting to \$1.2 million.

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas:

Major initiatives

The next three to five years will be a continuance of recovery initiatives. The 2011 annual operating budget identified three primary goals, that of (1) sustainable government, (2) a clean City initiative and (3) a streamlining of the permit process. In preparation for the budget, an internal management review was conducted with each department to address declining revenues and a reduction in population. As a result, civilian budgeted positions were reduced 12%. The authorized force of police and fire public safety departments were reduced by 21% and 10% respectfully. The 2011 budget included \$3.2 million for one-time, reorganization measures with significant allowances for funding of early retirement incentives.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for fiscal year ended September 30, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government reports.

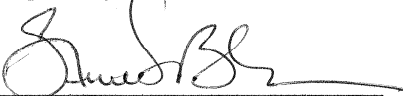
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The award is valid for a period of one year only. We believe that the current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report is a joint effort of various departments and offices of the City. The City's Finance Department coordinates the compilation and prepares the final report along with the City's independent auditor, Null-Lairson, P.C. The successful and timely preparation of this report depends on the cooperation of all these groups and upon the diligence and dedication of the entire staff of the Finance Department. We would like to express our appreciation to all the City staff that assisted and contributed to the preparation of this report.

Other City departments and offices make a significant contribution to the preparation of this report. We acknowledge their efforts in providing information and assistance during the preparation of this report. Finally, we acknowledge members of the Finance and Fiscal Affairs Committee and the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,



Steve LeBlanc
City Manager



Jeffrey G. Miller, CPA
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Galveston
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

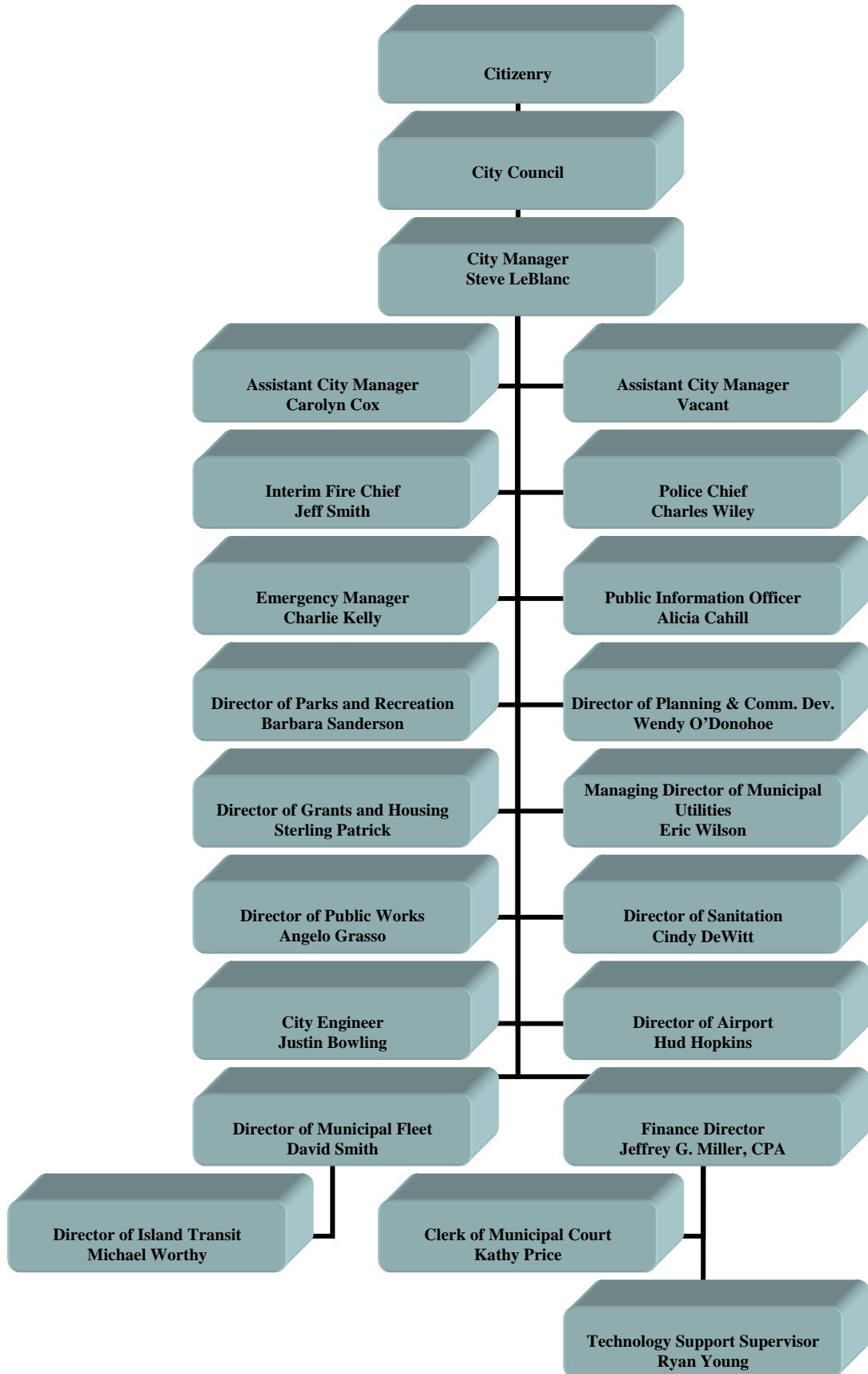
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Galveston, Texas Organizational Chart



CITY OF GALVESTON, TEXAS

Incorporated March 1839

Charter Adopted April 19, 1960

Council - Manager Form of Government

City Council		City Council Appointees	
Mayor	Joe Jaworski	City Manager	Steven J. LeBlanc
Mayor Pro Tem	Linda Colbert	City Secretary	Barbara S. Lawrence
Council Member	Rusty Legg	City Attorney	Harriet S. Green
Council Member	Elizabeth Beeton	Court Judge	Jim Schweitzer
Council Member	Chris Gonzales	City Auditor	Vacant
Council Member	Steve Greenberg		
Council Member	Dianna Puccetti		

**Departmental Directors
(City Manager Appointees)**

Airport	Hud N. Hopkins
Assistant City Manager - Community Services/Risk Manager	Vacant
Assistant City Manager - Administration, Human Resources & Public Safety	Carolyn Cox
City Engineer	Justin Bowling
Emergency Management	Charlie Kelly
Finance	Jeffrey G. Miller, CPA
Fire	Jeff Smith
Grants	Sterling W. Patrick
Island Transit	Michael Worthy
Municipal Court	Kathy Price
Municipal Garage	David A. Smith
Municipal Utilities	Eric Wilson
Parks and Recreation	Barbara E. Sanderson
Planning and Community Development	Wendy O'Donohoe
Police	Charles Wiley
Public Information Officer	Alicia Cahill
Public Works	Angelo Grasso
Sanitation	Cindy DeWitt
Technology	Ryan Young
Utilities	Eric Wilson

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Financial Section

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Independent Auditors' Report

To the Honorable Mayor and Members
of the City Council & Citizens
City of Galveston, Texas

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Galveston, Texas, Texas (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units of the City: the Park Board of Trustees of the City of Galveston, Texas, the City of Galveston Property Finance Authority or the Galveston Housing Finance Corporation, which represents 64% of total assets and 52% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, as it relates to the amounts included for that discretely presented component units is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units each major fund and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and island transit fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor and Members
of the City Council & Citizens
City of Galveston, Texas

The management's discussion and analysis, budgetary comparison and pension system information on pages 5 through 16 and 92 through 93 as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual non-major fund financial statements and budget comparisons listed in the table of contents under Other Supplementary Information are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The Introductory Section and Statistical Section listed in the foregoing table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we express no opinion on them.

Null-Harrison, P.C.

Houston, Texas
March 1, 2011

Management's Discussion and Analysis

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CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the City of Galveston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2009. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$261.4 million (net assets). Of these assets, capital assets increased \$51.4 million, or 20.32%, from the prior year.
- The ratio of total assets to total liabilities for governmental activities was 2.22 times; for business type activities the ratio was 1.97 times.
- General Fund cash and equivalents decreased \$4.6 million or 22.3% compared to the prior year.
- The fund balance of the General Fund decreased from \$16.7 million to \$11.7 million, a 29.8% decrease. The ending balance represents 27.0% of the \$43.4 million in expenditures. Total undesignated and unreserved fund balance was \$8.6 million, or 19.8% of expenditures.
- Business-type assets increased \$8.7 million over the last fiscal year. Of these, capital assets increased \$12.5 million, an increase of 8.6% from the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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 City's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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 future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, planning and community development, and transportation.

The business-type activities of the City include potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement and an airport facility.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Park Board, separate Tax Increment Reinvestment Zones, a legally separate Industrial Development Corporation, two property and housing finance corporations and the Galveston Wharves for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 18-21 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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 near-term inflows and outflows 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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Island Transit Fund, Hurricane Ike Fund and Texas Water Development Board Grant Fund, which are considered to be major funds or of significant interest to the governing body. Data from the other twenty-three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Island Transit Fund. A budgetary comparison statement has been provided for both funds to demonstrate compliance with this budget.

The City's governmental fund financial statements can be found on pages 22-27 of this report.

Proprietary Funds. The City maintains five different types of proprietary, or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement, and airport operations.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management information systems, central building services, print shop activities, mailroom, insurance and construction support. Because all of these services predominantly benefit governmental rather than business-type functions, the largest portion of the amounts has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the waterworks services and wastewater services, both of which are considered to be major funds of the City. Data from the other three proprietary funds are combined into a single aggregated presentation. Individual fund data for these funds can be found in statements elsewhere in this report. The portion of the internal service funds activities that relate to the proprietary activities are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The City's proprietary fund financial statements can be found on pages 28-30 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City's fiduciary fund financial statements can be found on pages 31-32 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 33-89 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information beginning on page 92. Information concerning the City's progress in funding its obligation to provide pension benefits to its employees is presented.

As detailed in the Table of Contents, the required supplementary information section also includes financial information on the non-major governmental funds, the non-major enterprise funds, the internal service funds, the pension trust funds, and capital assets.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, government-wide assets exceeded liabilities by \$261.4 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (67.8%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the citizenry; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

CITY OF GALVESTON, TEXAS

Table A-1

Net Assets (in thousands)

September 30, 2010

With comparative totals for September 30, 2009

	Governmental activities		Business - type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 127,403	\$ 123,968	\$ 67,200	\$ 70,937	\$ 194,603	\$ 194,905
Capital assets	146,357	107,472	157,743	145,265	304,101	252,737
Total assets	273,760	231,440	224,943	216,202	498,703	447,642
Current liabilities	36,178	26,482	12,808	12,929	48,986	39,411
Long term liabilities	86,869	110,810	101,422	106,706	188,292	217,516
Total liabilities	123,047	137,292	114,230	119,635	237,278	256,927
Net assets						
Invested in capital assets, net of related debt	98,300	49,607	79,051	65,039	177,351	114,646
Restricted	26,255	25,689	10,949	7,173	37,204	32,862
Unrestricted	26,158	18,852	20,713	24,354	46,871	43,206
Total net assets	\$ 150,713	\$ 94,148	\$ 110,713	\$ 96,566	\$ 261,426	\$ 190,714

An additional portion of the City's net assets (14.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reports positive balances in all three categories of net assets for the primary government as a whole.

As a consequence of damage incurred and ongoing recovery costs resultant from Hurricane Ike, along with diminishing property and sales tax revenue, the City will not have sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without a reduction in fund balances or net assets.

Of the business-type activities, the Waterworks system and the Sewer system are by far the largest operation at the City with total combined assets of \$194.0 million, comprising 86.8% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$40.9 million and \$41.5 million, respectively, which is 75.4% of total net assets compared to 76.9% for 2009. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 66.5% of the total business-type unrestricted net assets.

Governmental Activities. As shown in Table A-2, revenues were divided between governmental activities and business-type activities 74.4% and 25.6% respectively. Expenses were divided between governmental activities and business-type activities 73.1% and 26.9% respectively. Net assets increased \$ 56.6 million, or 60.1% from the prior period for governmental activities and increased \$ 14.1 million or 14.6% for business-type activities, Overall, net assets increased 37.1%.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

CITY OF GALVESTON, TEXAS
Changes in Net Assets (in thousands)
For the Fiscal Year Ended September 30, 2010
With comparative totals for fiscal year ended September 30, 2009

Table A-2

	Governmental activities		Business - type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for services	\$ 5,869	\$ 6,611	\$ 34,647	\$ 32,338	\$ 40,516	\$ 38,949
Operating grants and contributions	58,775	84,532			58,775	84,532
Capital grants and contributions	28,255	766	11,964	2,253	40,219	3,019
General revenues:						
Property taxes	18,270	19,718			18,270	19,718
Sales taxes	15,705	18,588			15,705	18,588
Hotel occupancy taxes	4,058	3,742			4,058	3,742
Franchise fees	4,756	4,807			4,756	4,807
Payments in lieu of taxes	120	120			120	120
Other	552	637	274	904	827	1,541
Total revenues	136,359	139,521	46,885	35,495	183,245	175,016
Expenses						
General government	8,484	5,742			8,484	5,742
Public safety	29,180	29,390			29,180	29,390
Public works	25,589	69,234			25,589	69,234
Culture and recreation	8,289	10,764			8,289	10,764
Planning and community development	7,902	4,237			7,902	4,237
Transportation system	5,347	5,120			5,347	5,120
Interest on long-term debt	2,868	2,758			2,868	2,758
Waterworks system			14,165	13,060	14,165	13,060
Sewer system			11,202	9,900	11,202	9,900
Sanitation services			3,999	3,907	3,999	3,907
Drainage utility			1,736	1,700	1,736	1,700
Airport			1,127	1,073	1,127	1,073
Total Expenses	87,660	127,245	32,229	29,640	119,890	156,885
Increase (decrease) in net assets before transfers	48,699	12,276	14,656	5,855	63,355	18,131
Special Item - Loss on assets due to Hurricane Ike						
Extraordinary Item - Insurance proceeds related to Hurricane Ike	7,171	4,863	220	3,509	7,391	8,372
Extraordinary Item - Impairments to assets due to Hurricane Ike		1,112	(34)		(34)	1,112
Transfer in (out)	695	562	(695)	(562)		
Change in net assets	56,565	18,813	14,147	8,802	70,712	27,615
Net assets at beginning of year	94,148	75,335	96,566	87,764	190,714	163,099
Net assets at end of year	\$ 150,713	\$ 94,148	\$ 110,713	\$ 96,566	\$ 261,426	\$ 190,714

Table A-2 above reflects that:

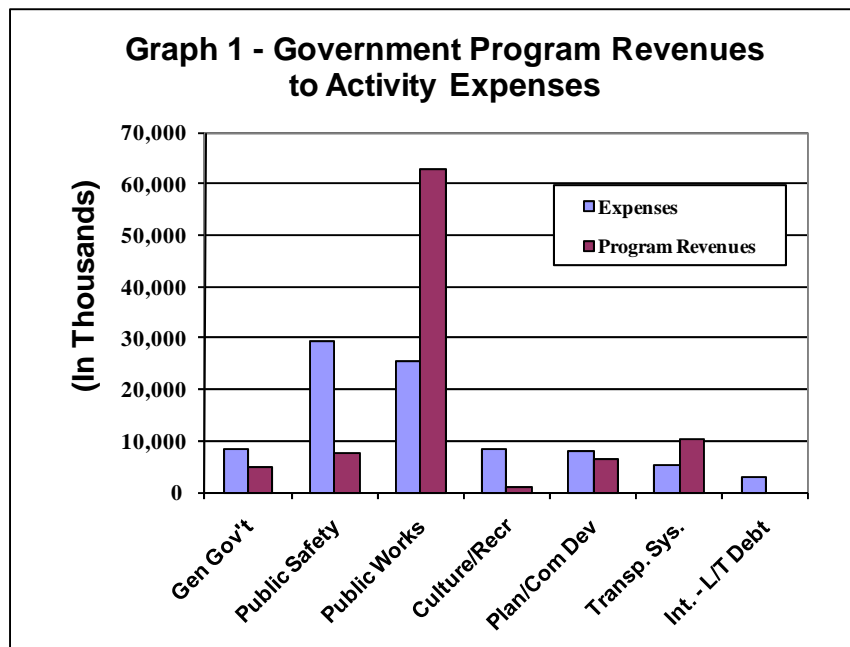
- Spending for governmental activities for the fiscal year was \$ 87.7 million, a decrease of \$39.6 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 33.3% of governmental activities compared to 23.1% in 2009. Public safety operating expenses decreased \$0.2 million or 0.7% compared to the prior year.

CITY OF GALVESTON, TEXAS

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

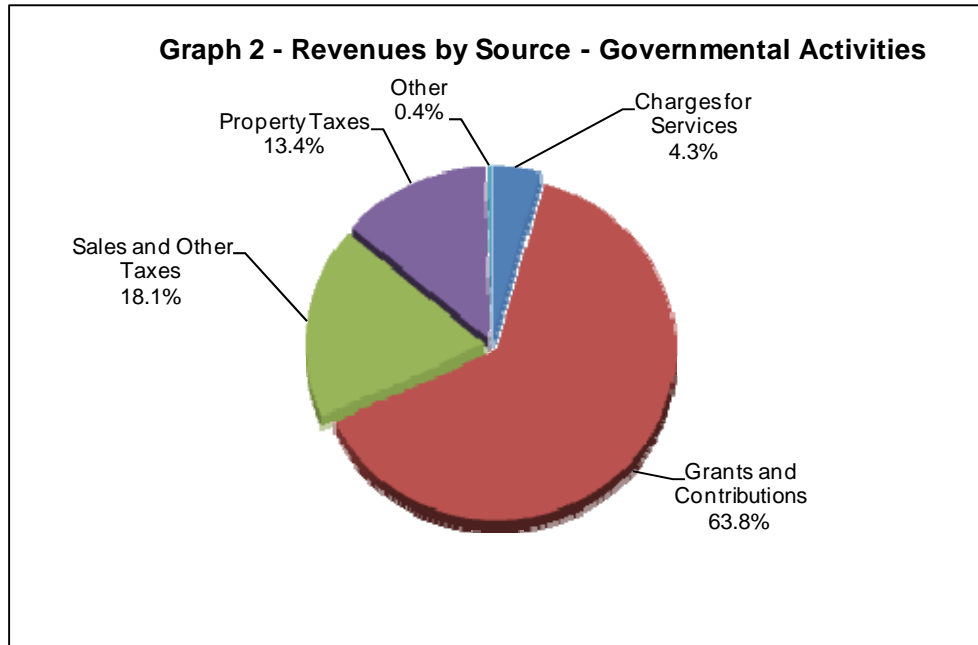
- The single largest source of revenue is from operating grants and contributions, representing 63.8% of the \$136.4 million governmental activity revenue stream. The City’s Hurricane Ike recovery costs are projected to exceed \$200 million. Debris removal costs subject to reimbursement were \$7.7 million for the 2009-2010 year. The City paid off an emergency loan for \$20 million and permanent repair categories of FEMA public assistance were \$28.6 million for the year.
- Capital grants and contributions represented another 20.7% of governmental revenues. The majority of the \$28.3 million resulted from capital contributions recognized from conveyance of developer public improvements, from Tax Reinvestment Zones 11 and 13.
- Local taxes provided slightly less than a third of governmental activity revenue. City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes were \$42.9 million, a decrease of \$4.1 from the previous year. Taxes and franchise fees contributed to 31.5% of governmental activities revenue compared to 33.7% in fiscal year 2009.
- Charges for services account for 4.3% of governmental activities, and decreased \$ 0.7 million in fiscal 2010 to \$ 5.9 million. Revenues derived from building and associated permits were down \$622,000 and citation revenue was down \$286,000. Island Transit revenues derived from ridership increased by \$218,000.

Graph 1 below presents the cost of each of the City’s major governmental functions, as well as the associated program revenues. Total expenses were \$ 87.7 million. Program revenues provided \$ 92.9 million, for a net revenue of \$5.2 million for the fiscal year 2009-2010. Hurricane Ike recovery costs for loan liquidation, debris removal and capital repairs were \$56.3 million, or 64.2% of the total governmental activity expenses. The cost of providing public safety was \$ 29.2 million or 33.3% of the cost of governmental activities, an increase from 23.1% of cost of governmental activities in 2009. Not uncommon with governmental activities, the subsidy required from taxpayers provides the majority support to these core services.



CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

Graph 2 below presents the sources of revenue for governmental activities. Federal assistance, most notably from the FEMA public assistance program provided 63.8% of the 2010 year funding. A combination of sales taxes (11.5%), hotel taxes (3.0%), franchise fees (3.5%), and payments in lieu of taxes received from business-type activities (0.1%) comprise 18.1% of the total revenues. The City's property taxes contributed an additional 13.4% of total revenues.



Business-type Activities. Business-type activities increased the City's net assets by \$ 14.1 million, or 14.6%. Business-type net assets accounted for 42.3% of the City's total net assets. Revenues derived from charges for services account for 74.3% of business-type program revenues.

CITY OF GALVESTON, TEXAS

Table A-3

Expenses, Program Revenues, and Net Revenue (Cost) of Services - Business Type Activities (in thousands) For the Fiscal Year Ended September 30, 2010 With comparative totals for fiscal year ended September 30, 2009

Program			2010	2009
	Expenses	Program Revenues	Net Revenue (Cost) of Services	Net Revenue (Cost) of Services
Waterworks system	\$ 14,165	\$ 22,447	\$ 8,284	\$ 1,419
Sewer system	11,202	13,054	1,851	2,738
Sanitation services	3,999	4,281	282	(14)
Drainage utility	1,736	2,595	859	756
Airport	1,127	4,234	3,106	52
Totals	\$ 32,229	\$ 46,611	\$ 14,382	\$ 4,951

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$ 31.1 million, or 96.5% of all the expenses of business-type activities.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

Related revenues of those funds totaled \$42.4 million, or 90.9% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$33.5 million and expenses were \$28.6 million. The Island population and customer service base decreased as a consequence of Hurricane Ike. Consumption remained down 10.0% from pre-Ike levels.

The net excess of program revenues over expenses for the four public utility related funds was \$11.3 million compared to \$4.9 million in 2009. Capital contributions under a series of American Recovery and Reinvestment (ARRA) water and sewer grants amounted to \$9 million. In total, business type activity excess revenues over expenses were \$14.4 million in 2010 compared to \$5.0 million in 2009.

Table A-4 shows business-type activities revenues by source. Charges for services provided 74.0% of the total, capital grants and contributions provided 25.5% and interest earnings and other provided the balance of 0.5%.

CITY OF GALVESTON, TEXAS

Table A-4

*Revenues by Source- Business Type Activities
(in thousands)*

For the Fiscal Year Ended September 30, 2010

With comparative totals for fiscal year ended September 30, 2009

	2010		2009	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 34,647	74.0%	\$ 32,338	91.2%
Capital grants and contributions	11,964	25.5%	2,253	6.3%
Other	274	0.5%	904	2.4%
Totals	\$ 46,885	100%	\$ 35,495	100%

Financial Analysis of the Government's Funds

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

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

The following is of note relating to governmental funds:

- Total assets of the General Fund decreased from \$20.9 million in fiscal 2009 to \$17.0 million in fiscal 2010. Cash and temporary investments amount to \$9.4 million or 55.5% of total assets and net receivables are reported at \$7.5 million, or 43.9% of the total. Sales and property taxes along with franchise fees account for 58.5% of net receivables.
- General Fund liabilities increased by \$1.1 million. Liabilities were \$5.3 million in 2010. A significant year-end purchase of a Fire ladder (aerial) truck was authorized and title was received for \$650,000. Deferred revenue from property taxes amounted to 40.0% of General Fund liabilities compared to 49.5% for fiscal year 2009.

CITY OF GALVESTON, TEXAS

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

- General Fund actual revenues were \$2.3 million less than budgeted for the 2009-2010 fiscal year. A significant unfavorable variance in budgeted sales tax revenues was recognized during the first quarter, and measures were instituted to control spending including a hiring freeze and suspension of \$1.2 million in the operation budget. Budget savings realized from vacancy lapse and other spending controls resulted in favorable variances in actual expenditures incurred compared to budgeted appropriations by \$5.2 million.
- The General fund's unreserved, undesignated fund balance decreased \$5.2 million in 2010 to \$8.6 million. The 2009-2010 operating budget included use of \$7 million in General fund, fund balance.
- The General Fund unreserved, designated-for-emergency fund balance increased from \$2.8 million in 2009 to \$3.0 million in 2010. Another \$200 thousand increase has been provided in the 2010-2011 budget.
- Other governmental non-major funds (23 separate funds) have cash and investments totaling \$27.2 million, comprising 24.0% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$ 52,672 to \$ 4.6 million at the end of 2010. IDC bond reserves, required by bonded debt covenant, are \$1.8 million or 39.1% of the Debt Service Fund, fund balance.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 70.2 million. Of this amount, \$ 39.4 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Reserves are reported for operations (\$ 10.0 million), capital project (\$ 13.2 million) and debt service (\$ 7.6 million).

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total assets of the Waterworks system and the Sewer system are \$194.0 million, which comprises 86.8% of the total assets of all proprietary funds. Unrestricted net assets of those two funds are \$5.9 million and \$6.9 million respectively.

General Fund Budgetary Highlights

A primary goal for the General Fund operating budget is that current budgeted revenues will equal or exceed current budgeted expenditures. Only unforeseen or emergency circumstances will be considered justification for utilizing the fund balance or contingency funds during the annual budget process. During fiscal year 2010 all departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2010 set General Fund revenue and expenditures at \$ 40.2 million (exclusive of transfers), a 6.3% decrease in estimated revenue over the prior year. The property tax rate remained the same as the prior year, at \$0.554 mills. While the 2010 budget contemplated a \$7 million decrease in fund balance, a decline in sales tax brought about by recessionary pressures and further declines in consumer spending was not anticipated. By the first quarter ended December 31, 2009 trending data isolated a significant decline in projected sales tax revenue and the portions of the spending budget were suspended by Council action in February, 2010. The City incurred an actual decline in General Fund revenues of \$3.6 million or 8.9%. Property taxes were down \$95,200 or less than 1% compared to budget. Sales tax was down 15.4% or \$2.2 million. Franchise taxes, tied to consumption,

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

were off \$639,000 and fines and forfeits were off \$427,000. Investment earnings, tied to pool investment performance, were down \$151,000 compared to budget. Actions by the Federal Open Market Committee held fixed income rates at record lows over the fiscal year.

General Fund expenditures were \$5.2 million under budgeted appropriations. As noted above, budget suspensions, a hiring freeze and other cost cutting measures resulted in savings in all departments. Departments reported a favorable variance to budgets in all areas, including general government, \$825,000; public safety, \$982,000; public works, \$209,000; culture and recreation, \$36,000; planning and community development, \$88,000; and transportation and allocations for FEMA matching requirement, \$3,031,000. Vacancy lapse, suspension of capital and discretionary spending and other restrictive spending policies contributed to the favorable year-end results.

Capital Asset and Debt Administration

CITY OF GALVESTON, TEXAS

Table A-5

Capital Assets, net of depreciation where applicable (in thousands)

September 30, 2010

With comparative totals for September 30, 2009

	Governmental activities		Busines - type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 18,116	\$ 2,716	\$ 2,449	\$ 2,449	\$ 20,565	\$ 5,165
Infrastructure	70,976	55,223	64,666	64,625	135,642	119,848
Buildings	42,232	39,627	29,338	29,596	71,571	69,223
Equipment and furniture	11,416	8,134	6,183	5,674	17,599	13,808
Contractual water rights			18,981	20,950	18,981	20,950
Construction in progress	3,617	1,773	36,126	21,971	39,743	23,744
Totals	\$ 146,357	\$ 107,472	\$ 157,743	\$ 145,265	\$ 304,102	\$ 252,737

As shown in Table A-5, at the end of 2010, the City's investment in capital assets has a carrying value of \$304.1 million. This includes a broad range of capital assets, such as utility system infrastructure, contractual rights to the City's water supply, streets, airport structures and runways, several buildings, police and fire equipment, park facilities, and other equipment and furniture. Governmental funds contributed \$146.4 million in capital assets, while business-type activities have invested in \$157.7 million of capital assets.

Governmental capital assets subject to depreciation increased \$21.6 million. Construction in progress increased \$1.8 million. Depreciation expense accounted for a decrease in carrying value of \$5.8 million.

Business type capital assets subject to depreciation decreased \$1.7 million. Construction in progress increased \$14.2 million. Depreciation expense accounted for a decrease in carrying value of \$7.1 million.

Total construction in progress has increased from \$23.7 million in fiscal year 2009 to \$39.7 million at the close of fiscal year 2010. Construction in progress from governmental activities included a new Island Transit Maintenance facility consisting of \$1.1 million in outlays for the 2009-2010 year and \$.6 million for a trolley barn. Business-type activities expended \$4.9 million on the 30th Street pump station; \$2.9 million on a two million gallon elevated storage tank at Isla Del Sol; \$2.8 million on Jamaica Beach elevated storage tank & pump station and \$1.3 million for the 33rd Street sanitary sewer rehabilitation.

Additional information on the City's capital assets can be found in Note 7 to the financial statements.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$172.4 million. Of this amount, \$19.8 million was comprised of debt backed by the full faith and credit of the government, and \$32.8 million was comprised of special assessment debt for which the government is liable in the event of a deficiency in the amount of hotel tax revenue collected. The remainder of the City's debt (\$80.1 million) primarily represents bonds secured solely by specified revenue sources, \$41.8 million and certificates of obligation, \$38.4 million.

CITY OF GALVESTON, TEXAS

Table A-6

Outstanding Debt (in thousands)

September 30, 2010

With comparative totals for September 30, 2009

	Governmental activities		Business - type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 19,834	\$ 20,963	\$	\$	\$ 19,834	\$ 20,963
Special obligation bonds	32,835	34,010			32,835	34,010
Contracts payable			39,590	42,300	39,590	42,300
Revenue bonds			41,765	43,670	41,765	43,670
Certificates of obligation	22,691	22,772	15,668	16,146	38,359	38,919
Notes payable	2,601	23,884	9,894	9,684	12,495	33,567
Capital lease obligations	163	319	649	921	812	1,240
Total Debt	\$ 78,124	\$ 101,948	\$ 107,566	\$ 112,721	\$ 185,689	\$ 214,669

The City's total debt overall decreased \$29.0 during the current fiscal year. Outside of usual scheduled debt service payments, notes payable decreased \$21.1 million, notably due to the City's payoff of a \$20 million emergency loan.

On December 22, 2010 Standard and Poor's upgraded the City's general obligation bond rating from BBB to 'A / positive'. The rating service cited economic improvement after Hurricane Ike as well as management's commitment to maintain a strong financial position. The City maintains an "A2" rating from Moody's for its general obligation debt and certificates of obligation.

Additional information on the City's long-term debt can be found in Note 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Over 17,000 to 22,000 primary housing and rental homes were damaged to some degree by Hurricane Ike's tidal surge. Resultant from the hurricane, appraised values declined 17.3% to \$3.7 billion. For the 2010 tax year appraised values increased to \$4.049 billion, still off from pre-storm levels by 6.4%. The city adopted a tax rate of \$0.554 mills, the same as the previous year and maximum allowed under State property tax rollback limits. Property, sales and other tax revenue contribute 31.9% of the City's Government fund revenue. The City's budgeted property tax revenue has been projected to increase 8.5% over the prior year. Appraised values increased by \$361 million, bringing net taxable roll values to \$3.3 billion. Sales tax revenue has been budgeted to increase 9.8% based on recommendations from the City Finance and Fiscal Affairs Committee and after consideration of regional economic data.

The property tax rate remained the same as last year, at \$0.554 per \$100 valuation for fiscal year 2010-2011. The rate for the General Fund (maintenance and operation) increased 1.4% from 44.04 cents to 44.64 cents per \$100. General fund property tax revenue is projected to increase \$1,556,300 in the 2011 year.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)

The 2011 budget includes the use of fund balance to assist in meeting its obligations. \$3.2 million has been provided to transition to City to sustainable operations. Both civilian and civil service departments have been downsized, based on diminishing revenues and a declining population. In the General Fund, the City has budgeted \$3.2 million from fund balance to provide early retirement incentives in connection with City-wide downsizing of operations. Additionally, funds have been provided for both vehicle replacement and a reserve for future replacement (\$978,000) and to provide funds in contemplation of a future bond issue or capital replacement fund (\$363,000).

There were no rate increases in the Enterprise funds. However, the Waterworks fund budget includes a draw on net assets amounting to \$2.4 million. Capital portions amount to \$1.4 million and an additional \$980,000 is included to provide additional debt service to secure water rights commitment with the Gulf Coast Water Authority. The City expects the Authority to sell a portion of these rights in the near term, with the proceeds credited to future debt service.

Unemployment rate for the City is currently 8.4%, which is an increase from a rate of 7.7% a year ago. This is comparable to the state's average unemployment rate of about 8.3% and favorable compared to the national average rate of 9.6% as of year-end.

All of these factors were considered in preparing the City's budget for the 2011 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Galveston, 823 Rosenberg, Galveston, TX 77553.

Basic Financial Statements

CITY OF GALVESTON, TEXAS

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and equivalents	\$ 40,902,996	\$ 8,988,882	\$ 49,891,878
Investments			
Receivables, net of allowance for uncollectibles	11,697,741	8,402,476	20,100,217
Internal balances	(8,629,387)	8,629,387	
Due from other governments	38,408,199		38,408,199
Due from component units	19,323,672		19,323,672
Restricted assets	24,734,415	39,214,765	63,949,180
Inventories	422,163	25,824	447,987
Prepaid items	499,779	54,234	554,013
Deferred charges	43,184	1,884,231	1,927,415
Net investments in direct financing lease			
Capital assets not being depreciated	21,733,005	38,575,257	60,308,262
Capital assets net of depreciation	124,624,465	119,168,079	243,792,544
Total Assets	273,760,232	224,943,135	498,703,367
Liabilities			
Accounts payable and accrued expenses	13,626,092	2,509,928	16,136,020
Accrued interest	899,996	1,089,526	1,989,522
Due to other governments	328,742	243,397	572,139
Due to primary government			
Unearned revenue	17,846,253	99,476	17,945,729
Customer deposits		2,232,234	2,232,234
Long-term liabilities:			
Due within one year	3,476,948	6,633,283	10,110,231
Due in more than one year	86,869,477	101,422,301	188,291,778
Total Liabilities	123,047,508	114,230,145	237,277,653
Net Assets			
Invested in capital assets, net of related debt	98,300,131	79,051,055	177,351,186
Restricted for:			
Capital projects	9,719,161		9,719,161
Debt service	6,881,370	10,949,181	17,830,551
Planning and comm. development	1,404,525		1,404,525
Public safety	550,329		550,329
Court operations	1,013,676		1,013,676
Convention center operations	3,661,176		3,661,176
Maintenance and operations	3,025,226		3,025,226
Unrestricted	26,157,130	20,712,754	46,869,884
Total net assets	\$ 150,712,724	\$ 110,712,990	\$ 261,425,714

See Notes to Financial Statements.

Exhibit 1

Component Units	
Governmental Activities	Business-Type Activities
\$ 5,853,086	\$ 14,577,929
5,474,298	54,993
2,656,452	6,878,152
153,831	
872,403	32,029,398
183,194	594,792
55,949	835,635
	11,809,757
	26,438,876
331,429,197	75,036,008
<u>346,678,410</u>	<u>168,255,540</u>
3,508,354	4,216,385
280,657	1,408,261
63,050	197,072
	19,323,672
	6,583,319
1,297,928	4,210,037
27,719,725	49,861,648
<u>32,869,714</u>	<u>85,800,394</u>
330,681,269	64,734,657
1,305,883	4,926,327
1,036,114	
(19,214,570)	12,794,162
<u>\$ 313,808,696</u>	<u>\$ 82,455,146</u>

CITY OF GALVESTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General government	\$ 8,484,416	\$ 1,716,696	\$ 3,336,373	\$
Public safety	29,179,643	2,310,443	5,234,442	
Public works	25,589,210	49,775	37,422,853	25,297,738
Culture and recreation	8,289,451	1,856	963,327	23,393
Planning and community development	7,901,787	1,281,564	5,068,364	
Transportation system	5,347,400	508,344	6,749,446	2,933,943
Interest on long-term debt	2,868,133			
Total governmental activities	87,660,040	5,868,678	58,774,805	28,255,074
Business-type Activities				
Waterworks	14,164,715	14,987,921		7,459,377
Sewer system	11,202,395	11,522,851		1,530,875
Sanitation	3,999,482	4,258,167		23,082
Drainage	1,736,447	2,566,864		28,431
Airport	1,127,166	1,311,551		2,922,043
Total business-type activities	32,230,205	34,647,354		11,963,808
Total primary government	\$ 119,890,245	\$ 40,516,032	\$ 58,774,805	\$ 40,218,882
Component Units				
Governmental activities	\$ 39,994,861	\$ 3,646,010	\$	\$ 3,815,426
Business-type activities	20,777,821	20,865,701	540,163	6,092
Total component units	\$ 60,772,682	\$ 24,511,711	\$ 540,163	\$ 3,821,518

General revenues:

Taxes:

Property taxes

Sales and use taxes

Hotel occupancy taxes

Franchise fees

Payments in lieu of taxes

Unrestricted investment earnings

Miscellaneous

Other sources

Extraordinary item - insurance proceeds related to Hurricane Ike

Extraordinary item - disposal of assets due to Hurricane Ike

Extraordinary item - clean up and repair - Hurricane Ike

Transfers

Total general revenues, extraordinary items and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (3,431,347)		\$ (3,431,347)		
(21,634,758)		(21,634,758)		
37,181,156		37,181,156		
(7,300,875)		(7,300,875)		
(1,551,859)		(1,551,859)		
4,844,333		4,844,333		
(2,868,133)		(2,868,133)		
<u>5,238,517</u>		<u>5,238,517</u>		
	\$ 8,282,583	8,282,583		
	1,851,331	1,851,331		
	281,767	281,767		
	858,848	858,848		
	3,106,428	3,106,428		
	<u>14,380,957</u>	<u>14,380,957</u>		
<u>5,238,517</u>	<u>14,380,957</u>	<u>19,619,474</u>		
			\$ (32,533,425)	\$ 634,135
			<u>(32,533,425)</u>	<u>634,135</u>
18,269,673		18,269,673	3,837,553	
15,704,707		15,704,707		
4,057,837		4,057,837	6,148,506	
4,756,164		4,756,164		
120,117		120,117		
114,695	168,683	283,378	186,083	352,358
352,932	105,708	458,640		(3,359,489)
84,760		84,760		
7,170,024	220,023	7,390,047	19,870,800	6,723,512
	(33,896)	(33,896)		
				(3,440,213)
694,815	(694,815)			
<u>51,325,724</u>	<u>(234,297)</u>	<u>51,091,427</u>	<u>30,042,942</u>	<u>276,168</u>
56,564,241	14,146,660	70,710,901	(2,490,483)	910,303
94,148,483	96,566,330	190,714,813	316,299,179	81,544,843
<u>\$ 150,712,724</u>	<u>\$ 110,712,990</u>	<u>\$ 261,425,714</u>	<u>\$ 313,808,696</u>	<u>\$ 82,455,146</u>

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 3

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2010

	General Fund	Island Transit	Hurricane Ike	Texas Water Development Board Grant	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 9,436,301	\$ 200	\$	\$	\$ 27,227,698	\$ 36,664,199
Restricted cash and investments			24,263,918			24,263,918
Receivables, net of allowance for uncollectibles	3,138,959	140,756	770,402	5,961,195	1,399,169	11,410,481
Due from other governments	2,471,141	298,703	31,489,223		4,149,134	38,408,201
Due from other funds	1,847,273				740,652	2,587,925
Inventories		193,612				193,612
Prepaid items	101,738					101,738
Total Assets	\$ 16,995,412	\$ 633,271	\$ 56,523,543	\$ 5,961,195	\$ 33,516,653	\$ 113,630,074
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,239,549	\$ 14,496	\$ 7,242,371	\$ 1,462,163	\$ 1,284,998	\$ 11,243,577
Accrued expenditures	1,586,729	105,607	1,088	9,106	81,169	1,783,699
Due to other funds	20,262	103,520	2,960,868	4,489,926	2,464,143	10,038,719
Payable to other governments	324,499				4,243	328,742
Deferred revenue	2,117,195	97,105	15,518,336		2,301,004	20,033,640
Total Liabilities	5,288,234	320,728	25,722,663	5,961,195	6,135,557	43,428,377
Fund balances:						
Reserved for:						
Inventories		193,611				193,611
Prepaid items	101,738					101,738
Capital projects					13,193,491	13,193,491
Debt service					7,646,345	7,646,345
Planning and comm. development					1,404,525	1,404,525
Public safety					550,329	550,329
Court operations					1,013,676	1,013,676
Convention center operations					3,661,176	3,661,176
Maintenance and operations	3,025,226					3,025,226
Unreserved	8,580,214	118,932	30,800,880			39,500,026
Unreserved, undesignated, reported in:						
Special revenue funds					(32,377)	(32,377)
Capital projects funds					(56,069)	(56,069)
Total Fund Balances	11,707,178	312,543	30,800,880		27,381,096	70,201,697
Total Liabilities and Fund Balances	\$ 16,995,412	\$ 633,271	\$ 56,523,543	\$ 5,961,195	\$ 33,516,653	\$ 113,630,074

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 4

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

September 30, 2010

Total fund balance, governmental funds \$ 70,201,697

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 140,471,237

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Property taxes receivable	1,561,573
Adjudicated municipal court fines	625,823
Long-term receivable from component unit	19,323,672

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 2,608,472

Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

Bonds payable	(71,992,410)
Notes payable	(1,300,000)
Capital lease obligation	(162,931)
Compensated absences	(8,587,939)
Accrued interest	(899,996)
Net pension obligation	(925,433)
Deferred bond issuance premium / discount	(211,041)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 150,712,724

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 5

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2010

	<u>General Fund</u>	<u>Island Transit</u>	<u>Hurricane Ike</u>	<u>Texas Water Development Board Grant</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Property taxes	\$ 14,474,640	\$	\$	\$	\$ 3,809,368	\$ 18,284,008
Sales and use taxes	11,891,779				7,870,765	19,762,544
Franchise fees	4,756,164					4,756,164
Licenses and permits	1,161,760					1,161,760
Fines and forfeitures	1,950,306				90,049	2,040,355
Charges for services	1,439,974	725,762			119,831	2,285,567
Investment earnings	51,391	145			52,275	103,811
Intergovernmental		2,436,836	47,605,560	8,419,568	9,962,899	68,424,863
Other	778,933	3,832	55,517		1,549,753	2,388,035
Payments in lieu of taxes	120,117					120,117
Total Revenues	<u>36,625,064</u>	<u>3,166,575</u>	<u>47,661,077</u>	<u>8,419,568</u>	<u>23,454,940</u>	<u>119,327,224</u>
Expenditures						
Current:						
General government	5,663,866		1,860,390		118,096	7,642,352
Public safety	28,227,236		226,987		426,819	28,881,042
Highways and roads	3,601,764		13,373,282		32,061	17,007,107
Culture and recreation	1,926,273		97,553		4,673,677	6,697,503
Planning and community development	1,710,730		9,110		4,700,804	6,420,644
Transportation	850,000	3,245,989	34,005		811,423	4,941,417
Debt Service:						
Principal	156,289		20,000,000		2,237,443	22,393,732
Interest and other charges	13,567				3,465,948	3,479,515
Capital outlay	1,216,647		20,683,532	8,526,190	3,343,650	33,770,019
Total Expenditures	<u>43,366,372</u>	<u>3,245,989</u>	<u>56,284,859</u>	<u>8,526,190</u>	<u>19,809,921</u>	<u>131,233,331</u>
Excess (deficiency) of revenues over expenditures	<u>(6,741,308)</u>	<u>(79,414)</u>	<u>(8,623,782)</u>	<u>(106,622)</u>	<u>3,645,019</u>	<u>(11,906,107)</u>
Other Financing Sources (Uses)						
Sale of assets	83,367	(87,175)				(3,808)
Transfers in	2,037,948		385,470	106,622	3,765,944	6,295,984
Transfers (out)	(350,199)		(1,306,256)		(3,944,714)	(5,601,169)
Total Other Financing Sources (Uses)	<u>1,771,116</u>	<u>(87,175)</u>	<u>(920,786)</u>	<u>106,622</u>	<u>(178,770)</u>	<u>691,007</u>
SPECIAL ITEM						
Extraordinary item - insurance proceeds related to Hurricane Ike			7,170,024			7,170,024
Net change in fund balances	(4,970,192)	(166,589)	(2,374,544)		3,466,249	(4,045,076)
Fund balances - beginning	<u>16,677,370</u>	<u>479,132</u>	<u>33,175,424</u>		<u>23,914,847</u>	<u>74,246,773</u>
Fund balances - ending	<u>\$ 11,707,178</u>	<u>\$ 312,543</u>	<u>\$ 30,800,880</u>	<u>\$</u>	<u>\$ 27,381,096</u>	<u>\$ 70,201,697</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2010

Net change in fund balances - total governmental funds: \$ (4,045,076)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay (\$41,157,944) exceeds depreciation (\$5,682,874) in the current period. 35,475,070

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (149,218)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues (property taxes and municipal fines) are reported in the Statement of Activities when earned. 163,880

Governmental funds report proceeds from new debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

Bond principal repayments 23,433,993
 Repayment of accreted interest 86,268
 Lease principal payments 156,289

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Changes in accrued interest (29,830)
 Changes in accrued compensated absences (651,025)
 Changes in net pension obligation 279,881

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. 1,844,009

Change in net assets of governmental activities \$ 56,564,241

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

BUDGET AND ACTUAL (Budgetary Basis)

MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

GENERAL FUND				
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
	Original	Final		
Revenues				
Property taxes	\$ 14,569,817	\$ 14,569,817	\$ 14,474,640	\$ (95,177)
Sales and use taxes	14,049,261	14,049,261	11,891,779	(2,157,482)
Franchise taxes	5,395,538	5,395,538	4,756,164	(639,374)
Licenses and permits	1,200,527	1,200,527	1,161,760	(38,767)
Intergovernmental	122,195	122,195	120,117	(2,078)
Charges for services	1,543,950	1,543,950	1,457,974	(85,976)
Fines and forfeitures	2,377,174	2,377,174	1,950,318	(426,856)
Investment earnings	202,329	202,329	51,360	(150,969)
Other	740,256	740,256	760,921	20,665
Total Revenues	40,201,047	40,201,047	36,625,033	(3,576,014)
Expenditures				
Current:				
General government	6,310,082	6,454,402	5,629,009	825,393
Public safety	29,426,178	29,381,678	28,400,001	981,677
Public works	3,959,962	3,829,962	3,620,827	209,135
Culture and recreation	1,983,396	2,011,632	1,972,616	39,016
Planning and community development	1,798,615	1,798,615	1,710,730	87,885
Transportation	850,000	850,000	850,000	
Special projects	4,572,814	4,214,559	1,183,189	3,031,370
Total Expenditures	48,901,047	48,540,848	43,366,372	5,174,476
Excess (deficiency) of revenues over expenditures	(8,700,000)	(8,339,801)	(6,741,339)	1,598,462
Other Financing Sources (Uses)				
Transfer to emergency reserves	(200,000)	(200,000)	(200,000)	
Other funding sources	1,300,000			
Sale of assets			83,367	83,367
Transfers in (out)	600,000	1,674,621	1,687,749	13,128
Total Other Financing Sources (Uses)	1,700,000	1,474,621	1,571,116	96,495
Extraordinary item-insurance proceeds related to Hurricane Ike				
Net change in fund balance	(7,000,000)	(6,865,180)	(5,170,223)	1,694,957
Fund balances - beginning	16,666,371	16,666,371	16,666,371	
Fund balances - ending	\$ 9,666,371	\$ 9,801,191	\$ 11,496,148	\$ 1,694,957

See Notes to Financial Statements.

<i>ISLAND TRANSIT</i>			
Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
Original	Final		
\$	\$	\$	\$
2,760,596	2,760,596	2,436,836	(323,760)
738,000	738,000	725,762	(12,238)
		145	145
10,000	10,000	3,832	(6,168)
<u>3,508,596</u>	<u>3,508,596</u>	<u>3,166,575</u>	<u>(342,021)</u>
3,448,435	3,448,435	3,245,989	202,446
<u>3,448,435</u>	<u>3,448,435</u>	<u>3,245,989</u>	<u>202,446</u>
60,161	60,161	(79,414)	(139,575)
		(87,175)	(87,175)
		<u>(87,175)</u>	<u>(87,175)</u>
60,161	60,161	(166,589)	(226,750)
479,132	479,132	479,132	
<u>\$ 539,293</u>	<u>\$ 539,293</u>	<u>\$ 312,543</u>	<u>\$ (226,750)</u>

CITY OF GALVESTON, TEXAS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010

Exhibit 8

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current assets:					
Cash and temporary investments	\$ 2,108,845	\$ 3,068,747	\$ 3,811,290	\$ 8,988,882	\$ 4,238,797
Accounts receivable, net of allowance for doubtful accounts	2,298,808	3,216,320	2,887,348	8,402,476	287,259
Due from other funds	4,521,542	1,487,794	1,256,963	7,266,299	184,495
Inventories	12,912	12,912		25,824	228,551
Prepaid expenses	15,655	15,655	22,924	54,234	398,041
Restricted assets:					
Cash and investments	13,874,476	17,807,930	1,737,947	33,420,353	470,497
Investment with trustee	5,794,412			5,794,412	
Total current assets	28,626,650	25,609,358	9,716,472	63,952,480	5,807,640
Non-current assets:					
Deferred charges	1,406,231	472,017	5,983	1,884,231	43,184
Capital assets not being depreciated	27,006,475	4,983,734	6,585,048	38,575,257	
Capital assets (net of depreciation)	58,076,643	47,797,912	13,293,524	119,168,079	5,886,233
Total non-current assets	86,489,349	53,253,663	19,884,555	159,627,567	5,929,417
Total Assets	115,115,999	78,863,021	29,601,027	223,580,047	11,737,057
Liabilities					
Current Liabilities:					
Accounts payable and accrued expenses	1,246,518	600,185	663,225	2,509,928	530,035
Accrued interest payable	540,493	541,763	7,270	1,089,526	68,791
Due to other governments	5,779		237,618	243,397	
Customer deposits	1,112,866	1,119,368		2,232,234	
Unearned revenue	2,000	250	97,226	99,476	
Long-term debt, current portion					
Compensated absences	6,006	33,175	22,952	62,133	
Capital lease obligation			252,360	252,360	
Claims and judgments					784,742
Contracts payable	2,839,152			2,839,152	
Notes payable	510,069	510,069		1,020,138	85,663
Bonds and certificates of obligation payable	967,275	1,387,225	105,000	2,459,500	85,500
Total Current Liabilities	7,230,158	4,192,035	1,385,651	12,807,844	1,554,731
Non-current liabilities:					
Long-term debt, noncurrent portion:					
Compensated absences	183,042	370,743	468,502	1,022,287	366,330
Capital lease obligation			396,660	396,660	
Claims and judgments					1,066,491
Contracts payable	36,750,918			36,750,918	300,112
Notes payable	6,086,691	2,586,691	200,000	8,873,382	1,215,669
Bonds and certificates of obligation payable	23,951,758	30,202,296	225,000	54,379,054	3,262,164
Total non-current liabilities	66,972,409	33,159,730	1,290,162	101,422,301	6,210,766
Total Liabilities	74,202,567	37,351,765	2,675,813	114,230,145	7,765,497
Net Assets					
Invested in capital assets, net of related debt	28,316,326	30,407,557	20,327,172	79,051,055	1,451,243
Restricted for debt service	6,648,518	4,188,123	112,540	10,949,181	187,700
Unrestricted	5,948,588	6,915,576	6,485,502	19,349,666	2,332,617
Total Net Assets	\$ 40,913,432	\$ 41,511,256	\$ 26,925,214	109,349,902	\$ 3,971,560

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Assets.

Total net assets per Government-Wide financial statements 1,363,088
\$ 110,712,990

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 9

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Funds				Governmental
	Waterworks	Sewer System	Other Enterprise	Total	Activities
	System		Funds		Internal Service
					Funds
Operating Revenues					
Charges for services	\$ 14,960,400	\$ 11,522,851	\$ 8,136,588	\$ 34,619,839	\$ 15,277,981
Miscellaneous	48,280	16,891	28,627	93,798	8,140
Total Operating Revenues	<u>15,008,680</u>	<u>11,539,742</u>	<u>8,165,215</u>	<u>34,713,637</u>	<u>15,286,121</u>
Operating Expenses					
Personnel services	1,486,037	3,111,419	3,651,580	8,249,036	2,108,243
Contractual services	804,933	1,807,488	1,756,658	4,369,079	1,983,233
Supplies and materials	794,411	1,197,001	194,746	2,186,158	2,542,300
Surface water contract	5,206,455			5,206,455	
Insurance claims and premiums					4,909,537
Other expenses	356,862	434,407	390,996	1,182,265	800,446
Administrative charge	592,098	361,373	278,972	1,232,443	
Depreciation	3,687,204	2,503,519	902,994	7,093,717	149,795
Total Operating Expenses	<u>12,928,000</u>	<u>9,415,207</u>	<u>7,175,946</u>	<u>29,519,153</u>	<u>12,493,554</u>
Operating income (loss)	<u>2,080,680</u>	<u>2,124,535</u>	<u>989,269</u>	<u>5,194,484</u>	<u>2,792,567</u>
Non-Operating Revenues (Expenses)					
Interest and investment revenue	114,528	41,098	13,057	168,683	10,863
Insurance proceeds					33,372
Gain (loss) on disposal of capital assets	976	20,950	17,501	39,427	
Interest expense	(1,280,995)	(1,993,006)	(48,843)	(3,322,844)	(223,791)
Amortization of bond issuance costs	(114,628)	(37,617)	(2,244)	(154,489)	(2,723)
Total Non-Operating Revenues (Expenses)	<u>(1,280,119)</u>	<u>(1,968,575)</u>	<u>(20,529)</u>	<u>(3,269,223)</u>	<u>(182,279)</u>
Income (loss) before contributions and transfers	800,561	155,960	968,740	1,925,261	2,610,288
Capital contributions	7,459,377	1,530,875	2,973,556	11,963,808	
Transfers in	3,128		35,000	38,128	
Transfers out	(283,316)	(244,116)	(205,511)	(732,943)	
Extraordinary item-disposal of assets due to Hurricane Ike	(16,948)	(16,949)		(33,897)	
Extraordinary item - insurance proceeds related to Hurricane Ike	114,688	6,750	98,585	220,023	
Change in net assets	<u>8,077,490</u>	<u>1,432,520</u>	<u>3,870,370</u>	<u>13,380,380</u>	<u>2,610,288</u>
Total net assets - beginning	<u>32,835,942</u>	<u>40,078,736</u>	<u>23,054,844</u>	<u>95,969,522</u>	<u>1,361,272</u>
Total net assets - ending	<u>\$ 40,913,432</u>	<u>\$ 41,511,256</u>	<u>\$ 26,925,214</u>	<u>\$ 109,349,902</u>	<u>\$ 3,971,560</u>

Change in net assets, per above \$ 13,380,380

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.

766,279

Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements

\$ 14,146,659

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010

Exhibit 10

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from customers and users	\$ 15,298,707	\$ 11,510,210	\$ 8,032,245	\$ 34,841,162	\$ 15,350,926
Disbursed for personnel services	(1,493,270)	(3,059,930)	(3,610,950)	(8,164,150)	(2,094,989)
Disbursed for goods and services	(7,952,132)	(3,512,755)	(1,917,997)	(13,382,884)	(10,586,264)
Administrative service charge	(592,098)	(361,373)	(278,972)	(1,232,443)	
Other operating revenues	48,280	16,891		65,171	
Net cash provided (used) by operating activities	<u>5,309,487</u>	<u>4,593,043</u>	<u>2,224,326</u>	<u>12,126,856</u>	<u>2,669,673</u>
Cash Flows from Non-Capital Financing Activities					
Interfund transfers in	3,128		35,000	38,128	
Interfund transfers out	(283,316)	(244,116)	(205,511)	(732,943)	
Insurance proceeds	6,750	6,750	4,500	18,000	33,372
Proceeds from issuance of note payable	1,000,000		200,000	1,200,000	
Net cash provided (used) by noncapital financing activities	<u>726,562</u>	<u>(237,366)</u>	<u>33,989</u>	<u>523,185</u>	<u>33,372</u>
Cash Flows from Capital and Related Financing Activities					
Payments for capital acquisitions (net of sales)	(5,301,829)	(819,628)	(473,000)	(6,594,457)	(3,106,332)
Principal payments on debt - bonds	(3,647,941)	(1,339,834)	(105,000)	(5,092,775)	
Principal payments on debt - long term contracts	(495,051)	(495,051)		(990,102)	(164,117)
Principal payments on debt - capital leases			(272,018)	(272,018)	
Interest paid on revenue bonds & long term contracts	(1,233,815)	(2,012,769)	(11,089)	(3,257,673)	(1,535)
Interest paid on capital leases			(35,347)	(35,347)	(223,791)
Due from other funds	(4,060,039)	(469,887)		(4,529,926)	
Net cash used by capital and related financing activities	<u>(14,738,675)</u>	<u>(5,137,169)</u>	<u>(896,454)</u>	<u>(20,772,298)</u>	<u>(3,495,775)</u>
Cash Flows from Investing Activities					
Investment with trustee	75,115			75,115	
Interest on investments	114,524	41,099	13,057	168,680	10,863
Net cash provided (used) by investing activities	<u>189,639</u>	<u>41,099</u>	<u>13,057</u>	<u>243,795</u>	<u>10,863</u>
Net increase (decrease) in cash and equivalents	(8,512,987)	(740,393)	1,374,918	(7,878,462)	(781,867)
Cash and equivalents, beginning of year	<u>24,496,308</u>	<u>21,617,070</u>	<u>4,174,319</u>	<u>50,287,697</u>	<u>5,491,161</u>
Cash and equivalents, end of year	<u>\$ 15,983,321</u>	<u>\$ 20,876,677</u>	<u>\$ 5,549,237</u>	<u>\$ 42,409,235</u>	<u>\$ 4,709,294</u>
Unrestricted cash and equivalents	\$ 2,108,845	\$ 3,068,747	\$ 3,811,290	\$ 8,988,882	\$ 4,238,797
Restricted cash and equivalents	13,874,476	17,807,930	1,737,947	33,420,353	470,497
	<u>\$ 15,983,321</u>	<u>\$ 20,876,677</u>	<u>\$ 5,549,237</u>	<u>\$ 42,409,235</u>	<u>\$ 4,709,294</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (loss)	\$ 2,080,680	\$ 2,124,535	\$ 989,269	\$ 5,194,484	\$ 2,792,567
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,687,204	2,503,519	902,994	7,093,717	149,795
(Increase) decrease in accounts receivable	330,020	(18,678)	(157,877)	153,465	64,801
(Increase) decrease in inventory and prepaid expenses	(3,183)	(3,183)	(319)	(6,685)	(103,006)
(Increase) decrease in deferred revenue	2,000	(250)	24,909	26,659	
Increase (decrease) in accounts payable	(786,288)	(70,676)	424,722	(432,242)	(247,738)
Increase (decrease) in salaries payable	741	31,321	(3,477)	28,585	13,531
Increase (decrease) in customer deposits	6,287	6,287		12,574	
Increase (decrease) in compensated absences payable	(7,974)	20,168	44,105	56,299	(277)
Net cash provided (used) by operating activities	<u>\$ 5,309,487</u>	<u>\$ 4,593,043</u>	<u>\$ 2,224,326</u>	<u>\$ 12,126,856</u>	<u>\$ 2,669,673</u>
Noncash investing, capital, and financing activities					
Contributed capital	\$ 7,459,377	\$ 1,530,875	\$ 2,905,939	\$ 11,896,191	\$
Due from other fundings			226,450	226,450	
Proceeds from insurance	107,938		94,085	202,023	
Accrual for other post employment benefits					300,112
Loss on disposal of assets	(16,948)	(16,948)		(33,896)	
Net non cash transactions	<u>\$ 7,550,367</u>	<u>\$ 1,513,927</u>	<u>\$ 3,226,474</u>	<u>\$ 12,290,768</u>	<u>\$ 300,112</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2010

Exhibit 11

	Pension Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 7,442,377	\$ 727,090
Receivables:		
Interest and dividends	117,443	
Loans to participants	168,292	
Total receivables	<u>285,735</u>	<u> </u>
Investments:		
U.S. government obligations		
Common stock	34,930,225	
Equity funds	11,562,837	
Corporate and foreign bonds	14,068,473	
Fixed income funds	19,281,572	
Total investments	<u>79,843,107</u>	<u> </u>
Prepaid benefits	269,810	
Total assets	<u>87,841,029</u>	<u>727,090</u>
 Liabilities		
Accounts payable	113,435	10,643
Refunds payable and others		716,447
Total liabilities	<u>113,435</u>	<u>\$ 727,090</u>
 Net Assets		
Held in trust for benefits and other purposes	<u>\$ 87,727,594</u>	

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2010

Exhibit 12

	Pension Trust Fund
	<u> </u>
Additions	
Contributions:	
Employer	\$ 3,745,380
Plan members	3,145,175
Total contributions	<u>6,890,555</u>
Investment earnings:	
Net increase (decrease) in fair value of investments	12,745,699
Interest	466,849
Dividends	1,931,873
Investment activity expense	(504,381)
Total net investment earnings (loss)	<u>14,640,040</u>
Other Additions:	
Miscellaneous	49,273
Total additions (loss) on investments and contributions	<u>21,579,868</u>
 Deductions	
Benefits	8,497,785
Administrative	291,191
Total deductions	<u>8,788,976</u>
Change in net assets	12,790,892
Net assets - beginning, as restated	<u>74,936,702</u>
Net assets - ending	<u><u>\$ 87,727,594</u></u>

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

The City of Galveston, Texas (the “City”) was incorporated in March 1839, and presently is a Home Rule City under statutes of the State of Texas. The current City Charter was adopted April 19, 1960, and initiated the Council-Manager form of government. The City provides the following services: public safety (police and fire), utilities (water, sewer, drainage and sanitation), streets and storm sewers, health and social services, culture, recreation, public improvements, planning and zoning, airport and general administrative services.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Units Reported with the Primary Government

Blended component units provide services exclusively or almost exclusively for the City, or their Board of Directors are substantially the same as City Council. The following blended component units are reported:

Industrial Development Corporation

The Industrial Development Corporation (the “IDC”) was formed in 1993 to provide for street repairs, beach re-nourishment and sewer improvements. The IDC Board of Directors is appointed by City Council. Its Board of Directors is substantially the same as the City Council. Its activities are funded by a special local sales tax. The City manages the fiscal affairs of the IDC. The IDC operations are devoted to providing services for the City. The IDC fund is included in the City’s non-major governmental funds as of year-end.

Pension Funds

The City of Galveston Employee’s Retirement Plan for City Employees, Galveston Firefighters’ Pension Fund, and the City of Galveston Employee’s Retirement Plan for Police (the “Pension funds”) were created in accordance with State Statutes to provide benefits to non-civil service, firemen, police and City employees. The responsibility for administration and operation of the plan rests with each plan’s board. Each pension plan is funded by a contribution mix from employees and the City. The Pension funds are included in the City’s pension trust funds as of December 31, 2009.

Note 1 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Reported Component Units

Discretely presented component units are legally separate entities whose governing body is appointed by City council and, in management's opinion, whose exclusion would render the reporting entity's financial statements incomplete or misleading.

Following are the City's discretely presented governmental type component units:

The Park Board of Trustees of the City of Galveston

The Park Board of Trustees, (the "Park Board"), was created by the State Statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, funded primarily by Hotel Occupancy Tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a nine-member board responsible for operations. The Park Board financial records are the Board's responsibility. Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston
2504 Church
Galveston, Texas 77550

Galveston Island Redevelopment Authority

Galveston Island Redevelopment Authority is a local government corporation created and organized under the provisions of the Texas Transportation Corporation Act, Chapter 431, Transportation Code, and authorized and approved by the City under Resolution No. 02-071 adopted on August 22, 2002. The Galveston Island Redevelopment Authority is made up of four different tax reinvestment zones - zones eleven, twelve, thirteen, and fourteen. These tax zones were established to provide funds for development and improvement projects within specific geographic areas of the City. Property tax receipts over undeveloped assessments (base value) provide funding for the projects. The City appoints the Board members who operate and account for each tax zone activity consistent with the State statute for economic benefit of the City. The City accounts for the tax zones (consolidated into the Galveston Island Redevelopment Authority) and separate audited reports are available.

Public Improvement District - Campeche Shores

Campeche Shores Public Improvement District was established by the City to provide funds for development and improvement projects specifically for Campeche Shores District. An agreement between Galveston Island Redevelopment Authority (GIRA) and Campeche Shores LP dated April 28, 2005, details the responsibilities between all parties, including the City. Under the authority of GIRA, the City has established a Public Improvement District Fund for the District. Each year, following the levy and collection of assessments, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse Campeche Shores LP for any and all costs associated with the public improvements. Separately issued financial statements are available through the Galveston Island Redevelopment Authority.

Note 1 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Public Improvement District - Preserve at Sweetwater Lake

The Preserve at Sweetwater Lake Public Improvement District was established by the City, in March 2007, to provide funds for development and improvement projects specifically for the Preserve at Sweetwater Lake District. The Galveston Island Redevelopment Authority (GIRA) has an agreement with The Preserve at Sweetwater Lake PID outlining responsibilities between all parties, including the City. Each year, following the levy and collection of assessments, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse The Preserve at Sweetwater Lake for any and all costs associated with the public improvements. Separately issued financial statements are available through the Galveston Island Redevelopment Authority.

Public Improvement District – Beachside Village

Beachside Village Public Improvement District was established by the City on February 11, 2010 to provide funds for street drainage and utility public improvement projects specifically in Beachside Village Public Improvement District. The Galveston Island Redevelopment Authority (GIRA) has an agreement with Kahala Development, Limited Partnership, which details the responsibilities between all parties, including the City. Each year, following the levy and collection of assessments levied against property within the District, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse Kahala Development for the costs of constructing the public improvements. Separately issued financial statements are available through the Galveston Island Redevelopment Authority.

Following are the City's discretely presented business type component units:

The Galveston Housing Finance Corporation and City of Galveston Property Finance Authority

The Galveston Housing Finance Corporation was created by State Statute to provide the making of home mortgages and the making of loans to lending institutions for the purpose of making home mortgages. *The City of Galveston Property Finance Authority, Inc.* was created by State Statute for the purpose of acquiring, owning, holding, leasing and selling real or personal property to or for the benefit of the City of Galveston for the furtherance of its public purposes, and collecting, receiving, borrowing, lending or otherwise obtaining and lending funds to or for the use of the City or to others for the City's public purposes. These corporations are managed by the identical seven-member board, which is appointed and may be removed at will by the City Council. The Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. financial records are each corporation's responsibility. Complete financial statements for the Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. may be obtained at the following address:

The Galveston Housing Finance Corporation/
The City of Galveston Property Finance Authority, Inc.
2127 Broadway
Galveston, Texas 77550

The Board of Trustees of the Galveston Wharves

The Board of Trustees of the Galveston Wharves was created by the City Charter on October 17, 1940 to manage, control, and maintain the Galveston Wharves. The Board of Trustees of the Galveston Wharves, which is appointed by City Council, is a seven-member board, which is responsible for operating the Galveston Wharves. The Board of Trustees of the Galveston Wharves financial records is the Board's responsibility.

Note 1 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Complete financial statements for the Board of Trustees of the Galveston Wharves may be obtained at the following address:

Board of Trustees of the Galveston Wharves
123 Rosenberg
Galveston, Texas 77550

Related Organizations and Jointly Governed Organizations

The City is not legally or financially accountable for certain entities even though the City may appoint a majority of the organizations' boards; therefore the financial statements of the Galveston Housing Authority and the Rosenberg Library are not included in these statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information about the City as a whole. These statements include all non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the Fund Financial Statements.

In September 1993, the Governmental Accounting Standards Board issued Statement No. 29, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting*, which are effective for the City's financial statements for the year ending September 30, 2003. This statement provides guidance on accounting and financial reporting for business-type and enterprise fund activities. The City has elected alternative number one (1) from those provided by this standard. This alternative method elects to apply all GASB pronouncements, as well as FASB pronouncements that were issued after November 30, 1989.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund and Fiduciary Fund financial statements. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, license fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The government reports the following major governmental funds:

- **The General Fund** is the government's primary operating fund. The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues for the General Fund are property taxes, sales and use taxes, franchise taxes, permit fees, fines and forfeitures. Expenditures are for general government, finance, public safety, public works, culture and recreation, planning and community development and transit operations.
- **The Island Transit Fund** accounts for the receipt and expenditure of Federal, State and Local revenues designated for transit and livable communities projects.
- **The Hurricane Ike Fund** is used to account for grant resources from the Federal Emergency Management Agency (FEMA), insurance recoveries and various sources. The use of these resources is restricted to specific expenditures related to Hurricane Ike.
- **The Texas Water Development Board (TWDB) Fund** is made up of American Recovery and Reinvestment Act (ARRA) grant funds which include the Drinking Water State Revolving Fund (DWSRF) and Clean Water State Revolving Fund (CWSRF). The funds are federally authorized by the Environmental Protection Agency (EPA) and administered through the TWDB for construction projects of the City's pressure valves, water lines, storage tanks, pump stations and sewer lines.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

The government reports the following major proprietary funds:

- **The Waterworks System Fund** accounts for the provision of water to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.
- **The Sewer System Fund** accounts for the provision of a sewer system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Additionally, the government reports the following fund types:

- **Internal Service Funds** account for central services related to mailing, printing, data processing, insurance costs, and garage services provided to other City departments and functions of the government on a cost reimbursement basis.
- **Fiduciary Funds** account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:
 - **The Pension Trust Funds** account for the activities of the City Employees Retirement Plan, the Galveston Firefighters' Pension Fund and the Police Retirement Fund.
 - **The Agency Funds** are used to account for assets held by the City as an agent for individuals, private organizations and other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the Government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and, 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and temporary investments include amounts in demand deposits, as well as short-term highly liquid investments with original maturities of three months or less. State Statutes and the City's investment policy authorize the City to invest in obligations of the U. S. Government and its agencies or instrumentalities and state obligations, certificates of deposits, repurchase agreements and Texas Local Government Investment Pool ("TexPool"). All investments are recorded at fair value. TexPool is an external investment pool established by an interlocal contract under state law.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase investments. These pooled investments are reported in the combined balance sheet as cash and temporary investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund based on its respective share of pooled investments

2. Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds," respectively, on the balance sheet. Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 34.9% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 26.0% of total outstanding charges as of year-end.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are payable on or before January 31. No penalties or interest shall be collected if payment in full is made by January 31. City property taxes are recognized as current receivables when levied; however, such amounts are deferred and not reported as revenues until collections are received. At year end all property taxes receivable are classified as delinquent. Penalties and interest accrued at year end are also recognized as receivables.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

3. Inventories and Prepaid Items

Inventories are valued at cost, which approximates market value, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond September 30, 2010, are recorded as prepaid items.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the Government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Property, Equipment or Intangible Type</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 75 years
Improvements	5 - 50 years
Equipment	2 - 40 years
Sewer Plants	50 - 75 years
Sewer Lines	40 - 75 years
Water Plants, Lines, Wells and Hydrants	50 - 75 years
Water Tanks and Valves	50 years
Water Meters	10 years
Infrastructure	5 - 75 years
Contractual Water Rights	10-30 years

5. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the Government-wide and Proprietary Fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets or Equity (continued)

6. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be paid from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Government-wide financial statements. Long-term liabilities expected to be paid from Proprietary Fund operations are accounted for in those funds.

The Government-wide financial statements and Proprietary Fund type fund financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premiums or discounts and bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

The fund financial statements report bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources, net of issuance costs. Premiums or discounts associated with the debt are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

In the fund financial statements of the governmental funds, the City reserves or designates all or portions of fund equity in the various governmental fund financial statements. Reserves of fund equity represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designations of fund equity represent tentative plans for future use of financial resources that are subject to change.

8. Restricted Cash and Investments

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The “revenue bond construction” account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The “revenue bond current debt service” account is used to segregate resources accumulated for debt service payments over the next twelve months. The “revenue bond future debt service” account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. Other restricted accounts reflect money set aside by City Council action for improvements or to meet contractual obligations. Assets were restricted for the following as of year-end:

Note 1 - Summary of Significant Accounting Policies (continued)

E. Inter-fund Transactions

	Enterprise Funds				Total Business Type Activities
	Waterworks System	Sewer System	Sanitation	Drainage	
Restricted for:					
Capital projects	\$ 9,430,058	\$ 11,883,938	\$ 4,214	\$ 1,617,423	\$ 22,935,633
Debt service	3,331,558	4,729,886	116,310		8,177,754
Investments with Trustee- Debt Service	3,774,388				3,774,388
Investments with Trustee - Capital Projects	2,020,024				2,020,024
Meter Deposits	1,112,860	1,194,106			2,306,966
	<u>\$ 19,668,888</u>	<u>\$ 17,807,930</u>	<u>\$ 120,524</u>	<u>\$ 1,617,423</u>	<u>\$ 39,214,765</u>

Inter-fund services provided and received are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses, that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions are reported as transfers.

F. Legal Compliance - Budgets

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Pursuant to City Charter, at least 45 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating and capital projects budget for the fiscal year commencing October 1. The proposed budget includes proposed expenditures and the means of financing them. A statement of capital projects planned for the next succeeding five fiscal years, with estimates of their costs is also submitted at this time.

At least seven days prior to the beginning of the fiscal year, the budget is legally enacted by formal approval of the City Council.

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, the Island Transit, Rosenberg Library and Parks and Recreation Improvement Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Fund and Enterprise Funds.

Budgets are adopted and accounted for on a modified accrual basis, with the following exceptions:

Annual budgets are not adopted for certain Special Revenue Funds, primarily relating to grant based projects. These grant projects are controlled through project length budgets that may span multiple fiscal years.

Note 1 - Summary of Significant Accounting Policies (continued)

F. Legal Compliance - Budgets (continued)

Capital and planning grant activities in the Island Transit Special Revenue Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were four budget amendments during FY 2010. Total appropriations did not increase. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

Obligations outstanding at year-end through purchase orders, contracts and other commitments are re-appropriated in the subsequent year.

During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager shall have authority, without Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City.

Expenditures may not exceed appropriations at the department category level, as established by policy of the City Council. The legal level of control is at the department category level.

Revenue and Expenditure/Expenses Analysis in Comparison to Budget

A reconciliation of budgetary basis activities and GAAP basis activities follows:

	General Fund				GAAP Basis
	Budgetary Basis	Classification Differences	Sub-Funds	Budgeted Transfer to Reserves	
Revenues	\$ 36,625,033	\$	\$ 31	\$	\$ 36,625,064
Expenditures	43,366,372				43,366,372
Revenues over (under) expenditures	(6,741,339)		31		(6,741,308)
Other financing sources (uses)	1,571,116			200,000	1,771,116
Extraordinary item-insurance proceeds related to Hurricane Ike					
Net fund balance	(5,170,223)		31	200,000	(4,970,192)
Fund balance at beginning of year	16,666,371		10,999		16,677,370
Fund balance at end of year	\$ 11,496,148	\$	\$ 11,030	\$ 200,000	\$ 11,707,178

Note 2 - Deposits and Investments

Credit Risk

The primary stated objective of the City of Galveston's adopted Investment Policy is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy is represented only in time and demand deposits, repurchase agreements, commercial paper, municipal obligations, and non-rated SEC registered money market mutual funds.

Note 2 - Deposits and Investments (continued)

Credit Risk (continued)

All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the US Government, its agencies or instrumentalities. State law and the City of Galveston's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the State of Texas and further requires full insurance and/or collateralized from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of one year. Collateral, with a 102% margin, is required and collateral is limited to obligations of the US Government, its agencies or instrumentalities and municipal obligations rated no less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank.

By policy and state law repurchase agreements are limited to those with defined termination dates executed with a Texas bank or a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed one year to stated maturity with the exception of flex repurchase agreements with a stated termination date not to exceed the planned completion date of the project(s).

The City's adopted Investment Policy restricts investment in SEC registered mutual funds to money market mutual funds striving to maintain a \$1 net asset value as further defined by State law. Neither state law nor the Policy requires a rating.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The City Policy further restricts investments to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

As of September 30, 2010,

- investment in the State Treasurer's AAA-rated local government investment pool represented 80.10% of the total portfolio, and
- holdings in a rated money market mutual fund represented 14.47% of the total portfolio.
- holdings in US Government securities rated AAA represented 5.43% of the total portfolio.

Note 2 - Deposits and Investments (continued)

Concentration of Credit Risk:

The City of Galveston recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The City's adopted Investment Policy establishes diversification as a major objective of the investment program. The Policy has established limits for concentration by market sector as shown below:

▪ US Treasury Obligations	90 %
▪ US Agency/Instrumentality Obligations	90 %
▪ SEC Registered Money Market Funds	50 %
▪ Repurchase Agreements	100 %
▪ Municipal Securities	20 %
▪ Local Government Investment Pools	100 %
○ Participation per pool	10 % of pool

As of September 30, 2010,

- holdings in one AAA-rated local government investment pool represented 80.10% of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 14.47% of the total portfolio.

Interest Rate Risk:

In order to limit interest and market rate risk from changes in interest rates, the City of Galveston's adopted Investment Policy sets a maximum stated maturity date of two years in operating funds and five years in debt service reserve funds. The Policy establishes a maximum weighted average maturity of 15 months for operating funds and two years for reserve funds.

A segmented time distribution analysis of the portfolio by market sector is shown as Exhibit A.

Investment Type	Investment Maturities in Years
	Less than 1 year
US Agencies:	
FHLMC	\$ 5,000,000
2A-7 like Local Government Pools	73,738,622
SEC Registered Money Market Fund	13,316,462
	<u>\$ 92,055,084</u>

As of September 30, 2010, the portfolio contained:

- no holding in the portfolio had a stated maturity date beyond 372 days, and
- the dollar weighted average of the total combined portfolios was 47 days.

Note 2 - Deposits and Investments (continued)

Interest Rate Risk (continued)

As of September 30, 2010, the portfolio contained one structured note as shown in Exhibit B.

Exhibit B

Annual GASB 40 Report
City of Galveston, Texas
Period Ending September 30, 2010
Listing of Structured Notes with Interest Rate Risk

Security	Par	Coupon	Purchase Date	Maturity Date	Call Date	Structure	Cusip	Book Value	Market Value
Discretely callable securities:									
FHLMC	\$ 5,000,000	0.50%	4/7/2010	10/7/2011	10/7/2010	one time call	3128X9W71	\$ 5,000,000	\$ 5,000,110

Custodial Credit Risk:

To control custody and safekeeping risk State law and the City of Galveston's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the City and held in the City's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of FIRREA³. The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of September 30, 2010:

- all bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Note 3 - Property Tax

The City may levy taxes up to \$2.50 per \$100 of net appraised assessed value under state law; however, by amendment to the City Charter resulting from an election held January 20, 1979, the following limit on taxes was placed in effect:

A maximum tax rate of \$0.70 cents per \$100 of assessed valuation, less Debt service and Rosenberg Library for general operating expenses, before any adjustments for sales tax (see Note 4).

In conjunction with limits placed on taxes, the annual increase in total budgeted expenditures for all purposes was limited to 7% over the prior year's total budgeted expenditures.

³ U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989

Note 3 - Property Tax (continued)

Within these guidelines, the adopted tax rate per \$100 of assessed valuation, for the year ended September 30, 2010, was \$0.554. The tax rate to finance general governmental services was set at \$0.49042 and the tax rate for all other purposes, including debt service, was set at \$0.063581 per \$100 of assessed valuation.

Note 4 - Sales Tax

The City's sales tax rate is 2 cents for the year ended September 30, 2010. A City Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year with the amount of additional (½ cent) sales tax collected in the prior year. The ½ cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in ad valorem taxes offset by actual sales tax revenue of \$4.4 million in fiscal year 2010. The total maximum allowable tax rate of \$ 0.70 was thus limited to \$0.561721 for the current fiscal year. It is the City Attorney's opinion that this amendment does not create a new tax cap and it would not restrict the City's ability to meet bond obligations.

Of the 2 cents tax, 1 ½ cents is allocated to the General Fund and ½ cent is for Industrial Development Corporation (IDC) Projects. On November 4, 2008, the voters extended the ½ cent offset for IDC projects for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC ½ cent is allocated as follows: 1/8 cent allocated for the purpose of beach re-nourishment, 1/8 cent for streets, sewer and drainage improvement projects, 1/8 cent allocated to economic development, and 1/8 cent delegated to park improvements.

Note 5 - Receivables

Receivables, as of year-end, for the government's individual major and non-major funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

(shown in thousands)

	General	Island Transit	Hurricane Ike	Texas Water Development Board Grant	Non-major Governmental Funds	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total
Receivables:										
Taxes	\$ 2,605	\$	\$	\$	\$ 340	\$	\$	\$	\$	\$ 2,945
Accounts	3,546	141	770	5,961	1,153	3,025	4,048	3,511	287	22,442
Gross receivables	6,151	141	770	5,961	1,493	3,025	4,048	3,511	287	25,387
Less: allowance for uncollectibles	(3,012)				(94)	(726)	(832)	(624)		(5,287)
Net total receivables	<u>\$ 3,139</u>	<u>\$ 141</u>	<u>\$ 770</u>	<u>\$ 5,961</u>	<u>\$ 1,399</u>	<u>\$ 2,299</u>	<u>\$ 3,216</u>	<u>\$ 2,887</u>	<u>\$ 287</u>	<u>\$ 20,100</u>

Galveston Housing Finance Corporation and City of Galveston Property Finance Authority, Inc.

Mortgage related assets consist of the Authority's investment in mortgage loans secured by first liens on single family residential properties and loans, in the process of foreclosure or foreclosed, for which the Authority has title to the underlying property. Single family residences within the limits of the City of Galveston, Texas, collateralized these mortgages.

Note 6 - Interfund Activities

Interfund transfers for the primary government are as follows for the current year ended:

Transfer Out Fund	Transfer In Fund						Totals
	General Fund	Hurricane Ike Fund	Texas Water Development Board Grant	Non-major Governmental Funds	Waterworks System	Non-major Enterprise Funds	
General Fund	\$	\$ 350,199	\$	\$	\$	\$	\$ 350,199
Hurricane Ike Fund	1,303,128				3,128		1,306,256
Non-major Governmental Funds	134,820	8,950		3,765,944		35,000	3,944,714
Waterworks System	200,000	10,462	72,854				283,316
Sewer System	200,000	10,348	33,768				244,116
Non-major Enterprise Funds	200,000	5,511					205,511
Totals	<u>\$ 2,037,948</u>	<u>\$ 385,470</u>	<u>\$ 106,622</u>	<u>\$ 3,765,944</u>	<u>\$ 3,128</u>	<u>\$ 35,000</u>	<u>\$ 6,334,112</u>

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	Hurricane Ike	Local match for public assistance
Hurricane Ike	General Fund	To transfer for CDL loan / interest
Hurricane Ike	Waterworks System	To transfer for CDL loan / interest
Special Revenue	General Fund	To transfer for East End Lagoon project
Special Revenue	Hurricane Ike	Local match for public assistance
Industrial Development Corporation	Debt Service Drainage and Street Improvement Sewer Improvements IDC Capital Projects	Provided by election for the capital improvements and related debt service from sales tax revenue
Special Revenue	Sanitation Services	Local agreement with Park Board for Seawall trash pick-up
Waterworks System	General Fund	To transfer payment in lieu of taxes
Waterworks System	Hurricane Ike	Local match for public assistance
Waterworks System	Texas Water Development Board Grant	To transfer for construction monitor
Sewer System	General Fund	To transfer payment in lieu of taxes
Sewer System	Hurricane Ike	Local match for public assistance
Sewer System	Texas Water Development Board Grant	To transfer for construction monitor
Sanitation Services	General Fund	To transfer payment in lieu of taxes
Sanitation Services	Hurricane Ike	Local match for public assistance

Note 6 - Interfund Activities (continued)

The following is a detail of inter-fund receivables / payables for the City of Galveston at year-end:

Payable Funds: Due From	Receivable Funds: Due To						Total
	General Fund	Non-Major Governmental Funds	Waterworks Fund	Sewer Fund	Non-Major Enterprise Funds	Internal Service Funds	
Governmental Funds:							
General Fund	\$	\$ 20,262	\$	\$	\$	\$	\$ 20,262
Island Transit Fund	103,520						103,520
Hurricane Ike Fund			461,503	1,057,907	1,256,963	184,495	2,960,868
Texas Water Development Board Grant			4,060,039	429,887			4,489,926
Non-Major Governmental Funds	1,743,753	720,390					2,464,143
	<u>\$ 1,847,273</u>	<u>\$ 740,652</u>	<u>\$ 4,521,542</u>	<u>\$ 1,487,794</u>	<u>\$ 1,256,963</u>	<u>\$ 184,495</u>	<u>\$ 10,038,719</u>

The Island Transit Fund inter-fund receivable/payable shown above represents the historic variance of funding that the General Fund has had to supplement to Island Transit due to various timing differences of grant reimbursements that Island Transit receives.

It is usually eleven months into a new fiscal year before Island Transit is able to draw its current year operating expenditure grant reimbursement due to the delay in approval at the federal level. Once the grant is approved only 50% of the operating expenditures, excluding preventative maintenance, capital improvements, and electric bus expenditures are reimbursed by the Federal Transit Authority. A small portion is reimbursed by the State of Texas and the remaining funds are funded by the general fund.

The Hurricane Ike inter-fund receivable/payable is recorded for GAAP basis financial statements. As required, insurance proceeds are recorded as revenue in the Enterprise and Internal Service Funds, while cash is deposited in the Hurricane Ike fund until the capital project related to revenue is complete.

Texas Water Development Board Grant inter-fund receivable/payable shown above represents the value of funding that the Water and Sewer funds had to supplement to the Texas Water Development Board Grant fund due to timing of grant reimbursements.

Nonmajor Governmental Funds

The IDC Sales Tax Revenue Fund inter-fund receivable/payable shown above represents sales tax revenue for August and September that will be received in FY 2011. These revenues are to be allocated to the IDC Capital Projects Fund for capital improvement projects to streets, sewer or drainage, economic development, beach re-nourishment and park improvements.

The Island Transit Capital Projects Fund inter-fund receivable/payable shown above represents funding from the General Fund due to timing differences between expenditures and grant reimbursements.

The remaining inter-fund receivable/payable shown above represents funding from the General Fund due to timing differences between expenditures and grant reimbursements and other revenues.

Note 7 - Capital Assets
Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,715,803	\$ 15,399,997	\$	\$ 18,115,800
Construction in progress	1,772,901	2,321,183	(476,879)	3,617,205
Total capital assets, not being depreciated	<u>4,488,704</u>	<u>17,721,180</u>	<u>(476,879)</u>	<u>21,733,005</u>
Capital assets, being depreciated:				
Buildings	44,962,069	3,552,744		48,514,813
Improvements other than buildings	5,154,674	179,468		5,334,142
Machinery and equipment	9,391,610	2,041,350	(867,691)	10,565,269
Licensed vehicles	11,286,986	3,256,927	(814,056)	13,729,857
Infrastructure	110,192,102	18,592,130		128,784,232
Total capital assets being depreciated	<u>180,987,441</u>	<u>27,622,619</u>	<u>(1,681,747)</u>	<u>206,928,313</u>
Less accumulated depreciation for:				
Buildings	(6,932,500)	(954,230)		(7,886,730)
Improvements other than buildings	(3,556,993)	(172,908)		(3,729,901)
Machinery and equipment	(6,815,930)	(592,114)	802,679	(6,605,365)
Licensed vehicles	(5,729,001)	(1,274,784)	729,849	(6,273,936)
Infrastructure	(54,969,282)	(2,838,634)		(57,807,916)
Total accumulated depreciation	<u>(78,003,706)</u>	<u>(5,832,670)</u>	<u>1,532,528</u>	<u>(82,303,848)</u>
Total capital assets, being depreciated, net	<u>102,983,735</u>	<u>21,789,949</u>	<u>(149,219)</u>	<u>124,624,465</u>
Governmental activities capital assets, net	<u>\$ 107,472,439</u>	<u>\$ 39,511,129</u>	<u>\$ (626,098)</u>	<u>\$ 146,357,470</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,448,963	\$	\$	\$ 2,448,963
Construction in progress	21,970,929	17,930,393	(3,775,028)	36,126,294
Total capital assets, not being depreciated	<u>24,419,892</u>	<u>17,930,393</u>	<u>(3,775,028)</u>	<u>38,575,257</u>
Capital assets, being depreciated:				
Buildings and system	45,239,000	904,838	(21,821)	46,122,017
Improvements other than buildings	104,290,896	2,991,766		107,282,662
Machinery and equipment	16,289,513	1,535,664	(338,316)	17,486,861
Contractual water rights	27,701,138			27,701,138
Total capital assets, being depreciated	<u>193,520,547</u>	<u>5,432,268</u>	<u>(360,137)</u>	<u>198,592,678</u>
Less accumulated depreciation for:				
Buildings and system	(15,643,354)	(1,147,010)	6,700	(16,783,664)
Improvements other than buildings	(39,665,896)	(2,951,237)		(42,617,133)
Machinery and equipment	(10,615,278)	(1,026,514)	338,316	(11,303,476)
Contractual water rights	(6,751,370)	(1,968,956)		(8,720,326)
Total accumulated depreciation	<u>(72,675,898)</u>	<u>(7,093,717)</u>	<u>345,016</u>	<u>(79,424,599)</u>
Total capital assets, being depreciated, net	<u>120,844,649</u>	<u>(1,661,449)</u>	<u>(15,121)</u>	<u>119,168,079</u>
Business-type activities capital assets, net	<u>\$ 145,264,541</u>	<u>\$ 16,268,944</u>	<u>\$ (3,790,149)</u>	<u>\$ 157,743,336</u>

Note 7 - Capital Assets (continued)

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

Governmental activities:

General government	\$ 32,944
Public safety	808,535
Public works	1,747,761
Culture and recreation	2,074,477
Planning and community development	198,231
Transportation system	820,926

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets

149,796

Total depreciation expense - governmental activities

\$ 5,832,670

Business-type activities:

Waterworks	\$ 3,687,204
Sewer system	2,503,519
Sanitation	278,354
Drainage	155,476
Airport	469,164

Total depreciation expense - business-type activities

\$ 7,093,717

Construction in progress and remaining commitment, at year-end, were as follows:

Governmental Activities

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
Island Transit Downtown Terminal	\$ 7,300,000	\$ 610,451	\$ 6,689,549
Seawall Beautification	1,906,105	276,750	1,629,355
Island Transit Maintenance Facility - Design	4,216,000	1,537,433	2,678,567
Trolley Barn	721,549	562,362	159,187
Puesta del Sol Roadway Improvements	100,000	100,000	
Garten Verein HVAC	67,290	46,644	20,646
5 Emergency Generators	997,469	33,250	964,219
Camino Real Street Bridge Replacement	505,074	346,799	158,275
Broadway Traffic Signals Interconnect	1,313,760	51,840	1,261,920
Various Other Projects	806,140	51,676	754,464
	<u>\$ 17,933,387</u>	<u>\$ 3,617,205</u>	<u>\$ 14,316,182</u>

Note 7 - Capital Assets (continued)

Business-Type Activities

Construction in Progress	Project Authorization	Project Cost to Date	Remaining Commitment
<i>Waterworks System Fund Projects</i>			
GCWA Water Lines at Jamaica Beach, Pelican Island, etc (2002 Bond)	\$ 1,752,467	\$ 1,356,501	\$ 395,966
30th Street Pump Station	16,837,029	16,800,387	36,642
12 Inch Waterline along Teichman Road	867,036	853,298	13,738
Rehab of White Sand Elevated Storage Tank	677,256	667,124	10,132
2 Million Gallon Elevated Storage Tank - Isla del Sol	7,224,572	3,225,426	3,999,146
Jamaica Beach Storage Tank and Pump Station	8,614,709	2,805,479	5,809,230
Two Pressure Sustaining Valves	514,318	89,941	424,377
Various Water Projects	692,834	524,459	168,375
<i>Sewer System Fund Projects</i>			
33rd Street Sanitation Sewer Rehab	1,998,920	1,435,266	563,654
Design of Near West End Unserved Areas	700,410	649,598	50,812
Design of Far West End Unserved Areas	612,149	612,119	30
Design of Upgrade and Expansion of Main Wastewater Treatment Plant	655,682	655,679	3
Various Sewer Projects	2,010,362	1,096,733	913,629
<i>Drainage Fund Projects</i>			
Various Drainage Projects	1,714,198	1,533,277	180,921
<i>Airport Fund Projects</i>			
Airport Terminal Renovation	1,535,960	935,960	600,000
Electrical Vault and Airfield Lighting	2,809,540	2,505,043	304,497
Various Airport Projects	693,325	380,004	313,321
Totals	\$ 49,910,767	\$ 36,126,294	\$ 13,784,473

Note 8 - Long-Term Debt

Governmental activities long-term liability activity for the current year ended was as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Primary Government					
General Obligation Bonds	\$ 19,415,102	\$	\$ (1,058,993)	\$ 18,356,109	\$ 1,032,612
Accretion on Capital Interest Bonds	1,547,663		(70,034)	1,477,629	
Special Obligation Bonds	34,010,000		(1,175,000)	32,835,000	1,325,500
Certificates of Obligation	22,772,472		(81,900)	22,690,572	85,500
Capital Leases	319,220		(156,289)	162,931	162,931
Notes Payable	23,883,549		(21,282,217)	2,601,332	85,663
Accrued Compensated Absences	8,303,521	1,103,637	(452,889)	8,954,269	
Claims Payable-Unemployment Tax		131,428	(131,428)		
Claims Payable - Workers Comp.	1,452,712	696,358	(696,358)	1,452,712	784,742
Claims Payable-Health Insurance	550,342	3,021,184	(3,173,005)	398,521	
Deferred Bond Issuance Discount/Premium	207,199		(15,394)	191,805	
Other Post Employment Benefit Liability	300,112			300,112	
Net Pension Obligation	602,657	2,309,200	(1,986,424)	925,433	
Total primary Government	113,364,549	7,261,807	(30,279,931)	90,346,425	3,476,948
Discretely presented component units					
Special Revenue Bonds	840,000		(90,000)	750,000	90,000
Capital Leases	560,808	284,059	(401,716)	443,151	443,151
Notes Payable	9,891,981	4,522,766	(627,300)	13,787,447	764,777
Accrued Compensated Absences	148,717	23,185		171,902	
Payable to Concessionaire	130,000		(130,000)		
Due to developer		13,865,000	13,865,000	13,865,153	
Total discretely presented component units	11,571,506	18,695,010	12,615,984	29,017,653	1,297,928
Total reporting entity	\$ 124,936,055	\$ 25,956,817	\$ (17,663,947)	\$ 119,364,078	\$ 4,774,876

Compensated absences are liquidated by the funds based on the department personnel to whom the claims relate. In prior years, this has typically been the General Fund. Health claims and workers' compensation claims are liquidated by the Health Insurance Internal Service Fund and the Workers' Compensation Internal Service Fund which are reported as a governmental activity.

Note 8 - Long-Term Debt (continued)

The following are descriptions of the governmental activities long-term obligations:

Governmental Activities

Primary Government:

General Obligation Bonds

	<u>Total</u>
\$13,275,102 - 2001 Obligation and Refunding Bonds due in annual installments of \$568,993 to \$710,000 May 1, 2010 through May 1, 2023; interest at 4.8% to 5.25%. A portion of the bond were capital appreciation bonds. The original principal amount on the bonds is \$2,506,109. Accreted interest of \$1,477,629 is included in the long-term debt. The bonds will be paid upon maturity in the fiscal years ending 2011 through 2015.	\$ 11,683,738
\$9,462,818 - 2005 Obligation and Refunding Bonds due in annual installments of \$390,000 to \$1,235,000 May 1, 2006 through May 1, 2023; interest at 4.15% to 4.465%.	<u>8,150,000</u>
Total General Obligation Bonds	<u><u>\$ 19,833,738</u></u>

Special Obligation Bonds

\$7,455,000 - 2001B Industrial Development Corporation Refunding Bonds due in annual installments of \$60,000 to \$865,000 through September 1, 2015; interest at 4.0% to 5.0% (this debt is being serviced, principal and interest, by Industrial Development Corporation).	\$ 3,950,000
\$16,150,000 - 2002A Hotel Occupancy Tax Bonds due in annual installments of \$120,000 to \$1,165,000 through September 1, 2034; interest at 3.0% to 5.0%.	14,800,000
\$15,700,000 - 2002B Hotel Occupancy Tax Bonds due in annual installments of \$150,000 to \$1,165,000 through September 1, 2032; interest at 3.0% to 5.0%.	<u>14,085,000</u>
Total Special Obligation Bonds	<u><u>\$ 32,835,000</u></u>

Certificates Of Obligation Bonds

\$19,323,672 - 2004 Wharves and Terminal Revenue Bonds due in annual installments of \$2,425,000 to \$1,390,621 through February 1, 2020, interest at 4.25% to 5.18%.	\$ 19,323,672
\$3,581,100 - 2008 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$81,900 to \$237,600 through May 2033, interest at 4.5% to 5.18%.	<u>3,366,900</u>
Total Certificates of Obligation	<u><u>\$ 22,690,572</u></u>

Capital Leases

\$767,043 - 2007 Capital Lease Purchase due in semi-annual installment of \$169,856 through June 2011: interest at 3.604%.	<u><u>\$ 162,931</u></u>
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Note 8 - Long-Term Debt (continued)

Notes Payable

\$1,531,488- 2007 note payable incurred due in semi-annual installment of \$69,380 through July 2022; interest 3.80%. \$ 1,301,332

\$1,300,000 - note payable to Federal Emergency Management Agency; balance due in 2014, with an additional five year extension available; interest rate of 1.75%. 1,300,000

Total Notes Payable \$ 2,601,332

Discretely Presented Component Units:

Special Obligation Bonds

Galveston Island Redevelopment Authority - \$1,000,000 tax exempt bank loan with Frost National Bank, secured by Tax Increment from TIRZ; principal due in annual installments; interest due in semi-annual installments; variable interest rate of 65% 30-day LIBOR plus 128. \$ 750,000

Due to Developer

Galveston Island Redevelopment Authority - construction of capital assets is financed through prefunding agreements with the Authority's developers. The liability is recognized at such time as the developer costs have been submitted for reimbursement and verified. Total costs incurred and recognized as of September 30, 2010 for TIRZ 11 are \$2,154,870. Total costs incurred and recognized for TIRZ 13 are \$11,710,283. \$ 13,865,153

Capital Leases

Park Board of Trustees - \$560,808 capital lease purchase due in annual installments of through September 30, 2011. \$ 443,151

Notes Payable

Park Board of Trustees - \$540,000 line of credit with Moody National Bank, secured by CD, interest due monthly at 4.25%, principal due on demand or on September 30, 2010, which was paid October 2010. \$ 180,334

Park Board of Trustees - \$800,000 construction loan with Moody National Bank, secured by real estate; principal and interest due monthly at \$6,178; remaining principal due on at maturity date of February 2013. 763,053

Park Board of Trustees - \$2,290,726 loan with the Federal Emergency Management Agency, interest due monthly at 1.75% until February 2014; remaining principal due at maturity date of February 18, 2014. 2,290,726

Park Board of Trustees - \$2,290,726 loan with the Federal Emergency Management Agency, interest due monthly at 2.375% until September 2014; remaining principal due at maturity date of September 13, 2014. 2,290,726

Park Board of Trustees - \$2,232,041 equipment lease-purchase agreement with All American Investment, secured by real estate; principal and interest due quarterly at \$54,761.70; remaining principal due on at maturity date of December 15, 2024. 2,167,608

Galveston Island Redevelopment Authority - \$7,000,000 Tax Increment Note, Series 2007A, secured by the available TIRZ 14 Tax Increment; principal and interest due in annual installments; interest rate 4.65%; matures October 1, 2022. 6,095,000

Total Notes Payable \$ 13,787,447

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to maturity for governmental activity bonds are as follows:

Primary Government

Fiscal Year ending September 30,	General Obligation Bonds		Special Obligation Bonds		Certificates Of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,032,612	\$ 1,053,796	\$ 1,240,000	\$ 1,614,129	\$ 85,500	\$ 947,273
2012	1,006,391	1,083,217	1,305,000	1,559,091	89,100	943,425
2013	988,350	1,098,632	1,380,000	1,506,069	2,518,600	878,791
2014	976,829	1,111,966	1,465,000	1,443,019	2,637,200	761,567
2015	966,927	1,122,931	1,550,000	1,375,413	2,761,700	638,548
2016	1,460,000	630,433	740,000	1,303,050	2,901,200	497,851
2017	1,525,000	564,518	795,000	1,270,675	3,050,700	349,962
2018	1,590,000	495,330	860,000	1,226,950	3,205,200	203,557
2019	1,675,000	417,740	930,000	1,179,650	1,602,751	1,807,410
2020	1,750,000	335,680	1,005,000	1,128,500	1,516,621	1,893,855
2021	1,575,000	249,510	1,085,000	1,078,250	131,400	118,806
2022	1,865,000	170,948	1,160,000	1,024,000	137,700	112,893
2023	1,945,000	87,909	1,245,000	966,000	144,000	106,525
2024			1,335,000	903,750	151,200	99,325
2025			1,425,000	837,000	158,400	91,765
2026			1,525,000	765,750	166,500	83,845
2027			1,630,000	689,500	174,600	75,312
2028			1,735,000	608,000	183,600	66,363
2029			1,850,000	521,250	193,500	56,954
2030			1,975,000	425,750	203,400	46,698
2031			2,105,000	330,000	214,200	35,918
2032			2,220,000	224,750	225,900	24,566
2033			1,110,000	113,750	237,600	12,591
2034			1,165,000	58,250		
Total	<u>\$ 18,356,109</u>	<u>\$ 8,422,610</u>	<u>\$ 32,835,000</u>	<u>\$ 22,152,546</u>	<u>\$ 22,690,572</u>	<u>\$ 9,853,800</u>

Note 8 - Long-Term Debt (continued)

Fiscal Year Ending September 30,	Discretely Presented Component Units	
	Galveston Island Redevelopment Authority	
	Principal	Interest
2011	\$ 550,000	\$ 317,291
2012	575,000	291,532
2013	600,000	264,454
2014	630,000	236,280
2015	665,000	206,584
2016	500,000	175,381
2017	520,000	151,811
2018	415,000	130,433
2019	435,000	111,135
2020	455,000	90,908
2021	475,000	69,750
2022	500,000	47,663
2023	525,000	24,413
Total	\$ 6,845,000	\$ 2,117,635

The future minimum lease obligations and the net present value of minimum lease payments on Government-type activity capital leases, as of year-end, were as follows:

Fiscal year ending September 30	Governmental Activities
2011	\$ 169,856
Total minimum payments	169,856
Less: Interest	(6,925)
Present value of minimum lease payments	162,931
Current portion	162,931
Long term portion	\$

Note 8 - Long-Term Debt (continued)

Accreted Interest on Premium Compound Interest Bonds

A portion

Business-type activities long-term liability activity for the current year ended was as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Primary Government					
Contracts (Gulf Coast Water Authority)	\$ 42,299,745	\$	\$ (2,709,675)	\$ 39,590,070	\$ 2,839,152
Revenue Bonds-Water Fund	18,309,110		(751,716)	17,557,394	772,525
Revenue Bonds-Sewer Fund	25,360,890		(1,153,284)	24,207,606	1,192,475
Certificates of Obligation	16,146,200		(478,100)	15,668,100	494,500
Notes Payable	9,683,622	1,200,000	(990,102)	9,893,520	1,020,138
Capital Lease	921,038		(272,018)	649,020	252,360
Accrued Compensated Absences	1,028,121	201,699	(145,400)	1,084,420	62,133
Deferred Bond Issuance Discount/Premium	(622,509)		27,963	(594,546)	
Total primary Government	<u>113,126,217</u>	<u>1,401,699</u>	<u>(6,472,332)</u>	<u>108,055,584</u>	<u>6,633,283</u>
Discretely presented component units					
Special Obligation Bonds	8,500,000			8,500,000	
Revenue Bonds	36,915,000		(2,700,000)	34,215,000	2,730,000
Notes payable	8,515,073	1,500,000	(1,449,322)	8,565,751	1,000,000
Capital Lease	1,498,772		(122,492)	1,376,280	129,711
Accrued Compensated Absences	733,945	334,889	(251,403)	817,431	350,326
Deferred Bond Issuance Discount	346,080		(68,639)	277,441	
Total discretely presented component units	<u>56,508,870</u>	<u>1,834,889</u>	<u>(4,591,856)</u>	<u>53,751,903</u>	<u>4,210,037</u>
Total reporting entity	<u>\$ 169,635,087</u>	<u>\$ 3,236,588</u>	<u>\$ (11,064,188)</u>	<u>\$ 161,807,487</u>	<u>\$ 10,843,320</u>

The following are descriptions of the Business-type activities long-term obligations:

Contracts (Gulf Coast Water Authority)

\$11,000,000 - Gulf Coast Water Authority Contract Revenue Bonds, Series 1997, due in annual installments of \$630,000 to \$925,000 through August 15, 2017; interest at 4.1% to 5.1%.	\$ 5,620,000
\$24,640,000 - Gulf Coast Water Authority Contract Revenue Bonds, Series 1998A, due in annual installments of \$779,675 to \$2,561,083 through August 15, 2022; interest at 4.15% to 5%. (Liability represents the City's 98.693% share of the remaining balance).	19,250,070
\$11,315,000 - Gulf Coast Water Authority Contract Revenue Bonds, Series 2002, due in annual installments of \$515,000 to \$910,000 through August 15, 2013; interest at 4.0% to 4.5%.	8,505,000
\$6,970,000 - Gulf Coast Water Authority Chocolate Bayou Contract Note Payable, Series 2006, due in annual installments of \$755,000 to \$1,000,000 through August 15, 2017; variable interest rate	<u>6,215,000</u>
Total Contracts Payable - Enterprise Funds	<u>\$ 39,590,070</u>

Note 8 - Long-Term Debt (continued)

Revenue Bonds

\$11,000,000 - 2003 Waterworks and Sewer System Revenue Bonds due in annual installments of \$460,000 to \$795,000 through May 1, 2023; interest at 3.5% to 4.38%. \$ 8,015,000

\$38,310,000 - 2006 Waterworks and Sewer System Revenue and Refunding Bonds due in annual installments of \$1,325,000 to \$1,950,000 through May 1, 2030; interest at 3.2% to 4.5%. 33,750,000

Total Revenue Bonds, Face Value \$ 41,765,000

Certificates of Obligation

\$1,000,000 - 2003 Sanitation Certificates of Obligation due in annual installments of \$105,000 to \$115,000 through May 1, 2013; interest at 2.85% to 3.75%. \$ 330,000

\$16,313,900 - 2008 Combination Tax and Revenue Certificates of Obligation bonds due in annual installments of \$373,100 to \$1,082,400 through May 1, 2033; interest at 4.5% to 5.30%. 15,338,100

Total Certificates of Obligation, Face Value \$ 15,668,100

Capital Leases

\$1,240,182 - capital lease purchase due in semi-annual installments of \$137,236 through December 15, 2012; interest at 3.77%; net carrying value of equipment purchased \$658,379 as of year end. \$ 649,020

Total Capital Leases - Enterprise Funds, Net \$ 649,020

Notes Payable

\$9,962,462 - Line of Credit extended to Waterworks and Sewer Funds due in annual installments for 10 years, interest at 3%, due in quarterly installments of \$298,635 through May, 2016. \$ 6,193,520

\$3,700,000 - note payable to Federal Emergency Management Agency; balance due in 2014, with an additional five year extension available; interest rate of 1.75%. 3,700,000

Total Notes Payable \$ 9,893,520

Discretely Presented Component Units:

Special Obligation bonds

\$8,500,000 - City of Galveston, Texas Wharves and Terminal Special Contract Revenue Refunding Bonds, Series 1998 due in annual installments; interest at 5.50%. \$ 8,500,000

Note 8 - Long-Term Debt (continued)

Revenue Bonds

City of Galveston Property Finance Authority, Inc. - Revenue Bonds

\$13,700 - Single Family Mortgage Revenue Bonds, Series 1991A due in annual installments of \$100,000 to \$355,000; interest at 8.5% \$ 45,000

Board of Trustees of the Galveston Wharves

\$5,235,000 - City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998A due in annual installments; interest at 3.20% to 4.30%. 4,865,000

\$4,895,000 - City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1999 due in annual installments; interest at 4.35% to 5.50%. 1,520,000

\$8,005,000 - City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds Series 2004A&B, due in annual installments, interest at 3.02%. 600,000

\$28,165,000 - City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds Series 2008, due in annual installments, variable interest rate. 27,185,000

Total Revenue Bonds \$ 34,215,000

Capital Leases

\$1,700,000 - 2006 capital lease purchase due in 83 monthly installments of \$17,111, with a final payment of \$904,966 due on December 31, 2013; adjustable interest rate initially at 5.74% \$ 1,376,280

Notes Payable

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5% \$ 7,065,751

\$1,500,000 - loan agreement with the Federal Emergency Management Agency of the U.S. Department of Homeland Security to provide operating funds for community disaster assistance. Interest is accrued monthly and principal due at maturity in 2014. 1,500,000

Total Notes Payable \$ 8,565,751

Note 8 - Long-Term Debt (continued)

Annual debt service requirements to maturity for business type activity long term debt are as follows:

Annual debt service requirements to maturity for business type activity long term debt are as follows:

Primary Government

Fiscal Year Ending 9/30	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2011	\$ 1,965,000	\$ 1,710,573	\$ 2,839,152	\$ 1,865,936
2012	2,035,000	1,639,683	2,968,629	1,735,185
2013	2,105,000	1,565,983	3,103,106	1,597,947
2014	2,185,000	1,490,320	3,247,518	1,452,813
2015	2,265,000	1,409,185	3,401,865	1,300,883
2016	2,360,000	1,323,670	3,561,211	1,140,818
2017	2,450,000	1,233,100	4,692,749	959,800
2018	2,550,000	1,135,100	2,857,096	755,864
2019	2,660,000	1,031,180	2,995,723	613,030
2020	2,765,000	923,955	3,149,220	463,206
2021	2,045,000	811,975	3,302,717	305,781
2022	2,135,000	725,063	3,471,084	139,545
2023	2,235,000	632,600		
2024	1,500,000	536,619		
2025	1,565,000	470,994		
2026	1,635,000	402,525		
2027	1,710,000	328,950		
2028	1,785,000	252,000		
2029	1,865,000	171,675		
2030	1,950,000	87,750		
Total	\$ 41,765,000	\$ 17,882,900	\$ 39,590,070	\$ 12,330,808

Note 8 - Long-Term Debt (continued)

Fiscal Year Ending 9/30	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2011	\$ 494,500	\$ 763,421	\$ 1,020,138	\$ 218,151
2012	515,900	742,349	1,051,089	187,320
2013	541,400	720,345	1,082,981	155,312
2014	442,800	697,132	4,815,835	165,271
2015	463,300	678,312	1,149,688	44,850
2016	483,800	658,622	773,789	10,806
2017	504,300	638,060		
2018	524,800	616,628		
2019	545,300	594,324		
2020	574,000	567,058		
2021	598,600	541,228		
2022	627,300	514,292		
2023	656,000	485,280		
2024	688,800	452,480		
2025	721,600	418,040		
2026	758,500	381,960		
2027	795,400	343,086		
2028	836,400	302,322		
2029	881,500	259,456		
2030	926,600	212,736		
2031	975,800	163,626		
2032	1,029,100	111,910		
2033	1,082,400	57,368		
Total	\$ 15,668,100	\$ 10,920,035	\$ 9,893,520	\$ 781,710

Note 8 - Long-Term Debt (continued)

Discretely presented component units

Year Ending December 31,	Special obligation bonds		Revenue bonds	
	Principal	Interest	Principal	Interest
2010	\$	\$ 467,500	\$ 2,730,000	\$ 1,218,736
2011		467,500	2,815,000	1,099,100
2012		467,500	2,945,000	973,382
2013		467,500	1,385,000	900,375
2014		467,500	1,465,000	851,900
2015	8,500,000	233,750	1,545,000	800,625
2016			1,640,000	746,550
2017			1,730,000	689,150
2018			1,830,000	628,600
2019			1,935,000	564,550
2020			2,050,000	496,825
2021			2,165,000	425,075
2022			2,290,000	349,300
2023			2,420,000	269,150
2024			2,565,000	184,450
2025			2,705,000	94,675
Total	\$ 8,500,000	\$ 2,571,250	\$ 34,215,000	\$ 10,292,443

The future minimum lease obligations and the net present value of minimum lease payments on Business-type activity capital leases, as of year-end, were as follows:

Fiscal year ending September 30	Business-type Activities
2011	\$ 274,472
2012	274,471
2013	137,236
Total minimum payments	686,179
Less: Interest	(37,159)
Present value of minimum lease payments	649,020
Current portion	252,360
Long term portion	<u>\$ 396,660</u>

Note 8 - Long-Term Debt (continued)

The future minimum lease obligations and the net present value of minimum lease payments on Business-type component unit activities for the Galveston Wharves as of December 31, 2009 are as follows:

Year Ended December 31	Future Minimum Lease Payments
2010	\$ 205,332
2011	205,332
2012	205,332
2013	990,521
	<u>1,606,517</u>
Less Interest portion	(230,237)
Capital Lease Payable	<u><u>\$ 1,376,280</u></u>

Long-term Contracts - Waterworks System

On November 16, 2006, the City entered into a contract with Gulf Coast Water Authority (“GCWA”) whereby GCWA issued \$6,970,000 of *Gulf Coast Water Authority Contract Note Payable* with Bank of America to be used to obtain water rights from the Brazos River and execute a purchase agreement with Chocolate Bayou Water Company. The note is for 10 years and will be repaid with pledged revenues from the City’s Waterworks Fund.

On April 15, 2002, the City entered into a contract with GCWA whereby GCWA issued \$11,315,000 of *Gulf Coast Water Authority Contract Revenue Bonds, Series 2002* to be used to build and improve facilities for potable water transportation to and within the City. The bonds will be repaid with pledged revenues from the City’s Waterworks Fund.

On May 1, 1998, the City signed a new contract with GCWA that would allow Galveston to begin receiving treated water from the Texas City plant upon completion of its expansion, which took place in August 2001. Terms of the contract included issuance of \$24,640,000 in *Gulf Coast Water Authority Contract Revenue Bonds*. The City will also continue to pay a prorated share of interest and principal on series *1981A and Series 1991 Mainland Project Bonds* used to finance earlier improvements at the Texas City plant.

On July 15, 1997, the City entered into a contract with GCWA whereby GCWA issued \$11,000,000 of *Gulf Coast Water Authority Contract Revenue Bonds, Series 1997* to be used on Galveston’s behalf to build a new two mile pipeline to transport water across Galveston Bay to the City, to repair an 80 year old pipeline already being used for that purpose, and to build a pipeline between Galveston Island and Pelican Island or to do certain improvements in other waterlines on the Island. The bonds will be repaid with pledged revenues from the City’s Waterworks Fund.

The City has three prior agreements with GCWA that pledge the City’s waterworks revenues for payment of long-term bonds. All payments to GCWA under these contracts are designated maintenance and operating expense.

Note 8 - Long-Term Debt (continued)

On July 10, 1987, GCWA issued bonds in the amount of \$25.8 million to design and construct the Ellington Plant, which was completed and placed in operation September 1990. The City's percentage share of the total debt is 76.08% with League City's share being the remainder 23.92%. Until July 10, 2012, the City's annual debt service payment, which includes interest, is approximately \$1.7 million. The interest rate on the bonds varies from 5.95% to 7.0%. By amendment to the 1971 contract, on July 10, 1987, the City received from GCWA an ownership interest in the water production facilities.

On April 30, 1976, the City and GCWA entered into a contract whereby GCWA issued \$46,610,000 in Water Contract Revenue Bonds to finance major improvements to the City's Waterworks System.

On January 15, 1971, the City entered into a surface water contract. The City pays GCWA its proportionate share (89.87%) of the debt service on the bonds financing the construction of the Southeast Water Purification facilities, and operating expenses incurred in maintenance of the plant and providing water to the City.

Refunding of Debt

In 2005 and 2006, the City defeased certain outstanding bonds by placing the proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements.

At year-end, the following previously refunded bonds are considered defeased:

Issue	Refunded Principal Outstanding 9/30/2009	Retirements	Refunded Principal Outstanding 9/30/2010
Series 2001	\$ 2,500,000	\$	\$ 2,500,000
Series 1995	4,580,000	(660,000)	3,920,000
Series 2000	6,900,000	(480,000)	6,420,000
	\$13,980,000	\$ (1,140,000)	\$ 12,840,000

Note 9 - Fund Equity

Deficit Fund Balance

The following funds had deficit fund balances as of year-end.

	<u>Deficit Balance</u>
Non-major Governmental Funds:	
Special Revenue Funds:	
Grants and Government Contracts	\$ (32,377)
Capital Project Funds:	
Island Transit Capital Projects	(56,069)
Internal Service Funds:	
Workers Compensation Insurance	(523,769)

Note 10 - Contingent Liabilities

Grants:

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

Litigation:

The City is a defendant in various lawsuits and tort claims involving general liability, auto liability, civil rights actions, contractual and other matters. Insurance coverage appears adequate to provide for potential losses. While insurance coverage will be adequate to provide for some potential losses, some litigation does not fall under insurance coverage. It is the opinion of City management that the outcome of any other pending litigation will not have a material effect on the City's financial position or operation.

Environmental Liability:

The City is aware of various sites contaminated by hazardous materials. The City purchased land in April 1995, which contained property that had been a City landfill at one time and other land adjacent to it that has been determined by the U.S. Environmental Protection Agency to be contaminated. The City is presently negotiating with the Texas Commission on Environmental Quality to determine the potential cost of cleaning up this property. Ultimately, the cost will depend on the use made of the property and estimates of liability for clean up could range from \$100,000 to several million dollars. The City is negotiating to use the land for a parking lot, in which case the liability should be approximately \$100,000. No amounts have been accrued for this potential liability as of year-end.

Note 10 - Contingent Liabilities (continued)

The City is under a U.S. Environmental Protection Agency mandate to repair or replace all substandard wastewater system lines. The City has implemented a sanitary sewer over-flow management program to achieve the goals of the mandate.

The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability.

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies, including Law Enforcement and Public Official policies, have deductibles of \$5,000 per occurrence.

The City purchases automobile and law enforcement liability insurance from the Texas Municipal League (TML) Intergovernmental Risk Pool, a self-insurance fund using members contributions to pay covered losses. Participation in the pool is affirmed when a City signs an inter-local agreement. There is no requirement for a municipality to invest funds into the risk pool other than by set insurance premiums for actual policies issued by TML.

There have been no significant reductions in insurance coverage from prior years. There have been no insurance settlements exceeding insurance coverage in the past five years.

The Casualty and Liability Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for insurance premiums and all other liabilities.

Workers Compensation

The City is self-insured for workers compensation. The third party administrator for the City of Galveston is Texas Municipal League (TML) Intergovernmental Risk Pool, with a per coverage retention of \$500,000. TML also provides the stop loss reinsurance for excess claims with an annual aggregate retention of \$1,000,000 and aggregate limit of liability of \$1,000,000.

All funds of the City participate in the program and make payments to the Workers Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at year-end, and is based on requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The City's long-term worker's compensation liability is recorded in the Government wide statement of net assets. Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

Note 11 - Risk Management (continued)

Changes in the City's workers compensation claims liability reserve amount for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2009	\$ 524,695	\$ 1,625,199	\$ (697,182)	\$ 1,452,712
2010	1,452,712	(405,996)	405,996	1,452,712

Employee Health Insurance

Effective November 1, 2001, the City established a limited Risk Management Program for Health Insurance by setting up an Internal Service Fund to account for its insured and self-insured risk of loss. The Internal Service Insurance Fund is principally supported by contributions from the City and the employees. The City makes contributions to cover the employees and the employees are required to make contributions to cover their dependents. The Internal Service Fund charges the various funds premiums for the City's contribution. The City has obtained excess loss insurance that limits the City's claims paid to \$150,000 for individual and \$6,439,000 in aggregate claims on an annual basis from Majestic Insurance Co.

Incurred but not reported claims as of year-end are estimated by the third party administrator based on prior claims experience. Changes in the City's health claims liability amount (incurred but not reported claims), for the past two fiscal years, are as follows:

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2009	\$ 531,678	\$ 4,490,320	\$ (4,471,656)	\$ 550,342
2010	550,342	3,021,184	(3,173,005)	398,521

Note 12 - Major Contracts and Commitments

As of year-end, the City has the following major contracts and commitments in force. The following is a summary of these commitments.

Emergency Medical Services Contract:

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical emergencies, and management and system evaluation. Operation and management is under control of the Health District. The City is responsible for operating deficits of this entity for up to \$250,000 per year. Effective March 2004, this deficit amount was reduced to \$225,000 per year.

Note 12 - Major Contracts and Commitments (continued)

Discretely Presented Component Units:

Governmental Activities

Park Board of Trustees

Notes Payable

Line of Credit

Park Board has a \$540,000 line of credit with Moody National Bank, secured by a Certificate of Deposit, to finance capital improvements and automobile purchases. The interest rate is 4.25%, due monthly. Principle is due on demand or September 30, 2010. The balance of the line of credit at September 30, 2010, of \$180,334 was paid in October 2010.

Construction Loans

In addition, the Park Board entered into an \$800,000 construction loan agreement with Moody National Bank to build a new maintenance facility. The loan is secured by real estate. Accrued interest only was due from March 2008 until February 2009, and then monthly principal and interest payments of \$6,178 will be due until maturity on February 2013, when all remaining principal will be due and payable. The balance of the construction loan at September 30, 2010, is \$763,053 .

<u>Fiscal Year Ending 9/30</u>	<u>Park Board of Trustees</u>		
	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 21,363	\$ 52,778	\$ 74,141
2012	22,896	51,245	74,141
2013	718,794	20,874	739,668
Totals	\$ 763,053	\$ 124,897	\$ 887,950

Park Board entered into a \$2,232,041 Equipment Lease-Purchase agreement with All American Investment for improvement work completed for new headquarters offices. The loan is secured by real estate. Quarterly principle and interest payments of \$54,761.70 will be due until maturity on December 15, 2024 when all remaining principle will be due and payable. The balance of the agreement at September 30, 2010 is \$2,167,608.

Federal Emergency Management Agency Loan

Park Board entered into a \$2,290,726 loan agreement in 2009 with the Federal Emergency Management Agency of the U.S. Department of Homeland Security to provide operating funds for community disaster assistance. Interest is accrued monthly at 1.75% until February 2014, with principle due at maturity on February 18, 2014. The balance of the loan at September 30, 2010 is \$2,290,726.

Park Board entered into a second \$2,290,726 loan agreement with the Federal Emergency Management Agency of the U.S. Department of Homeland Security to provide operating funds for community disaster assistance. Interest is accrued monthly at 2.375% until September 2014, with principle due at maturity on September 13, 2014. The balance of the loan at September 30, 2010 is \$2,290,726.

Note 12 - Major Contracts and Commitments (continued)

Capital Lease Obligation

Park Board purchases vehicles and equipment that are required to be reported as capital leases.

Capital lease requirements are as follows:

<u>Fiscal Year Ending 9/30</u>	Park Board of Trustees		
	Capital Lease Requirements		
	Minimum Lease Payments	Present Value Lease Payments	Representing Interest
2011	\$ 463,558	\$ 443,151	\$ 20,407
Totals	\$ 463,558	\$ 443,151	\$ 20,407

Obligations to Concessionaire

Pursuant to an agreement in settlement of a dispute between the Park Board and a contract concessionaire, the Park Board is required to make annual payments to the concessionaire in the amount of \$70,000 per year for ten years beginning February 1, 2000. In 2010, the Park Board made a payment of \$215,000 to the concessionaire for the final payment and release of the settlement agreement.

Business-Type Activities

Board of Trustees of the Galveston Wharves

The Galveston Wharves' has commitments with entities to lease land for parking lots. Future minimum rental commitments for these operating leases as of December 31, 2009 are as follows:

<u>Year Ended December 31,</u>	<u>Minimum Payments</u>
2010	\$ 405,000
2011	405,000
2012	405,000
2013	405,000
2014	118,125
	<u>\$ 1,738,125</u>

Direct Financing Lease - Dockside Elevator

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

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

Note 12 - Major Contracts and Commitments (continued)

Direct Financing Lease - Dockside Elevator (continued)

The outstanding balance of the 1998 special revenue bond as of December 31, 2009, was \$8,500,000 . The Wharves have no obligation for the special revenue bonds beyond the resources provided by the direct financing lease.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2009:

	<u>12/31/2009</u>
Minimum lease rental payments receivable	
Due within one year	\$ 956,606
Due after one year	18,568,593
	<u>19,525,199</u>
Unearned income, direct financing lease	
Due within one year	\$ 754,169
Due after one year	6,758,836
	<u>7,513,005</u>
Net investment in direct financing lease	<u>\$ 12,012,194</u>

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

Combination Lease - Sales-Type/Operating

Railroad Facilities

Following the favorable settlement in 2006 of a lawsuit filed by the Wharves over the interpretation of certain language in the lease covering rail facilities owned by the Wharves (which is further described in Note 12 to the Financial Statements) the Wharves entered into a new lease agreement with the previous Lessee covering the rail facilities effective August 1, 2006 through the period ending July 31, 2026. This new lease calls for annual base rent in the amount of \$100,000, adjusted annually for a cost of living increase, and percentage rent of 20% of the lessee’s total gross revenues. It also calls for relocation of certain rail track, the cost of which will be split 50/50 between the Wharves and the lessee. The lease also provides for the establishment of an “Annual Track Fund”. Under this section the lessee will accrue \$20,000 per month to be spent on maintaining and repairing the railroad track. If, during the course of a year, lessee spends less than the annual \$240,000 accrual the balance remaining is to be split 50/50 between the lessee and the Wharves.

Advance Facility Rental

In 1977, the Galveston Wharves received approximately \$10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2009 the amount deferred to future years was approximately \$3.5 million. This amount is presented as deferred revenues and rentals on the face of the financial statements.

Note 12 - Major Contracts and Commitments (continued)

Advance Facility Rental (continued)

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

Year Ended December 31	Future Minimum Lease Payments
2010	\$ 956,607
2011	956,607
2012	956,607
2013	956,607
2014	956,607
Thereafter	<u>14,742,164</u>
Total	<u>\$ 19,525,199</u>

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2009, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Year Ended December 31	Future Lease Payments
2010	\$ 1,527,627
2011	1,555,737
2012	1,608,541
2013	1,675,811
2014	<u>1,779,207</u>
Total	<u>\$ 8,146,923</u>

Note 13 - Other Post Employment Benefits

Plan Descriptions

The City provides other postemployment retirement benefits (OPEB) for its employees and spouses/dependents through a single-employer defined benefit OPEB plan. The plan provides health care benefits to employees upon retirement from the City, based on definition from the City. Employees and dependents may continue coverage during retirement by paying the total active contributions, including the city portion and the retiree portion. Spouses/dependents are also eligible to continue coverage. In the case of deferred retirement or death in service, the health care benefit eligibility is not available. However, in the case of disability retirement benefits, coverage is available if the employee is eligible for disability benefits through the City. Employees and dependents continue to pay the employee or dependent share of the contributions charged to active members. Coverage ceases upon reaching Medicare eligibility. A separate, audited GAAP-basis postemployment benefit plan report is not available.

Note 13 - Other Post Employment Benefits (continued)

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2008, as required by GASB. Valuations are performed every other year; therefore, our current valuation is dated as of July 31, 2009. The City's annual OPEB cost obligation for the fiscal year ending September 30, 2010 is as follows:

Other Post Employment Benefits (OPEB) Obligation		
Net OPEB obligation - 10/1/08		\$
Plus:		
Annual required contribution	\$ 570,703	
Adjustment to ARC	<u> </u>	
Annual OPEB cost (expense) - 9/30/09	570,703	
Net estimated employer contributions	<u>(270,591)</u>	
Change in OPEB obligation		300,112
Net OPEB obligation (asset) 9/30/09		<u><u>\$ 300,112</u></u>

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of July 31, 2009 is as follows:

City of Galveston Retiree Health Plan					
		Actuarial	Unfunded		
Actuarial	Actuarial	Accrued	Actuarial Accrued	Fund	
Valuation	Value of	Liability (AAL)	Liability (UAAL)	Ratio (%)	
Date	Assets (a)	(b)	(b-a)	(a/b)	
7/31/2009	\$	\$ 5,709,319	\$ 5,709,319	0.0%	

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial liability exceeding actuarial assets by \$5,709,319 at July 31, 2009.

Note 13 -Other Post Employment Benefits (continued)

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions	
Actuarial valuation date	7/31/2009
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of payroll
Amortization period	30 years open
Investment rate of return	4.5%, net of expenses
Projected salary increase	3.0% per annum

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 14 - Employee Retirement Benefits

A. Primary Government Benefit Plans

Plan Descriptions

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 865 employees and retirees, Galveston Firefighters' Pension Fund (GFPPF) covers 195 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 265 employees and retirees. The City Employees' Retirement Plan for City Employees and the City Employees' Retirement Plan for Police were created by ordinances dated 1949, and 1981, respectively. Subsequent ordinances assign the authority to establish and amend benefit provisions to the Board of Trustees of each plan.

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer had made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The benefit and contribution provisions of the Galveston Firefighters' Pension Fund are authorized by Texas Local Fire Fighter's Retirement Act (Article 624e Vernon's Texas Civil Statutes).

All plans provide retirement, disability, and death benefits to members and beneficiaries. Cost-of-Living Adjustments (COLA) are provided at the discretion of the Board of Trustees for each plan respectively.

Financial reports that include financial statements and required supplementary information, including the ten-year trend information, for each retirement plan are publicly available. Complete financial statements for each of the plans units may be obtained at the following administrative offices:

The City of Galveston Employees' Retirement Plan for City Employees
4415 Avenue S
Galveston, Texas 77551

Galveston Firefighters' Pension Fund
6511 Stewart Rd. Suite 4B
Galveston, Texas 77554

The City of Galveston Employees' Retirement Plan For Police
4415 Avenue S
Galveston, Texas 77551

Note 14 - Employee Retirement Benefits (continued)

A. Primary Government Benefit Plans (continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and may be amended by a majority vote of the membership. The contribution requirements of the City are established and may be amended by the City Council. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The City's annual pension cost for the current year and related information is as follows:

Retirement Plan	Year Ending	Annual Required Contributions	Actual Contributions Made	Contributed	Net Pension Obligation (Asset)
<i>Primary Government</i>					
Employees' Retirement Plan	12/31/2007	\$ 1,502,821	\$ 1,357,087	90%	\$ 145,734
	12/31/2008	1,514,070	1,514,397	100%	145,407
for City Employees	12/31/2009	1,502,411	1,514,397	101%	133,421
Galveston Firefighters' Pension Fund	12/31/2006	\$ 729,557	\$ 826,577	113%	\$ (126,681)
	12/31/2007	894,068	933,123	104%	(168,808)
	12/31/2008	698,276	964,703	138%	(435,235)
Employees' Retirement Plan for City Police	12/31/2007	\$ 859,603	\$ 860,128	100%	\$ 1,215,857
	12/31/2008	475,958	1,196,658	251%	495,157
	12/31/2009	1,318,576	1,021,721	77%	792,012

Note 14 - Employee Retirement Benefits (continued)

A. Primary Government Benefit Plans (continued)

	Employees' Retirement Plan	Firefighters' Pension Fund	Police Retirement Plan
Contribution Rates:			
City	6.00%	14.00%	10.00%
Plan Members	6.00%	12.00%	10.00%
Actuarial valuation date	01/01/09	01/01/08	01/01/09
Actuarial cost method	Entry Age	Entry Age	Entry Age
Asset valuation method	Smoothed market value	Smoothed market value	Market value smoothed by a 5-year deferred recognition method with a 90% / 110% corridor on market
Amortization method	Level percentage of pay contribution	Level percentage of projected payroll, open	Level percentage of pay contribution
Amortization period	30	17.5	38.7
Actuarial assumptions:			
Inflation	5.25%	3.25%	4.00%
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increase	5.25% per year, compounded annually	4.50%	4.0% to 10.24%, graded by service

**Retirement Plan for Employees - Net Pension Obligation
Components**

NPO 12/31/08		\$ 145,407
Plus:		
Annual required contribution	\$ 1,502,411	
Annual pension cost	1,502,411	
Actual contributions made	<u>(1,514,397)</u>	
Change in NPO		(11,986)
NPO 12/31/09		<u><u>\$ 133,421</u></u>

Note 14 - Employee Retirement Benefits (continued)

A. Primary Government Benefit Plans (continued)

Retirement Plan for Police - Net Pension Obligation Components		
NPO 12/31/08		\$ 495,157
Plus:		
Annual required contribution	\$ 1,307,909	
Interest on NPO	37,137	
Adjustment to ARC	<u>(26,470)</u>	
Annual pension cost	1,318,576	
Actual contributions made	<u>(1,021,721)</u>	
Change in NPO		296,855
NPO 12/31/09		<u><u>\$ 792,012</u></u>

Firefighters' Pension Fund - Net Pension Asset Components		
NPO 12/31/07		\$ (168,808)
Plus:		
Annual required contribution	\$ 698,276	
Annual pension cost	<u>698,276</u>	
Actual contributions made	<u>(964,703)</u>	
Change in NPO		(266,427)
NPO 12/31/08		<u><u>\$ (435,235)</u></u>

B. Discretely Presented Component Unit Benefit Plans

Board of Trustees of the Galveston Wharves

Plan Description

The Galveston Wharves Pension Plan (“The Plan”) is a single-employer defined benefit pension plan administered by an administrative committee appointed by the Board of Trustees of the Galveston Wharves. The Plan provides retirement, death, and disability benefits for all regular, full-time employees and employees surviving spouses, except those employees covered by a collective bargaining agreement, of the Galveston Wharves. The authority under which obligation to contribute to The Plan and any plan amendments is vested in the Board of Trustees of the Galveston Wharves by Article 12 of the Charter of the City of Galveston, Texas. The Plan issues a stand-alone financial report that may be obtained by requesting such report from the Board of Trustees of the Galveston Wharves, 123 Rosenberg, P.O. Box 328, Galveston, Texas 77553.

Note 14 - Employee Retirement Benefits (continued)

B. Discretely Presented Component Unit Benefit Plans (continued)

Basis of Accounting

Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Plan assets are reported at fair value.

Annual Pension Cost - Unaudited

Valuation elements for the three preceding years and actuarial valuation methods for the most recent valuation are as follows:

	<u>January 1, 2009</u>	<u>January 1, 2008</u>	<u>January 1, 2007</u>
Actuarial value of plan assets	\$ 6,763,164	\$ 10,042,804	\$ 10,160,401
Actuarial accrued liability	<u>11,284,681</u>	<u>10,624,989</u>	<u>10,348,148</u>
Total funding excess (deficit)	<u>\$ (4,521,517)</u>	<u>\$ (582,185)</u>	<u>\$ (187,747)</u>
Annual covered payroll	<u>\$ 4,146,487</u>	<u>\$ 4,096,280</u>	<u>\$ 3,963,526</u>
Ratio-over (under) funded to covered payroll	<u>-109%</u>	<u>-14%</u>	<u>-5%</u>

The annual contribution was determined through an actuarial valuation performed as of January 1, 2009. The actuarial assumptions used are as follows:

Actuarial Assumptions:

Actuarial Cost Method	Entry Age Normal
Remaining Amortization Period in Years	24
Asset Valuation Method	Market Value
Investment Rate of Return	7.5%
Projected Salary Increases	4.6%
Interest Credit for Cash Balance	5%
Rate of Inflation	4.0%-3.5%

Actuarial required contributions contributed to the Plan by the Wharves during 2009 were \$ 541,409 . At December 31, 2009 the Plan had an unfunded actuarial liability of \$4,521,517 .

Note 14 - Employee Retirement Benefits (continued)

B. Discretely Presented Component Unit Benefit Plans (continued)

Park Board of Trustees

The Galveston Park Board contributes to the Galveston Park Board Defined Contribution Plan (PBDCP), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Any employee of the Galveston Park Board is eligible to participate in the plan upon attaining the age of twenty and one-half (20 ^{1/2}) years and six (6) months employment. Mandatory employee contributions vest immediately while contributions made by the Park Board vest upon a graduating scale from twenty percent (20%) after two years of service to 100% after seven (7) years of service. An employee who leaves the employment of the Park Board is entitled to his or her accumulated contributions and the Park Board's accumulated contributions to the extent that vesting rights have been attained. Employees participating in the plan must contribute three percent (3%) of covered compensation while the Park Board is required to contribute five percent (5%) of each eligible employees' covered compensation up to \$30,000 or twenty-five percent (25%) of total salary, whichever is less. If in any year the Park Board makes a contribution that is less than five percent (5%) the employees may reduce their contributions proportionately. If the Park Board makes no contribution, the employees do not have to contribute.

During the year, the Park Board's required and actual contributions amounted to \$91,213 , which was five percent (5%) of \$1,787,111 , its current-year covered payroll. Employees' required and actual contributions amounted to \$68,215 . Total current year payroll was \$3,357,510 .

No pension provision changes occurred during the year that affected required contributions to be made by the Galveston Park Board or its employees.

The PBDCP held no securities of the Park Board or other related parties during the year or as of the close of the fiscal year.

Note 14 - Employee Retirement Benefits (continued)

B. Discretely Presented Component Unit Benefit Plans (continued)

Deferred Compensation Plan

City of Galveston

The City of Galveston, The Park Board and The Galveston Wharves offer employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, are a tax deferred supplemental retirement program that allows employees to contribute a portion of their salary, before federal taxes, to a retirement account. The purpose for establishing these tax-favored plans was to encourage employees to build their own financial security. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As a result of recent legislation these funds will be restricted from general creditors in the future. The funds are held in trusts for participating employees, and the City and its creditors have no rights to these funds. The investments for the City and Park Board employees are managed by Nationwide Retirement Solutions. The funds held in trusts are not included in these financial statements.

Note 15 - Extraordinary Item - Hurricane Ike

Hurricane Ike, a category 2 hurricane, with a storm surge of that of a category 4 hurricane, made landfall in the City of Galveston on September 13, 2008. It generated hurricane force winds, storm surge and severe flooding which caused extensive damage to structures and vehicles and resulted in widespread debris over the entire island. Catastrophic destruction was done to the City's water and sewer systems, the City's fleet, various equipment, transportation system, airport and to municipal buildings and streets.

Throughout the current fiscal year, starting in October 2009, the City received numerous reimbursements from the Federal Emergency Management Agency (FEMA) totaling over \$39 million. Approximately 783 project worksheets were identified and 74 new projects were written up during the fiscal year and submitted to FEMA for reimbursement. These include storm-related repairs. Insurance proceeds have also been received, and gains on asset restorations related to Ike have been booked. Both are identified as extraordinary items in the City's financial statements.

Note 16 - Major Discretely Presented Component Units

The following discretely presented component units represent major component units. For reporting purposes, the City considers a component unit to be major if its assets, liabilities, revenue or expenses exceed 10% of that component unit's class and exceed 5% of all component units combined.

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF NET ASSETS
September 30, 2010

	<u>Park Board of Trustees</u>	<u>Galveston Island Redevelopment Authority</u>	<u>Campeche Shores- Public Improvement District No. 1</u>
Assets			
Cash and equivalents	\$ 1,962,707	\$ 3,885,732	\$ 1,691
Investments	5,474,298		
Receivables-less allowance for uncollectibles	2,394,045	147,283	107,725
Due from other governments		153,831	
Prepaid items	183,194		
Deferred charges		55,949	
Restricted assets	872,403		
Capital assets (net of accumulated depreciation)	331,429,197		
Total assets	<u>342,315,844</u>	<u>4,242,795</u>	<u>109,416</u>
Liabilities			
Accounts payable and accrued expenses	2,339,345	1,164,675	1,691
Accrued interest	133,327	147,330	
Due to other governments	63,050		
Long-term liabilities:			
Due within one year	747,928	550,000	
Due in more than one year	7,559,572	20,160,153	
Total liabilities	<u>10,843,222</u>	<u>22,022,158</u>	<u>1,691</u>
Net Assets			
Invested in capital assets, net of related debt	330,681,269		
Restricted:			
Debt service		1,305,883	
Maintenance and operations	1,036,114		
Unrestricted	(244,761)	(19,085,246)	107,725
Total Net Assets	<u>\$ 331,472,622</u>	<u>\$ (17,779,363)</u>	<u>\$ 107,725</u>

Note 16 - Major Discretely Presented Component Units (continued)

Preserve at Sweetwater Lake- Public Improvement District	Beachside Village Public Improvement District	Totals
\$ 313	\$ 2,643	\$ 5,853,086
		5,474,298
	7,399	2,656,452
		153,831
		183,194
		55,949
		872,403
		<u>331,429,197</u>
<u>313</u>	<u>10,042</u>	<u>346,678,410</u>
	2,643	3,508,354
		280,657
		63,050
		1,297,928
		<u>27,719,725</u>
	<u>2,643</u>	<u>32,869,714</u>
		330,681,269
		1,305,883
		1,036,114
313	7,399	(19,214,570)
<u>\$ 313</u>	<u>\$ 7,399</u>	<u>\$ 313,808,696</u>

Note 16 - Major Discretely Presented Component Units (continued)

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Unit				
Park Board of Trustees	\$ 23,243,647	\$ 3,646,010	\$	\$ 3,758,797
Galveston Island Redevelopment Authority	16,612,828			
Campeche Shores- Public Improvement District No. 1	89,156			
Preserve at Sweetwater Lake- Public Improvement District				
Beachside Village - Public Improvement District	49,230			56,629
	<u>\$ 39,994,861</u>	<u>\$ 3,646,010</u>	<u>\$</u>	<u>\$ 3,815,426</u>

General revenues:

Taxes:

Property taxes

Sales and use tax

Hotel occupancy taxes

Unrestricted investment earnings

Capital asset contributions, net

Total general revenues and extraordinary items

Change in net assets

Net assets - beginning

Net assets - ending

Note 16 - Major Discretely Presented Component Units (continued)

Net (Expense) and Changes in Net Assets					
Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores- Public Improvement District No. 1	Preserve at Sweetwater Lake- Public Improvement District	Beachside Village - Public Improvement District	Totals
\$ (15,838,840)	\$	\$	\$	\$	\$ (15,838,840)
	(16,612,828)				(16,612,828)
		(89,156)			(89,156)
				7,399	7,399
(15,838,840)	(16,612,828)	(89,156)		7,399	(32,533,425)
	3,749,353	88,200			3,837,553
6,148,506					6,148,506
188,313	3,643	(5,873)			186,083
19,870,800					19,870,800
26,207,619	3,752,996	82,327			30,042,942
10,368,779	(12,859,832)	(6,829)		7,399	(2,490,483)
321,103,843	(4,919,531)	114,554	313		316,299,179
\$ 331,472,622	\$ (17,779,363)	\$ 107,725	\$ 313	\$ 7,399	\$ 313,808,696

Note 16 - Major Discretely Presented Component Units (continued)

DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
 STATEMENT OF NET ASSETS
 December 31, 2009

	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation
Assets		
Cash and equivalents	\$ 14,214,739	\$ 206,878
Investments		
Receivables-less allowance for uncollectibles	6,878,152	
Internal balances		(84,390)
Prepays	594,792	
Restricted assets	32,014,012	
Deferred charges	835,635	
Net investment in direct financing and capital leases- noncurrent	11,809,757	
Capital assets not being depreciated	25,510,183	169,040
Capital assets (net of accumulated depreciation)	75,036,008	
Total Assets	<u>166,893,278</u>	<u>291,528</u>
Liabilities		
Accounts payable and accrued expenses	4,191,037	12,674
Accrued interest	1,407,198	
Due to other governmental agencies	197,072	
Due to primary government	19,323,672	
Deferred revenues	6,583,319	
Long-term liabilities		
Due within one year	4,165,037	
Due in more than one year	49,861,648	
Total liabilities	<u>85,728,983</u>	<u>12,674</u>
Net Assets		
Invested in capital assets, net of related debt	64,734,657	
Restricted for:		
Debt service	4,900,092	
Unrestricted	11,529,546	278,854
Total Net Assets	<u>\$ 81,164,295</u>	<u>\$ 278,854</u>

Note 16 - Major Discretely Presented Component Units (continued)

Galveston Property Finance Authority	Total
\$ 156,312	\$ 14,577,929
54,993	54,993
	6,878,152
84,390	
	594,792
15,386	32,029,398
	835,635
	11,809,757
759,653	26,438,876
	75,036,008
1,070,734	168,255,540
12,674	4,216,385
1,063	1,408,261
	197,072
	19,323,672
	6,583,319
45,000	4,210,037
	49,861,648
58,737	85,800,394
	64,734,657
26,235	4,926,327
985,762	12,794,162
\$ 1,011,997	\$ 82,455,146

Note 16 - Major Discretely Presented Component Units (continued)

DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Units				
Business-type Activities:				
Board of Trustees of Galveston Wharves	\$ 20,705,268	\$ 20,870,753	\$ 540,163	\$ 6,092
Galveston Housing Finance Corporation	34,926	(9,086)		
Galveston Property Finance Authority	37,627	4,034		
Totals	<u>\$ 20,777,821</u>	<u>\$ 20,865,701</u>	<u>\$ 540,163</u>	<u>\$ 6,092</u>

General revenues:
 Unrestricted investment earnings
 Miscellaneous
 Extraordinary item-insurance proceeds for business loss and casualty
 Extraordinary item-clean up and repair - Hurricane Ike
 Extraordinary item-gain on restoration of assets due to Hurricane Ike
Total general revenues and transfers
 Change in net assets
Net assets - beginning
Net assets - ending

Note 16 - Major Discretely Presented Component Units (continued)

Net (Expense) Revenue and Changes in Net Assets			
Component Unit			
Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
\$ 711,740	\$	\$	\$ 711,740
	(44,012)		(44,012)
		(33,593)	(33,593)
<u>711,740</u>	<u>(44,012)</u>	<u>(33,593)</u>	<u>634,135</u>
344,028	690	7,640	352,358
(3,383,235)	1,396	22,350	(3,359,489)
6,723,512			6,723,512
(3,440,213)			(3,440,213)
<u>244,092</u>	<u>2,086</u>	<u>29,990</u>	<u>276,168</u>
955,832	(41,926)	(3,603)	910,303
80,208,463	320,780	1,015,600	81,544,843
<u>\$ 81,164,295</u>	<u>\$ 278,854</u>	<u>\$ 1,011,997</u>	<u>\$ 82,455,146</u>

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Required Supplementary Information

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
January 1, 2008, January 1, 2009
Unaudited

Exhibit 14

SCHEDULES OF FUNDING PROGRESS

Primary Government

Employees' Retirement Plan for City Employees (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2007	\$ 35,587,281	\$ 42,116,341	\$ 6,529,060	84.5%	\$ 16,604,915	39.3%
01/01/2008	\$ 38,163,964	\$ 43,922,499	\$ 5,758,535	86.9%	\$ 17,331,890	33.2%
01/01/2009	\$ 35,177,509	\$ 45,482,941	\$ 10,305,432	77.3%	\$ 18,171,916	56.7%

Galveston Firefighters' Pension Fund (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2004	\$ 26,956,845	\$ 34,723,058	\$ 7,766,213	77.6%	\$ 4,814,360	161.3%
01/01/2006	\$ 31,247,296	\$ 39,606,700	\$ 8,359,404	78.9%	\$ 5,813,514	143.8%
01/01/2008	\$ 36,660,215	\$ 43,218,834	\$ 6,558,619	84.8%	\$ 6,125,532	107.1%

Employees' Retirement Plan for Police (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2007	\$ 25,077,433	\$ 40,639,131	\$ 15,561,698	61.7%	\$ 8,198,433	189.8%
01/01/2008	\$ 26,151,141	\$ 43,468,468	\$ 17,317,327	60.2%	\$ 9,960,275	173.9%
01/01/2009	\$ 21,248,164	\$ 46,445,245	\$ 25,197,081	45.7%	\$ 9,081,963	277.4%

City of Galveston Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)
7/31/2009	\$	\$ 5,709,319	\$ 5,709,319	0.0%

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
January 1, 2008, January 1, 2009
Unaudited

Exhibit 14
(continued)

SCHEDULES OF FUNDING PROGRESS (continued)

Discretely Presented Component Unit

Board of Trustees of Galveston Wharves Pension Plan (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2007	\$ 10,160,401	\$ 10,348,148	\$ 187,747	98.2%	\$ 3,963,526	4.7%
01/01/2008	\$ 10,042,804	\$ 10,624,989	\$ 582,185	94.5%	\$ 4,096,280	14.2%
01/01/2009	\$ 6,763,164	\$ 11,284,681	\$ 4,521,517	59.9%	\$ 4,146,487	109.0%

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Other Supplementary Information

CITY OF GALVESTON, TEXAS

Exhibit A-1

GENERAL FUND

SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL ON BUDGETARY BASIS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
General government			
Legislative	\$ 441,958	\$ 404,059	\$ 37,899
Judicial	631,062	598,112	32,950
Executive	1,379,907	1,365,351	14,556
City auditor	33,911	3,637	30,274
Finance	2,658,831	2,043,391	615,440
Legal	778,431	693,536	84,895
Personnel	336,459	336,135	324
Taxation	193,843	184,788	9,055
Total general government	6,454,402	5,629,009	825,393
Public safety			
Police	18,687,960	17,882,792	805,168
Fire	10,046,979	9,872,603	174,376
Emergency medical service	516,200	516,125	75
Emergency management	130,539	128,481	2,058
Total public safety	29,381,678	28,400,001	981,677
Public works and traffic	3,829,962	3,620,827	209,135
Culture and recreation	2,011,632	1,972,616	39,016
Planning and community development	1,798,615	1,710,730	87,885
Transportation system	850,000	850,000	
Special projects	4,214,559	1,183,189	3,031,370
Total expenditures	\$ 48,540,848	\$ 43,366,372	\$ 5,174,476

Nonmajor Governmental Funds

Special Revenue Funds

To account for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

Rosenberg Library - to account for ad valorem taxes collected and transferred to the Library, to be used for library purposes, as authorized by City Charter.

Parks and Recreation Improvements - to account for revenues set aside for the purchase of parks and park improvements.

Grants and Government Contracts - to account for receipt and expenditure of Federal and State revenues designated for special programs.

Industrial Development Corporation – to account for sales tax revenues collected for street and drainage, beach renourishment, and sewer projects.

Project Specific Programs - to account for receipt and expenditures designated for governmental special projects.

Mary Moody Northern Endowment – to account for expenditures related to implementation of community policing CAMstat training funded by donation to police department from Mary Moody Northern Endowment.

Convention Center Fund - to account for operating and capital reserves relating to the Convention Center.

2008 Buffer Zone Protection – to account for receipt and expenditures of Federal revenue designated for police projects

CDBG Disaster Fund Housing – to account for receipt and expenditure of Federal revenue designated for housing rehabilitation.

2007 State Homeland Security Program Grant - to account for receipt and expenditure of Federal and State revenues designated for emergency preparedness.

Homelessness Prevention and Rapid Rehousing Program - to account for receipt and expenditure of Federal revenue designated for assistance to households who would otherwise be homeless, many due to the economic crisis, and to provide assistance to rapidly re-house persons who are homeless.

Lead-Based Paint Hazard Control - to account for receipt and expenditure of Federal revenue designated for identifying and controlling lead-based paint hazards in eligible privately owned housing for rental or owner-occupants.

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Nonmajor Governmental Funds (continued)

CDBG Entitlement Grant (ARRA) – to account for receipt and expenditure of Federal revenue designated for the development of viable urban communities, by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income.

CDBG Disaster Recovery Alternative Entitlement Grant – to account for receipt and expenditure of Federal revenue designated to improve public infrastructure, water / wastewater facilities, streets, drainage and housing activities.

Neighborhood Stabilization Program (ARRA) – to account for receipt and expenditure of Federal revenue designated for the purpose of stabilizing communities that have suffered from foreclosures and abandonment.

Capital Projects Funds

To account for the acquisition and construction of major capital facilities other than those financed by proprietary and trust funds.

Drainage and Street Improvements - to account for capital outlay for, drainage and street improvements for improving drains and streets, financed by Industrial Development Corporation.

Sewer Improvements - to account for capital outlay for, sewer improvements financed by Industrial Development Corporation.

General Obligation Bond 2001 Capital Projects - to account for capital outlay financed by the proceeds from the General Obligation and Refunding Bonds, Series 2001.

Island Transit Capital Projects - to account for capital outlay related to the Island Transit operations.

General Obligation Bond 2005 Capital Projects - to account for capital outlay financed by the proceeds from the General Obligation and Refunding Bonds, Series 2005.

Industrial Development Corporation Capital Improvements – to account for capital outlay for beach renourishment, economic development, and improvements city parks, and street, drainage and sewer systems financed by Industrial Development Corporation.

Debt Service Funds

Debt Service Fund - to account for the accumulation of resources for, debt service fund and payment of general long-term debt, principal, interest and related costs.

Hotel Occupancy Tax Debt Service Fund - to account for the accumulation of resources for, hotel occupancy and tax debt service fund and payment of Hotel Occupancy Bonds principal, interest and related costs.

CITY OF GALVESTON, TEXAS, TEXAS

COMBINING BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Industrial Development Corporation	Project Specific Programs
Assets					
Cash and cash equivalents	\$	\$ 7,544	\$ 471,472	\$	\$ 2,952,622
Due from other funds					17,029
Receivables (net of allowance for uncollectibles)	123,091		1,024,291	1,558	50
Due from other governments			391,170	718,832	830,370
Total Assets	\$ 123,091	\$ 7,544	\$ 1,886,933	\$ 720,390	\$ 3,800,071
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$	\$ 7,097	\$ 91,232	\$	\$ 827,902
Other accrued expenses			30,503		
Due to other funds	11,980			720,390	
Payable to other governments			432		3,811
Deferred revenue	111,111		1,797,143		275
Total Liabilities	123,091	7,097	1,919,310	720,390	831,988
Fund balances:					
Reserved for:					
Capital projects					
Debt service					
Planning and comm. development		447			1,404,078
Public safety					550,329
Court operations					1,013,676
Convention center operations					
Unreserved			(32,377)		
Total Fund Balances		447	(32,377)		2,968,083
Total Liabilities and Fund Balances	\$ 123,091	\$ 7,544	\$ 1,886,933	\$ 720,390	\$ 3,800,071

Mary Moody Northern Endowment	Convention Center Funds	2008 Buffer Zone Protection	CDBG Disaster Fund Housing	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program
\$ 8,671	\$ 3,657,943 3,233	\$	\$	\$	\$
		190,128	589,927	33,447	23,310
<u>\$ 8,671</u>	<u>\$ 3,661,176</u>	<u>\$ 190,128</u>	<u>\$ 589,927</u>	<u>\$ 33,447</u>	<u>\$ 23,310</u>
\$	\$	\$	\$ 12,011 45,250	\$ 489	\$ 22,850
		190,128	532,666	32,958	460
8,671					
<u>8,671</u>		<u>190,128</u>	<u>589,927</u>	<u>33,447</u>	<u>23,310</u>
	3,661,176				
	<u>3,661,176</u>				
<u>\$ 8,671</u>	<u>\$ 3,661,176</u>	<u>\$ 190,128</u>	<u>\$ 589,927</u>	<u>\$ 33,447</u>	<u>\$ 23,310</u>

CITY OF GALVESTON, TEXAS, TEXAS

COMBINING BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

September 30, 2010

	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)	CDBG Disaster Recovery Alternative Entitlement Grant	Neighborhood Stabilization Program (ARRA)	Drainage and Street Improvements
Assets					
Cash and cash equivalents	\$	\$	\$	\$	\$ 2,363,151
Due from other funds					
Receivables (net of allowance for uncollectibles)		115,158			
Due from other governments	84,863	28,935	42,188	27,927	
Total Assets	\$ 84,863	\$ 144,093	\$ 42,188	\$ 27,927	\$ 2,363,151
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 32,851	\$ 8,640	\$	\$ 1,601	\$ 10,000
Other accrued expenses	4,182				
Due to other funds	22,830	13,003	42,188	26,326	
Payable to other governments					
Deferred revenue	25,000	122,450			
Total Liabilities	84,863	144,093	42,188	27,927	10,000
Fund balances:					
Reserved for:					
Capital projects					2,353,151
Debt service					
Planning and comm. development					
Public safety					
Court operations					
Convention center operations					
Unreserved					
Total Fund Balances					2,353,151
Total Liabilities and Fund Balances	\$ 84,863	\$ 144,093	\$ 42,188	\$ 27,927	\$ 2,363,151

Sewer Improvements	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Totals
\$ 3,063,501	\$ 355,378	\$	\$ 3,118,952	\$ 3,582,119 720,390	\$ 4,557,189	\$ 3,089,156	\$ 27,227,698 740,652
		1,188,037			135,021		1,399,169 4,149,134
<u>\$ 3,063,501</u>	<u>\$ 355,378</u>	<u>\$ 1,188,037</u>	<u>\$ 3,118,952</u>	<u>\$ 4,302,509</u>	<u>\$ 4,692,210</u>	<u>\$ 3,089,156</u>	<u>\$ 33,516,653</u>
\$	\$	\$ 270,325 1,234 871,214	\$	\$	\$	\$	\$ 1,284,998 81,169 2,464,143 4,243
		101,333			135,021		2,301,004
		1,244,106			135,021		6,135,557
3,063,501	355,378		3,118,952	4,302,509	4,557,189	3,089,156	13,193,491 7,646,345 1,404,525 550,329 1,013,676 3,661,176 (88,446)
<u>3,063,501</u>	<u>355,378</u>	<u>(56,069)</u>	<u>3,118,952</u>	<u>4,302,509</u>	<u>4,557,189</u>	<u>3,089,156</u>	<u>27,381,096</u>
<u>\$ 3,063,501</u>	<u>\$ 355,378</u>	<u>\$ 1,188,037</u>	<u>\$ 3,118,952</u>	<u>\$ 4,302,509</u>	<u>\$ 4,692,210</u>	<u>\$ 3,089,156</u>	<u>\$ 33,516,653</u>

CITY OF GALVESTON, TEXAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Industrial Development Corporation	Project Specific Programs
Revenues					
Property taxes	\$ 1,681,861	\$	\$	\$	\$
Sales and use taxes				3,812,928	119,349
Fines and forfeitures					90,049
Charges for services			18,580		101,251
Investment earnings		21	473	3,215	7,185
Intergovernmental			2,649,317		141,613
Other			6,537		1,170,449
Total Revenues	1,681,861	21	2,674,907	3,816,143	1,629,896
Expenditures					
Current:					
General government					118,096
Public safety			85,831		177,629
Highways and roads					
Culture and recreation	1,681,861		243,192	53,435	48,871
Planning and community development			1,208,593		
Transportation					
Debt Service:					
Principal					
Interest and other charges					
Capital outlay		7,097	1,140,522		47,123
Total Expenditures	1,681,861	7,097	2,678,138	53,435	391,719
Excess (deficiency) of revenues over expenditures		(7,076)	(3,231)	3,762,708	1,238,177
Other Financing Sources (Uses)					
Transfers in			3,236		
Transfers (out)				(3,762,708)	(12,186)
Total Other Financing Sources (Uses)			3,236	(3,762,708)	(12,186)
Net change in fund balances		(7,076)	5		1,225,991
Fund balances - beginning		7,523	(32,382)		1,742,092
Fund balances - ending	\$	\$ 447	\$ (32,377)	\$	\$ 2,968,083

Mary Moody Northern Endowment	Convention Center Funds	2008 Buffer Zone Protection	CDBG Disaster Fund Housing	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program
\$	\$ 2,028,165	\$	\$	\$	\$
		178,675	3,007,431	25,233	104,316
21,329	351,438				
<u>21,329</u>	<u>2,379,603</u>	<u>178,675</u>	<u>3,007,431</u>	<u>25,233</u>	<u>104,316</u>
8,640		129,486		25,233	
	2,646,318		3,007,431		104,316
		49,189			
<u>8,640</u>	<u>2,646,318</u>	<u>178,675</u>	<u>3,007,431</u>	<u>25,233</u>	<u>104,316</u>
<u>12,689</u>	<u>(266,715)</u>				
	(169,820)				
	(169,820)				
12,689	(436,535)				
<u>(12,689)</u>	<u>4,097,711</u>				
<u>\$</u>	<u>\$ 3,661,176</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

CITY OF GALVESTON, TEXAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)	CDBG Disaster Recovery Alternative Entitlement Grant	Neighborhood Stabilization Program (ARRA)	Drainage and Street Improvements
Revenues					
Property taxes	\$	\$	\$	\$	\$
Sales and use taxes					
Fines and forfeitures					
Charges for services					
Investment earnings					6,723
Intergovernmental	192,094	118,256	42,188	27,926	
Other					
Total Revenues	<u>192,094</u>	<u>118,256</u>	<u>42,188</u>	<u>27,926</u>	<u>6,723</u>
Expenditures					
Current:					
General government					
Public safety					
Highways and roads					10,687
Culture and recreation					
Planning and community development	192,094	118,256	42,188	27,926	
Transportation					
Debt Service:					
Principal					
Interest and other charges					
Capital outlay					31,075
Total Expenditures	<u>192,094</u>	<u>118,256</u>	<u>42,188</u>	<u>27,926</u>	<u>41,762</u>
Excess (deficiency) of revenues over expenditures					<u>(35,039)</u>
Other Financing Sources (Uses)					
Transfers in					
Transfers (out)					
Total Other Financing Sources (Uses)					
Net change in fund balances					(35,039)
Fund balances - beginning					<u>2,388,190</u>
Fund balances - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,353,151</u>

Sewer Improvements	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Totals
\$	\$	\$	\$	\$	\$ 2,127,507	\$	\$ 3,809,368
						1,910,323	7,870,765
							90,049
							119,831
8,720	649		5,846	3,590	15,853		52,275
		2,693,676			782,174		9,962,899
							1,549,753
<u>8,720</u>	<u>649</u>	<u>2,693,676</u>	<u>5,846</u>	<u>3,590</u>	<u>2,925,534</u>	<u>1,910,323</u>	<u>23,454,940</u>
							118,096
							426,819
21,374							32,061
							4,673,677
							4,700,804
		811,423					811,423
					1,757,443	480,000	2,237,443
					2,025,354	1,440,594	3,465,948
43,166	1,674	1,882,253	141,551				3,343,650
<u>64,540</u>	<u>1,674</u>	<u>2,693,676</u>	<u>141,551</u>		<u>3,782,797</u>	<u>1,920,594</u>	<u>19,809,921</u>
<u>(55,820)</u>	<u>(1,025)</u>		<u>(135,705)</u>	<u>3,590</u>	<u>(857,263)</u>	<u>(10,271)</u>	<u>3,645,019</u>
							3,765,944
							(3,944,714)
					<u>2,852,773</u>	<u>909,935</u>	<u>(178,770)</u>
(55,820)	(1,025)		(135,705)	2,856,363	52,672	(10,271)	3,466,249
<u>3,119,321</u>	<u>356,403</u>	<u>(56,069)</u>	<u>3,254,657</u>	<u>1,446,146</u>	<u>4,504,517</u>	<u>3,099,427</u>	<u>23,914,847</u>
<u>\$ 3,063,501</u>	<u>\$ 355,378</u>	<u>\$ (56,069)</u>	<u>\$ 3,118,952</u>	<u>\$ 4,302,509</u>	<u>\$ 4,557,189</u>	<u>\$ 3,089,156</u>	<u>\$ 27,381,096</u>

CITY OF GALVESTON, TEXAS, TEXAS
SPECIAL REVENUE FUND - ISLAND TRANSIT
SCHEDULE OF REVENUES, EXPENDITURES AND

Exhibit B-3

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)
For the Year Ended September 30, 2010

	2010		
	Budget	Actual	Variance Positive / (Negative)
Revenues			
Intergovernmental - federal	\$ 1,652,000	\$ 1,351,054	\$ (300,946)
Intergovernmental - state	458,596	458,596	
Intergovernmental - local	650,000	627,186	(22,814)
Farebox revenues	240,000	248,226	8,226
Charges for services	498,000	477,536	(20,464)
Other	10,000	3,977	(6,023)
Total Revenues	3,508,596	3,166,575	(342,021)
Expenditures			
Current:			
Transportation system:			
Transit system:			
Personnel services	1,278,240	1,309,773	(31,533)
Materials and supplies	50,000	14,976	35,024
Contractual services	340,444	308,316	32,128
Other charges	101,722	100,822	900
Total transportation system expenditures	1,770,406	1,733,887	36,519
Maintenance:			
Personnel services	932,682	903,352	29,330
Materials and supplies	213,500	235,264	(21,764)
Contractual services	76,825	39,398	37,427
Total maintenance expenditures	1,223,007	1,178,014	44,993
Administration:			
Personnel services	278,729	229,482	49,247
Materials and supplies	51,900	21,405	30,495
Contractual services	123,793	82,604	41,189
Other charges	600	597	3
Total administration expenditures	455,022	334,088	120,934
Total Expenditures	3,448,435	3,245,989	202,446
Revenues over (under) expenditures	60,161	(79,414)	(139,575)
Other Financing Sources (Uses)			
Sale of assets		(87,175)	(87,175)
Revenues and other financing sources over/(under) expenditures	60,161	(166,589)	(226,750)
Fund balances, beginning of year	479,132	479,132	
Fund balances at year end	\$ 539,293	\$ 312,543	\$ (226,750)

CITY OF GALVESTON, TEXAS, TEXAS
SPECIAL REVENUE FUND - ROSENBERG LIBRARY
SCHEDULE OF REVENUES, EXPENDITURES AND

Exhibit B-4

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)
For the Year Ended September 30, 2010

	2010		
	Budget	Actual	Variance Positive / (Negative)
Revenues			
Property taxes - current	\$ 1,646,358	\$ 1,628,986	\$ (17,372)
Property taxes - delinquent	40,549	52,875	12,326
Total Revenues	<u>1,686,907</u>	<u>1,681,861</u>	<u>(5,046)</u>
Expenditures			
Current:			
Payments to Rosenberg Library	1,686,907	1,681,861	5,046
Total Expenditures	<u>1,686,907</u>	<u>1,681,861</u>	<u>5,046</u>
Revenues over (under) expenditures	_____	_____	_____
Fund balances, beginning of year	_____	_____	_____
Fund balances at year end	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>

CITY OF GALVESTON, TEXAS, TEXAS
SPECIAL REVENUE FUND - PARKS AND RECREATION IMPROVEMENT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

Exhibit B-5

	2010		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Investment earnings	\$	21	\$ 21
Total Revenues		<u>21</u>	<u>21</u>
Expenditures			
Capital outlay	8,800	7,097	1,703
Total Expenditures	<u>8,800</u>	<u>7,097</u>	<u>1,703</u>
Revenues over (under) expenditures	<u>(8,800)</u>	<u>(7,076)</u>	<u>1,724</u>
Revenues and other financing sources over/(under) expenditures	(8,800)	(7,076)	1,724
Fund balances, beginning of year	7,523	7,523	
Fund balances at year end	<u>\$ (1,277)</u>	<u>\$ 447</u>	<u>\$ 1,724</u>

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit B-6

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)

For the Year Ended September 30, 2010

	2010		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Property taxes	\$ 2,134,109	\$ 2,127,507	\$ (6,602)
Earnings on investments	80,000	15,852	(64,148)
Total Revenues	<u>2,214,109</u>	<u>2,143,359</u>	<u>(70,750)</u>
Expenditures			
Principal retirement	1,753,993	1,753,993	
Interest and fiscal agent fees	1,250,800	1,246,629	4,171
Total Expenditures	<u>3,004,793</u>	<u>3,000,622</u>	<u>4,171</u>
Revenues over (under) expenditures	<u>(790,684)</u>	<u>(857,263)</u>	<u>(66,579)</u>
Other Financing Sources (Uses)			
Transfer in:			
Industrial Development Corporation	908,235	909,935	1,700
	<u>908,235</u>	<u>909,935</u>	<u>1,700</u>
Revenues and other financing sources over/(under) expenditures	117,551	52,672	(64,879)
Fund balances, beginning of year	<u>4,504,517</u>	<u>4,504,517</u>	
Fund balances at year end	<u>\$ 4,622,068</u>	<u>\$ 4,557,189</u>	<u>\$ (64,879)</u>

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Non-Major Enterprise Funds

To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Sanitation Services - to account for the provision of, a sanitation system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Drainage Utility - to account for the provision of, a utility drainage system to the residents of Galveston, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

Airport - to account for the provision of, a municipal airport including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

CITY OF GALVESTON, TEXAS, TEXAS
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2010

Exhibit C-1

	Business-type Activities - Enterprise Funds			
	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
Assets				
Current Assets:				
Cash and temporary investments	\$ 1,098,723	\$ 1,773,372	\$ 939,195	\$ 3,811,290
Accounts receivable, net of allowance for doubtful accounts	2,038,153	752,457	96,738	2,887,348
Due from other funds	260,052	226,450	770,461	1,256,963
Prepaid expenses	6,262	4,175	12,487	22,924
Restricted assets:				
Cash and investments	120,524	1,617,423		1,737,947
Total current assets	<u>3,523,714</u>	<u>4,373,877</u>	<u>1,818,881</u>	<u>9,716,472</u>
Non-current Assets:				
Deferred charges	5,983			5,983
Capital assets not being depreciated		1,533,277	5,051,771	6,585,048
Capital assets (net of depreciation)	2,466,131	2,346,700	8,480,693	13,293,524
Total non-current assets	<u>2,472,114</u>	<u>3,879,977</u>	<u>13,532,464</u>	<u>19,884,555</u>
Total Assets	<u>5,995,828</u>	<u>8,253,854</u>	<u>15,351,345</u>	<u>29,601,027</u>
Liabilities				
Current Liabilities:				
Accounts payable and accrued expenses	550,592	46,175	66,458	663,225
Accrued interest payable	7,270			7,270
Due to other governments	237,528		90	237,618
Unearned revenue	13,425		83,801	97,226
Long-term debt, current portion				
Compensated absences	6,400	16,552		22,952
Capital lease obligation	252,360			252,360
Bonds and certificates of obligation payable	105,000			105,000
Total current liabilities	<u>1,172,575</u>	<u>62,727</u>	<u>150,349</u>	<u>1,385,651</u>
Non-current Liabilities:				
Long-term debt, noncurrent portion:				
Compensated absences	274,591	127,721	66,190	468,502
Capital lease obligation	396,660			396,660
Notes payable	200,000			200,000
Bonds and certificates of obligation payable	225,000			225,000
Total non-current liabilities	<u>1,096,251</u>	<u>127,721</u>	<u>66,190</u>	<u>1,290,162</u>
Total Liabilities	<u>2,268,826</u>	<u>190,448</u>	<u>216,539</u>	<u>2,675,813</u>
Net Assets				
Invested in capital assets, net of related debt	1,297,308	5,497,400	13,532,464	20,327,172
Restricted for debt service	112,540			112,540
Unrestricted	2,317,154	2,566,006	1,602,342	6,485,502
Total Net Assets	<u>\$ 3,727,002</u>	<u>\$ 8,063,406</u>	<u>\$ 15,134,806</u>	<u>\$ 26,925,214</u>

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit C-2

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NON-MAJOR ENTERPRISE FUNDS

For the Year Ended September 30, 2010

	Enterprise Funds			
	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
Operating Revenues				
Charges for services	\$ 4,258,169	\$ 2,566,868	\$ 1,311,551	\$ 8,136,588
Miscellaneous	1,216	27,411		28,627
Total Operating Revenues	<u>4,259,385</u>	<u>2,594,279</u>	<u>1,311,551</u>	<u>8,165,215</u>
Operating Expenses				
Personnel services	2,134,215	1,131,626	385,739	3,651,580
Contractual services	1,354,736	331,673	70,249	1,756,658
Supplies and materials	53,090	82,672	58,984	194,746
Other expenses	153,587	100,273	137,136	390,996
Administrative charge	188,335	42,375	48,262	278,972
Depreciation	278,354	155,476	469,164	902,994
Total Operating Expenses	<u>4,162,317</u>	<u>1,844,095</u>	<u>1,169,534</u>	<u>7,175,946</u>
Operating income (loss)	<u>97,068</u>	<u>750,184</u>	<u>142,017</u>	<u>989,269</u>
Non-Operating Revenues (Expenses)				
Interest and investment revenue	3,303	8,088	1,666	13,057
Gain (loss) on disposal of capital assets	15,905	425	1,171	17,501
Interest expense	(48,359)		(484)	(48,843)
Amortization of bond issuance costs	(2,244)			(2,244)
Total Non-Operating Revenues (Expenses)	<u>(31,395)</u>	<u>8,513</u>	<u>2,353</u>	<u>(20,529)</u>
Income (loss) before contributions and transfers	65,673	758,697	144,370	968,740
Capital contributions	23,082	28,431	2,922,043	2,973,556
Transfers in	35,000			35,000
Transfers out	(200,856)	(4,166)	(489)	(205,511)
Extraordinary item - insurance proceeds related to Hurricane Ike	7,700	1,800	89,085	98,585
Change in net assets	(69,401)	784,762	3,155,009	3,870,370
Total net assets - beginning	<u>3,796,403</u>	<u>7,278,644</u>	<u>11,979,797</u>	<u>23,054,844</u>
Total net assets - ending	<u>\$ 3,727,002</u>	<u>\$ 8,063,406</u>	<u>\$ 15,134,806</u>	<u>\$ 26,925,214</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2010

Exhibit C-3
Page 1 of 2

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Totals</u>
Cash flows from operating activities				
Cash received from customers	\$ 4,166,519	\$ 2,533,436	\$ 1,332,290	\$ 8,032,245
Cash payments to suppliers for goods and services	(1,180,023)	(517,336)	(220,638)	(1,917,997)
Cash payments to employees	(2,084,219)	(1,144,328)	(382,403)	(3,610,950)
Administrative service charge	(188,335)	(42,375)	(48,262)	(278,972)
Net cash provided (used) by operating activities	<u>713,942</u>	<u>829,397</u>	<u>680,987</u>	<u>2,224,326</u>
Cash flows from noncapital and related financing activities:				
Insurance proceeds	2,700	1,800		4,500
Proceeds from issuance of note payable	200,000			200,000
Interfund transfers in	35,000			35,000
Interfund transfers out	(200,856)	(4,166)	(489)	(205,511)
Net cash provided (used) by noncapital and related financing activities	<u>36,844</u>	<u>(2,366)</u>	<u>(489)</u>	<u>33,989</u>
Cash flows from capital and related financing activities				
Payments for capital acquisitions (net of sales)	(400,822)	(23,951)	(48,227)	(473,000)
Principal paid on bonds	(105,000)			(105,000)
Interest paid on bonds	(11,089)			(11,089)
Principal paid on capital leases	(243,108)		(28,910)	(272,018)
Interest paid on capital leases	(34,863)		(484)	(35,347)
Net cash provided (used) by capital and related financing activities	<u>(794,882)</u>	<u>(23,951)</u>	<u>(77,621)</u>	<u>(896,454)</u>
Cash flows from investing activities				
Interest on investments	3,303	8,088	1,666	13,057
Net increase (decrease) in equity in pooled cash and investments	(40,793)	811,168	604,543	1,374,918
Cash and temporary investments, beginning of year	<u>1,260,040</u>	<u>2,579,627</u>	<u>334,652</u>	<u>4,174,319</u>
Cash and temporary investments, end of year	<u>\$ 1,219,247</u>	<u>\$ 3,390,795</u>	<u>\$ 939,195</u>	<u>\$ 5,549,237</u>
Cash and temporary investments per balance sheet				
Unrestricted	\$ 1,098,723	\$ 1,773,372	\$ 939,195	\$ 3,811,290
Restricted	120,524	1,617,423		1,737,947
Cash and temporary investments, end of year	<u>\$ 1,219,247</u>	<u>\$ 3,390,795</u>	<u>\$ 939,195</u>	<u>\$ 5,549,237</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS (continued)
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2010

Exhibit C-3
Page 2 of 2

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 97,068	\$ 750,184	\$ 142,017	\$ 989,269
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization and depreciation expense	278,354	155,476	469,164	902,994
(Increase) decrease in accounts receivable	(94,864)	(60,843)	(2,170)	(157,877)
(Increase) decrease in inventory and prepaid	(191)	(128)		(319)
Increase (decrease) in salaries and benefits payable	(3,570)	(1,795)	1,888	(3,477)
Increase (decrease) in accounts payable	381,579	(2,590)	45,733	424,722
Increase (decrease) in deferred revenue	2,000		22,909	24,909
Increase (decrease) in compensated absences payable	53,566	(10,907)	1,446	44,105
Total adjustments	<u>616,874</u>	<u>79,213</u>	<u>538,970</u>	<u>1,235,057</u>
Net cash provided (used) by operating activities	<u>\$ 713,942</u>	<u>\$ 829,397</u>	<u>\$ 680,987</u>	<u>\$ 2,224,326</u>
Noncash investing, capital, and financing activities				
Contributed capital	\$ 23,082	\$ 28,431	\$ 2,854,426	\$ 2,905,939
Due from other fundings		226,450		226,450
Proceeds from insurance	5,000		89,085	94,085
Net non cash transactions	<u>\$ 28,082</u>	<u>\$ 254,881</u>	<u>\$ 2,943,511</u>	<u>\$ 3,226,474</u>

CITY OF GALVESTON, TEXAS
WATERWORKS SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>
Operating Revenues				
Charges for sales and services, net:				
Water sales	\$ 14,142,400	\$ 14,142,400	\$ 14,700,467	\$
Tap fees	210,863	210,863	259,933	
Other	8,500	8,500	48,280	
Total Operating Revenues	<u>14,361,763</u>	<u>14,361,763</u>	<u>15,008,680</u>	
Operating Expenses				
Personnel services	1,558,367	1,582,717	1,486,037	
Materials and supplies	1,154,610	1,116,343	794,411	
Contractual services	898,527	948,059	804,933	
Other charges	327,900	335,510	356,862	
Administrative service charge	592,098	592,098	592,098	
Surface water contract	8,721,567	8,721,567	5,206,455	2,709,675
Depreciation			3,687,204	(3,687,204)
Total Operating Expenses	<u>13,253,069</u>	<u>13,296,294</u>	<u>12,928,000</u>	<u>(977,529)</u>
Operating income (loss)	<u>1,108,694</u>	<u>1,065,469</u>	<u>2,080,680</u>	<u>977,529</u>
Non-Operating Revenues (Expenses)				
Interest earned	78,800	78,800	114,528	(21,560)
Interest expense	(1,041,786)	(1,041,786)	(1,280,995)	
Principal expenditure	(1,433,316)	(1,433,316)		(1,433,316)
Capital outlay		(255,736)		(254,743)
Gain (loss) on retirement of capital asset	2,000	2,000	976	
Amortization of bond issuance costs	(114,858)	(114,858)	(114,628)	
Total Non-Operating Revenues (Expenses)	<u>(2,509,160)</u>	<u>(2,764,896)</u>	<u>(1,280,119)</u>	<u>(1,709,619)</u>
Income (loss) before operating transfers and capital contributions	(1,400,466)	(1,699,427)	800,561	(732,090)
Capital contributions	1,000,000		7,459,377	(7,459,377)
Operating transfer in (out)	(2,200,000)	(901,039)	(280,188)	
Extraordinary item-disposal of assets due to Hurricane Ike			(16,948)	16,948
Extraordinary item - insurance proceeds related to Hurricane Ike			114,688	(114,688)
Change in net assets	(2,600,466)	(2,600,466)	8,077,490	(8,289,207)
Net assets, beginning of year	<u>32,835,942</u>	<u>32,835,942</u>	<u>32,835,942</u>	
Net assets, end of year	<u>\$ 30,235,476</u>	<u>\$ 30,235,476</u>	<u>\$ 40,913,432</u>	<u>\$ (8,289,207)</u>

Exhibit C-4

<u>Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 14,700,467	\$ 558,067
259,933	49,070
48,280	39,780
<u>15,008,680</u>	<u>646,917</u>
1,486,037	96,680
794,411	321,932
804,933	143,126
356,862	(21,352)
592,098	
7,916,130	805,437
<u>11,950,471</u>	<u>1,345,823</u>
<u>3,058,209</u>	<u>1,992,740</u>
92,968	14,168
(1,280,995)	(239,209)
(1,433,316)	
(254,743)	993
976	(1,024)
(114,628)	230
<u>(2,989,738)</u>	<u>(224,842)</u>
68,471	1,767,898
(280,188)	620,851
<u>(211,717)</u>	<u>2,388,749</u>
30,599,424	
<u>\$ 30,387,707</u>	<u>\$ 2,388,749</u>

CITY OF GALVESTON, TEXAS
SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Reconciling Items</u>
Operating Revenues				
Charges for sales and services, net:				
Sewer charges	\$ 11,278,500	\$ 11,278,500	\$ 11,421,342	\$ (444,596)
Tap fees	37,000	37,000	44,369	(9,069)
Waste hauler fees	85,000	85,000	57,140	
Other	6,500	6,500	16,891	
Total Operating Revenues	<u>11,407,000</u>	<u>11,407,000</u>	<u>11,539,742</u>	<u>(453,665)</u>
Operating Expenses				
Personnel services	3,416,062	3,429,762	3,111,419	
Materials and supplies	1,256,932	1,331,411	1,197,001	
Contractual services	1,553,799	1,579,586	1,807,488	(456,769)
Other charges	429,171	438,186	434,407	
Administrative service charge	361,373	361,373	361,373	
Depreciation			2,503,519	(2,503,519)
Total Operating Expenses	<u>7,017,337</u>	<u>7,140,318</u>	<u>9,415,207</u>	<u>(2,960,288)</u>
Operating income (loss)	<u>4,389,663</u>	<u>4,266,682</u>	<u>2,124,535</u>	<u>2,506,623</u>
Non-Operating Revenues (Expenses)				
Interest earned	62,360	62,360	41,098	(24,391)
Interest expense	(1,518,420)	(2,098,420)	(1,993,006)	
Principal expenditure	(1,834,884)	(1,834,884)		(1,834,884)
Capital outlay		(306,780)		(277,345)
Gain (loss) on retirement of capital asset	100	100	20,950	
Amortization of bond issuance costs	(38,417)	(37,617)	(37,617)	
Total Non-Operating Revenues (Expenses)	<u>(3,329,261)</u>	<u>(4,215,241)</u>	<u>(1,968,575)</u>	<u>(2,136,620)</u>
Income (loss) before operating transfers and capital contributions	1,060,402	51,441	155,960	370,003
Capital contributions			1,530,875	(1,530,875)
Operating transfer in (out)	(3,500,000)	(2,491,039)	(244,116)	
Extraordinary item-disposal of assets due to Hurricane Ike			(16,949)	16,949
Extraordinary item - insurance proceeds related to Hurricane Ike			6,750	(6,750)
Change in net assets	(2,439,598)	(2,439,598)	1,432,520	(1,150,673)
Net assets, beginning of year	<u>40,078,736</u>	<u>40,078,736</u>	<u>40,078,736</u>	
Net assets, end of year	<u>\$ 37,639,138</u>	<u>\$ 37,639,138</u>	<u>\$ 41,511,256</u>	<u>\$(1,150,673)</u>

Exhibit C-5

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 10,976,746	\$ (301,754)
35,300	(1,700)
57,140	(27,860)
16,891	10,391
<u>11,086,077</u>	<u>(320,923)</u>
3,111,419	318,343
1,197,001	134,410
1,350,719	228,867
434,407	3,779
361,373	
<u>6,454,919</u>	<u>685,399</u>
<u>4,631,158</u>	<u>364,476</u>
16,707	(45,653)
(1,993,006)	105,414
(1,834,884)	
(277,345)	29,435
20,950	20,850
(37,617)	
<u>(4,105,195)</u>	<u>110,046</u>
525,963	474,522
(244,116)	2,246,923
<u>281,847</u>	<u>2,721,445</u>
<u>49,545,321</u>	
<u>\$ 49,827,168</u>	<u>\$ 2,721,445</u>

CITY OF GALVESTON, TEXAS
SANITATION SERVICES ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual (GAAP Basis)</u>	<u>Reconciling Items</u>
Operating Revenues				
Charges for sales and services, net	\$ 4,370,000	\$ 4,370,000	\$ 4,258,169	\$
Other	2,000	2,000	1,216	
Total Operating Revenues	<u>4,372,000</u>	<u>4,372,000</u>	<u>4,259,385</u>	
Operating Expenses				
Personnel services	2,041,548	2,080,748	2,134,215	(53,565)
Materials and supplies	69,913	61,638	53,090	
Contractual services	1,403,467	1,368,599	1,354,736	
Other charges	152,932	156,018	153,587	
Administrative service charge	188,335	188,335	188,335	
Depreciation			278,354	(278,354)
Total Operating Expenses	<u>3,856,195</u>	<u>3,855,338</u>	<u>4,162,317</u>	<u>(331,919)</u>
Operating income (loss)	515,805	516,662	97,068	331,919
Non-Operating Revenues (Expenses)				
Interest earned	15,000	15,000	3,303	(51)
Interest expense	(45,953)	(45,953)	(48,359)	
Principal expenditure	(348,108)	(348,108)		(348,108)
Capital outlay - improvements		(400,000)		(387,861)
Gain (loss) on retirement of capital asset			15,905	(15,905)
Amortization of bond issuance costs	(2,244)	(2,244)	(2,244)	
Total Non-Operating Revenues (Expenses)	<u>(381,305)</u>	<u>(781,305)</u>	<u>(31,395)</u>	<u>(751,925)</u>
Income (loss) before operating transfers	134,500	(264,643)	65,673	(420,006)
Capital contributions	200,000		23,082	(23,082)
Operating transfer in (out)	(200,000)	(857)	(165,856)	164,999
Extraordinary item - insurance proceeds related to Hurricane Ike			7,700	
Changes in net assets	134,500	(265,500)	(69,401)	(278,089)
Net assets, beginning of year	<u>3,796,403</u>	<u>3,796,403</u>	<u>3,796,403</u>	
Net assets, end of year	<u>\$ 3,930,903</u>	<u>\$ 3,530,903</u>	<u>\$ 3,727,002</u>	<u>\$ (278,089)</u>

Exhibit C-6

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 4,258,169	\$ (111,831)
1,216	(784)
4,259,385	(112,615)
2,080,650	98
53,090	8,548
1,354,736	13,863
153,587	2,431
188,335	
3,830,398	24,940
428,987	(87,675)
3,252	(11,748)
(48,359)	(2,406)
(348,108)	
(387,861)	12,139
(2,244)	
(783,320)	(2,015)
(354,333)	(89,690)
(857)	
7,700	(7,700)
(347,490)	(97,390)
3,796,403	
\$ 3,448,913	\$ (97,390)

CITY OF GALVESTON, TEXAS
DRAINAGE UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	
	Original	Final	Actual (GAAP Basis)	Reconciling Items
Operating Revenues				
Charges for sales and services, net	\$ 2,734,000	\$ 2,632,296	\$ 2,566,868	\$
Other	25,000	25,000	27,411	
Total Operating Revenues	2,759,000	2,657,296	2,594,279	
Operating Expenses				
Personnel services	1,104,293	1,158,158	1,131,626	
Materials and supplies	96,842	100,367	82,672	
Contractual services	577,771	513,249	331,673	
Other charges	100,015	102,015	100,273	
Administrative service charge	42,375	42,375	42,375	
Depreciation			155,476	(155,476)
Total Operating Expenses	1,921,296	1,916,164	1,844,095	(155,476)
Operating income (loss)	837,704	741,132	750,184	155,476
Non-Operating Revenues (Expenses)				
Interest earned	14,000	14,000	8,088	(3,616)
Capital outlay - vehicles, etc.	(150,000)	(150,000)		
Gain (loss) on retirement of capital asset			425	
Total Non-Operating Revenues (Expenses)	(136,000)	(136,000)	8,513	(3,616)
Income (loss) before capital contributions	701,704	605,132	758,697	151,860
Capital contributions			28,431	(28,431)
Operating transfer in (out)	(1,000,000)	(605,132)	(4,166)	
Extraordinary item - insurance proceeds related to Hurricane Ike			1,800	
Changes in net assets	(298,296)		784,762	123,429
Net assets, beginning of year	7,278,644	7,278,644	7,278,644	
Net assets, end of year	\$ 6,980,348	\$ 7,278,644	\$ 8,063,406	\$ 123,429

Exhibit C-7

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 2,566,868	\$ (65,428)
27,411	2,411
<u>2,594,279</u>	<u>(63,017)</u>
1,131,626	26,532
82,672	17,695
331,673	181,576
100,273	1,742
42,375	
<u>1,688,619</u>	<u>227,545</u>
905,660	164,528
4,472	(9,528)
	150,000
425	425
<u>4,897</u>	<u>140,897</u>
910,557	305,425
(4,166)	600,966
1,800	1,800
<u>908,191</u>	<u>908,191</u>
7,278,644	
<u>\$ 8,186,835</u>	<u>\$ 908,191</u>

CITY OF GALVESTON, TEXAS
AIRPORT ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual (GAAP) Basis</u>	<u>Reconciling Items</u>
Operating Revenues				
Charges for sales and services:				
Building rental	\$ 50,000	\$ 50,000	\$ 60,230	\$
Hangar rental	70,394	70,394	9,214	
Terminal space rental	43,537	43,537	14,523	
Land lease rental	715,076	715,076	680,599	
Oil company receipts	40,000	40,000	46,701	
Other	1,000	1,000	500,284	
Total Operating Revenues	<u>920,007</u>	<u>920,007</u>	<u>1,311,551</u>	
Operating Expenses				
Personnel services	374,004	385,004	385,739	
Materials and supplies	92,400	85,920	58,984	
Contractual services	75,975	73,145	70,249	
Other charges & bad debt expense	169,344	170,154	137,136	
Administrative service charge	48,262	48,262	48,262	
Depreciation			469,164	(469,164)
Total Operating Expenses	<u>759,985</u>	<u>762,485</u>	<u>1,169,534</u>	<u>(469,164)</u>
Operating income (loss)	<u>160,022</u>	<u>157,522</u>	<u>142,017</u>	<u>469,164</u>
Non-Operating Revenues (Expenses)				
Interest earned	4,500	4,500	1,666	
Interest expense	(519)	(519)	(484)	
Capital outlay - improvements	(135,000)	(132,500)		(117,129)
Principal expenditure	(28,911)	(28,911)		(28,911)
Gain (loss) on retirement of capital asset			1,171	
Total Non-Operating Revenues (Expenses)	<u>(159,930)</u>	<u>(157,430)</u>	<u>2,353</u>	<u>(146,040)</u>
Income (loss) before capital contributions	92	92	144,370	323,124
Operating transfer in (out)			(489)	489
Capital contributions			2,922,043	(2,922,043)
Extraordinary item - insurance proceeds related to hurricane Ike			89,085	(89,085)
Changes in net assets	92	92	3,155,009	(2,687,515)
Net assets, beginning of year	<u>11,979,797</u>	<u>11,979,797</u>	<u>11,979,797</u>	
Net assets, end of year	<u>\$ 11,979,889</u>	<u>\$ 11,979,889</u>	<u>\$ 15,134,806</u>	<u>\$ (2,687,515)</u>

Exhibit C-8

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 60,230	\$ 10,230
9,214	(61,180)
14,523	(29,014)
680,599	(34,477)
46,701	6,701
500,284	499,284
<u>1,311,551</u>	<u>391,544</u>
385,739	(735)
58,984	26,936
70,249	2,896
137,136	33,018
48,262	
<u>700,370</u>	<u>62,115</u>
<u>611,181</u>	<u>453,659</u>
1,666	(2,834)
(484)	35
(117,129)	15,371
(28,911)	
1,171	1,171
<u>(143,687)</u>	<u>13,743</u>
467,494	467,402
<u>467,494</u>	<u>467,402</u>
11,979,797	
<u>\$ 12,447,291</u>	<u>\$ 467,402</u>

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Internal Service Funds

To account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Central Garage - to account for the financing of, garage activities through charges to user departments.

Casualty and Liability Insurance - to account for City casualty and liability insurance costs and financing through charges to user departments.

Central Services - to account for the financing of providing mailing, printing and data processing services to user departments.

Construction Management - to account for the financing of construction project oversight.

Workers' Compensation Insurance - to account for City worker's compensation insurance costs and financing through charges to user departments.

Health and Life Insurance - to account for City health and life insurance costs and financing through charges to user departments.

CITY OF GALVESTON, TEXAS, TEXAS
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2010

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Assets			
Current Assets:			
Cash and temporary investments	\$ 632,066	\$ 174,650	\$ 629,902
Accounts receivable, net of allowance for doubtful accounts	126,661	31,715	109,304
Due from other funds	184,495		
Inventories	225,606		2,945
Prepaid expenses		398,041	
Restricted assets:			
Cash and investments			470,497
Total current assets	<u>1,168,828</u>	<u>604,406</u>	<u>1,212,648</u>
Non-current Assets:			
Deferred charges			43,184
Capital assets (net of depreciation)	163,649		5,722,584
Total non-current assets	<u>163,649</u>		<u>5,765,768</u>
Total assets	<u>1,332,477</u>	<u>604,406</u>	<u>6,978,416</u>
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	149,328	134,509	71,395
Accrued interest payable			68,791
Long-term debt, current portion:			
Claims and judgments			
Notes payable			85,663
Bonds and certificates of obligation payable			85,500
Total current liabilities	<u>149,328</u>	<u>134,509</u>	<u>311,349</u>
Non-current Liabilities:			
Long-term debt, noncurrent portion			
Compensated absences	122,985	7,583	173,697
Claims and judgments			
Contracts payable			
Notes payable			1,215,669
Bonds and certificates of obligation payable			3,262,164
Total non-current liabilities	<u>122,985</u>	<u>7,583</u>	<u>4,651,530</u>
Total liabilities	<u>272,313</u>	<u>142,092</u>	<u>4,962,879</u>
Net Assets			
Invested in capital assets, net of related debt	163,649		1,287,594
Restricted for debt service			187,700
Unrestricted	896,515	462,314	540,243
Total net assets	<u>\$ 1,060,164</u>	<u>\$ 462,314</u>	<u>\$ 2,015,537</u>

Exhibit D-1

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 76,882	\$ 930,579	\$ 1,794,718	\$ 4,238,797
		19,579	287,259
			184,495
			228,551
			398,041
			470,497
<u>76,882</u>	<u>930,579</u>	<u>1,814,297</u>	<u>5,807,640</u>
			43,184
			5,886,233
			5,929,417
<u>76,882</u>	<u>930,579</u>	<u>1,814,297</u>	<u>11,737,057</u>
11,645	1,636	161,522	530,035
			68,791
	784,742		784,742
			85,663
			85,500
<u>11,645</u>	<u>786,378</u>	<u>161,522</u>	<u>1,554,731</u>
62,065			366,330
	667,970	398,521	1,066,491
		300,112	300,112
			1,215,669
			3,262,164
<u>62,065</u>	<u>667,970</u>	<u>698,633</u>	<u>6,210,766</u>
<u>73,710</u>	<u>1,454,348</u>	<u>860,155</u>	<u>7,765,497</u>
			1,451,243
			187,700
3,172	(523,769)	954,142	2,332,617
<u>\$ 3,172</u>	<u>\$ (523,769)</u>	<u>\$ 954,142</u>	<u>\$ 3,971,560</u>

CITY OF GALVESTON, TEXAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

INTERNAL SERVICE FUNDS

For the Year Ended September 30, 2010

	Central Garage	Casualty & Liability Insurance	Central Service
Operating Revenues			
Charges for services	\$ 4,393,191	\$ 1,847,678	\$ 2,210,403
Miscellaneous	7,932		208
Total Operating Revenues	<u>4,401,123</u>	<u>1,847,678</u>	<u>2,210,611</u>
Operating Expenses			
Personnel services	1,011,606	197,887	857,534
Contractual services	361,145	19,080	562,638
Supplies and materials	2,289,769	299	249,232
Insurance claims and premiums		1,482,357	
Other expenses	313,396		83,817
Depreciation	18,260		131,535
Total Operating Expenses	<u>3,994,176</u>	<u>1,699,623</u>	<u>1,884,756</u>
Operating income (loss)	<u>406,947</u>	<u>148,055</u>	<u>325,855</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	695	180	5,760
Insurance proceeds	33,372		
Interest expense			(223,791)
Amortization of bond issuance costs			(2,723)
Total Non-Operating Revenues (Expenses)	<u>34,067</u>	<u>180</u>	<u>(220,754)</u>
Income (loss) before contributions and transfers	<u>441,014</u>	<u>148,235</u>	<u>105,101</u>
Change in net assets	441,014	148,235	105,101
Total net assets - beginning	<u>619,150</u>	<u>314,079</u>	<u>1,910,436</u>
Total net assets - ending	<u>\$ 1,060,164</u>	<u>\$ 462,314</u>	<u>\$ 2,015,537</u>

Exhibit D-2

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 92,370	\$ 696,358	\$ 6,037,981	\$ 15,277,981
			8,140
<u>92,370</u>	<u>696,358</u>	<u>6,037,981</u>	<u>15,286,121</u>
41,216			2,108,243
22,588	100,196	917,586	1,983,233
3,000			2,542,300
	405,996	3,021,184	4,909,537
25,594	28,486	349,153	800,446
			149,795
<u>92,398</u>	<u>534,678</u>	<u>4,287,923</u>	<u>12,493,554</u>
<u>(28)</u>	<u>161,680</u>	<u>1,750,058</u>	<u>2,792,567</u>
28	2,341	1,859	10,863
			33,372
			(223,791)
			(2,723)
<u>28</u>	<u>2,341</u>	<u>1,859</u>	<u>(182,279)</u>
	164,021	1,751,917	2,610,288
	164,021	1,751,917	2,610,288
3,172	(687,790)	(797,775)	1,361,272
<u>\$ 3,172</u>	<u>\$ (523,769)</u>	<u>\$ 954,142</u>	<u>\$ 3,971,560</u>

CITY OF GALVESTON, TEXAS, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2010

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 4,461,409	\$ 1,815,961	\$ 2,210,612
Disbursed for personnel services	(1,012,710)	(226,633)	(834,499)
Disbursed for goods and services	(2,982,351)	(1,476,730)	(1,053,732)
Net cash provided (used) by operating activities	<u>466,348</u>	<u>112,598</u>	<u>322,381</u>
Cash Flows from Non-Capital Financing Activities			
Proceeds from insurance	33,372		
Net cash provided (used) by noncapital financing activities	<u>33,372</u>		
Cash Flows from Capital and Related Financing Activities			
Payments for capital acquisitions (net of sales)	(6,073)		(3,100,259)
Principal payments on debt			(164,117)
Interest payments on capital leases			(223,791)
Interest payments on revenue bonds			(1,535)
Net cash used by capital and related financing activities	<u>(6,073)</u>		<u>(3,489,702)</u>
Cash Flows from Investing Activities			
Interest received	695	180	5,760
Net cash provided (used) by investing activities	<u>695</u>	<u>180</u>	<u>5,760</u>
Net increase (decrease) in cash and equivalents	494,342	112,778	(3,161,561)
Cash and equivalents, beginning of year	<u>137,724</u>	<u>61,872</u>	<u>4,261,960</u>
Cash and equivalents, at end of year	<u>\$ 632,066</u>	<u>\$ 174,650</u>	<u>\$ 1,100,399</u>
Unrestricted cash and equivalents	\$ 632,066	\$ 174,650	\$ 629,902
Restricted cash and equivalents			470,497
	<u>\$ 632,066</u>	<u>\$ 174,650</u>	<u>\$ 1,100,399</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ 406,947	\$ 148,055	\$ 325,855
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	18,260		131,535
(Increase) decrease in accounts receivable	60,286	(31,717)	
(Increase) decrease in inventory	(39,458)		(105)
(Increase) decrease in prepaid expenses		(63,443)	
Increase (decrease) in accounts payable	21,417	88,449	(157,939)
Increase (decrease) in salaries payable	2,553	(4,808)	5,587
Increase (decrease) in compensated absences payable	(3,657)	(23,938)	17,448
Net cash provided (used) by operating activities	<u>\$ 466,348</u>	<u>\$ 112,598</u>	<u>\$ 322,381</u>
Noncash investing, capital, and financing activities			
Accrual for other post employment benefits	\$	\$	\$
Net non cash transactions	<u>\$</u>	<u>\$</u>	<u>\$</u>

Exhibit D-3

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 92,373	\$ 696,358	\$ 6,074,213	\$ 15,350,926
(21,147)			(2,094,989)
<u>(50,992)</u>	<u>(535,542)</u>	<u>(4,486,917)</u>	<u>(10,586,264)</u>
<u>20,234</u>	<u>160,816</u>	<u>1,587,296</u>	<u>2,669,673</u>
			33,372
			<u>33,372</u>
			(3,106,332)
			(164,117)
			(223,791)
			<u>(1,535)</u>
			<u>(3,495,775)</u>
<u>28</u>	<u>2,341</u>	<u>1,859</u>	<u>10,863</u>
<u>28</u>	<u>2,341</u>	<u>1,859</u>	<u>10,863</u>
20,262	163,157	1,589,155	(781,867)
56,620	767,422	205,563	5,491,161
<u>\$ 76,882</u>	<u>\$ 930,579</u>	<u>\$ 1,794,718</u>	<u>\$ 4,709,294</u>
\$ 76,882	\$ 930,579	\$ 1,794,718	\$ 4,238,797
			470,497
<u>\$ 76,882</u>	<u>\$ 930,579</u>	<u>\$ 1,794,718</u>	<u>\$ 4,709,294</u>
\$ (28)	\$ 161,680	\$ 1,750,058	\$ 2,792,567
			149,795
		36,232	64,801
			(39,563)
			(63,443)
193	(864)	(198,994)	(247,738)
10,199			13,531
9,870			(277)
<u>\$ 20,234</u>	<u>\$ 160,816</u>	<u>\$ 1,587,296</u>	<u>\$ 2,669,673</u>
\$	\$	\$ 300,112	\$ 300,112
\$	\$	\$ 300,112	\$ 300,112

Fiduciary Funds

To account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and /or other funds. These funds include Pension Trust and Agency Funds.

Pension Trust - to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. These funds are reported on a calendar year basis for the year ended December 31, 2009.

Agency - custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2009

Exhibit E-1

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
Assets				
Cash and cash equivalents	\$ 1,585,402	\$ 2,496,639	\$ 3,360,336	\$ 7,442,377
Receivables:				
Interest and dividends	63,620	22,814	31,009	117,443
Loans to participants	168,292			168,292
Total receivables	231,912	22,814	31,009	285,735
Investments:				
U.S. Government agencies				
Common stocks	6,928,569	13,961,247	14,040,409	34,930,225
Mutual funds (Equity funds)	4,898,843	2,695,051	3,968,943	11,562,837
Corporate and foreign bonds		14,068,473		14,068,473
Fixed income funds	7,710,190		11,571,382	19,281,572
Total investments	19,537,602	30,724,771	29,580,734	79,843,107
Prepaid benefits	269,810			269,810
Total assets	21,624,726	33,244,224	32,972,079	87,841,029
Liabilities				
Accounts payable	17,860	58,485	37,090	113,435
Net Assets				
Held in trust for benefits and other purposes	\$ 21,606,866	\$ 33,185,739	\$ 32,934,989	\$ 87,727,594

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended December 31, 2009

Exhibit E-2

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
Additions				
Contributions:				
Employer	\$ 1,065,482	\$ 1,532,371	\$ 1,147,527	\$ 3,745,380
Plan members	1,136,739	1,024,842	983,594	3,145,175
Total contributions	2,202,221	2,557,213	2,131,121	6,890,555
Investment earnings:				
Net increase in fair value of investments	3,116,750	4,451,119	5,177,830	12,745,699
Interest	451,841	15,008		466,849
Dividends	156,606	1,169,589	605,678	1,931,873
Investment activity expense	(163,909)	(213,136)	(127,336)	(504,381)
Total net investment earnings	3,561,288	5,422,580	5,656,172	14,640,040
Other income		19,395	29,878	49,273
Total additions	5,763,509	7,999,188	7,817,171	21,579,868
Deductions				
Benefits	3,337,418	3,069,709	2,090,658	8,497,785
Administrative	96,069	109,155	85,967	291,191
Total deductions	3,433,487	3,178,864	2,176,625	8,788,976
Change in net assets	2,330,022	4,820,324	5,640,546	12,790,892
Net assets - beginning, as restated	19,276,844	28,365,415	27,294,443	74,936,702
Net assets - ending	\$ 21,606,866	\$ 33,185,739	\$ 32,934,989	\$ 87,727,594

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended September 30, 2010

Exhibit E-3

	September 30, 2009	Additions	Deletions	September 30, 2010
Assets				
Cash and temporary investments	\$ 875,339	\$ 668,268	\$ (816,517)	\$ 727,090
Total assets	<u>\$ 875,339</u>	<u>\$ 668,268</u>	<u>\$ (816,517)</u>	<u>\$ 727,090</u>
 Liabilities				
Accounts payable and other current liabilities	\$ 3,534	\$ 7,109	\$	\$ 10,643
Refunds payable and others	871,805		(155,358)	716,447
Total liabilities	<u>\$ 875,339</u>	<u>\$ 7,109</u>	<u>\$ (155,358)</u>	<u>\$ 727,090</u>

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Statistical Section

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Unaudited Statistical Section

This part of the City of Galveston's Comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City of Galveston's overall financial health.

	<u>Page</u>
Financial Trends	144-151
These schedules contain trend information to help the reader understand how the City of Galveston's financial performance and well-being have changed over time.	
Revenue Capacity	152-159
These schedules contain information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.	
Debt Capacity	160-163
These schedules present information to help the reader assess the affordability of the City of Galveston's current levels of outstanding debt and its ability to issue additional debt in the future.	
Demographic and Economic Information	164-167
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City of Galveston's financial activities take place.	
Operating Information	168-171
These schedules contain service and infrastructure data to help the reader understand how the information in the City of Galveston's financial report relates to the services the city provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF GALVESTON, TEXAS**NET ASSETS BY COMPONENT (in thousands)***Last Eight Fiscal Years***(Accrual Basis of Accounting)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Governmental activities			
Invested in capital assets, net of related debt	\$ 14,956	\$ 23,872	\$ 29,356
Restricted	4,943	4,921	4,894
Unrestricted	9,168	7,845	8,012
Total governmental activities net assets	<u>\$ 29,067</u>	<u>\$ 36,638</u>	<u>\$ 42,262</u>
Business-type activities			
Invested in capital assets, net of related debt	\$ 40,480	\$ 64,284	\$ 70,442
Restricted	20,835	6,367	3,301
Unrestricted	5,233	2,123	3,069
Total business-type activities net assets	<u>\$ 66,548</u>	<u>\$ 72,774</u>	<u>\$ 76,812</u>
Primary government			
Invested in capital assets, net of related debt	\$ 55,436	\$ 88,156	\$ 99,798
Restricted	25,778	11,288	8,195
Unrestricted	14,401	9,968	11,081
Total primary government net assets	<u>\$ 95,615</u>	<u>\$ 109,412</u>	<u>\$ 119,074</u>

*The City of Galveston, Texas implemented GASB Statement No. 34 in 2003, therefore only eight years of information is available.

Exhibit I

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 25,631	\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300
10,791	18,757	19,950	25,689	26,256
11,081	5,912	6,113	18,853	26,157
<u>\$ 47,503</u>	<u>\$ 61,996</u>	<u>\$ 75,336</u>	<u>\$ 94,149</u>	<u>\$ 150,713</u>
\$ 71,492	\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051
9,502	10,327	11,053	7,173	10,949
5,817	13,967	12,364	24,354	20,713
<u>\$ 86,811</u>	<u>\$ 98,285</u>	<u>\$ 87,765</u>	<u>\$ 96,566</u>	<u>\$ 110,713</u>
\$ 97,123	\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351
20,293	29,084	31,003	32,862	37,205
16,898	19,879	18,477	43,207	46,870
<u>\$ 134,314</u>	<u>\$ 160,281</u>	<u>\$ 163,101</u>	<u>\$ 190,715</u>	<u>\$ 261,426</u>

CITY OF GALVESTON, TEXAS
CHANGES IN NET ASSETS (in thousands)
*Last Eight Fiscal Years**
(Accrual Basis of Accounting)

Exhibit II
Page 1 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Expenses								
Governmental activities:								
General government	\$ 3,961	\$ 3,626	\$ 4,662	\$ 4,924	\$ 5,166	\$ 5,307	\$ 5,742	\$ 8,484
Public safety	20,712	20,638	24,110	24,876	27,040	32,145	29,390	29,180
Public works	7,113	4,997	4,332	5,113	5,990	12,735	69,234	25,590
Culture and recreation	3,800	1,419	5,211	7,025	8,258	9,020	10,764	8,289
Planning and community dev.	4,203	4,225	2,375	4,202	4,483	4,936	4,237	7,902
Transportation system	6,052	6,580	4,032	4,269	5,552	4,548	5,120	5,347
Interest on long-term debt	3,236	3,208	2,866	3,649	3,096	2,839	2,757	2,868
Total governmental activities expenses	<u>49,077</u>	<u>44,693</u>	<u>47,588</u>	<u>54,058</u>	<u>59,585</u>	<u>71,530</u>	<u>127,244</u>	<u>87,660</u>
Business-type activities:								
Waterworks	9,654	10,012	10,956	11,850	12,999	13,350	13,060	14,165
Sewer system	7,445	7,249	7,921	9,229	11,536	10,806	9,900	11,202
Sanitation	2,988	3,077	3,376	3,541	3,781	3,808	3,907	3,999
Drainage	761	637	1,085	1,342	1,312	1,651	1,700	1,737
Airport	843	934	933	1,128	1,201	1,185	1,073	1,127
Golf course	1,130	1,092	1,010	1,028	333			
Total business-type activities expenses	<u>22,821</u>	<u>23,001</u>	<u>25,281</u>	<u>28,118</u>	<u>31,162</u>	<u>30,800</u>	<u>29,640</u>	<u>32,230</u>
Total primary government expenses	<u>\$ 71,898</u>	<u>\$ 67,694</u>	<u>\$ 72,869</u>	<u>\$ 82,176</u>	<u>\$ 90,747</u>	<u>\$ 102,330</u>	<u>\$ 156,884</u>	<u>\$ 119,890</u>
Program Revenue								
Governmental activities:								
Charges for services:								
General government	\$ 1,255	\$ 1,056	\$ 1,254	\$ 1,322	\$ 1,400	\$ 1,552	\$ 1,628	\$ 1,717
Public safety	2,548	3,034	2,451	2,739	3,133	3,338	2,595	2,310
Public works	44	39	26	20	21	37	30	50
Culture and recreation	5	83	40	6	407	166	8	2
Planning and community dev.	1,147	2,208	2,273	2,231	1,620	1,119	1,890	1,282
Transportation system	630	643	522	698	939	697	461	508
Operating grants and contributions:								
General government							489	3,336
Public safety	589	408	1,090	956	487	312	1,646	5,234
Public works							76,730	37,424
Culture and recreation	38	19	95	83	767	936	980	963
Planning and community dev.	2,984	2,086	1,559	2,199	2,021	2,244	1,653	5,069
Transportation system	2,684	2,485	2,295	2,396	2,455	3,136	3,034	6,749
Capital grants and contributions:								
General government							316	
Public safety						5,086		
Public works						10,752		25,298
Culture and recreation			116		9,557	8,656	2	23
Transportation system	1,928	3,426	2,440	1,575	1,735	1,501	448	2,934
Total governmental activities program revenues	<u>13,852</u>	<u>15,487</u>	<u>14,161</u>	<u>14,225</u>	<u>24,542</u>	<u>39,532</u>	<u>91,910</u>	<u>92,899</u>
Business-type activities:								
Charges for services:								
Waterworks	9,692	10,105	11,230	14,173	14,309	14,640	14,168	14,988
Sewer system	7,447	8,018	9,409	11,395	12,799	12,259	11,082	11,523
Sanitation	3,552	3,606	3,932	4,240	4,587	4,360	3,888	4,257
Drainage	749	780	1,816	2,710	2,800	2,691	2,418	2,567
Airport	832	853	875	937	1,071	960	783	1,312
Golf course	946	928	912	827	189			
Capital grants and contributions	1,362	5,482	1,178	2,680	6,065	1,925	2,253	11,964
Total business-type activities program revenues	<u>24,580</u>	<u>29,772</u>	<u>29,352</u>	<u>36,962</u>	<u>41,820</u>	<u>36,835</u>	<u>34,592</u>	<u>46,611</u>
Total primary government program revenues	<u>\$ 38,432</u>	<u>\$ 45,259</u>	<u>\$ 43,513</u>	<u>\$ 51,187</u>	<u>\$ 66,362</u>	<u>\$ 76,367</u>	<u>\$ 126,502</u>	<u>\$ 139,510</u>

CITY OF GALVESTON, TEXAS
CHANGES IN NET ASSETS (in thousands)
*Last Eight Fiscal Years**
(Accrual Basis of Accounting)

Exhibit II
Page 2 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net (Expense)/Revenue								
Governmental activities	\$ (35,225)	\$ (29,206)	\$ (33,427)	\$ (39,833)	\$ (35,043)	\$ (31,998)	\$ (35,334)	\$ 5,239
Business-type activities	1,759	6,771	4,071	8,844	10,658	6,035	4,952	14,381
Total primary government net expense	<u>\$ (33,466)</u>	<u>\$ (22,435)</u>	<u>\$ (29,356)</u>	<u>\$ (30,989)</u>	<u>\$ (24,385)</u>	<u>\$ (25,963)</u>	<u>\$ (30,382)</u>	<u>\$ 19,619</u>
General Revenues and Other Changes in Net Assets								
Governmental activities:								
Taxes:								
Property taxes, levied for general purposes	\$ 12,061	\$ 13,215	\$ 13,838	\$ 15,480	\$ 16,333	\$ 18,640	\$ 19,718	\$ 18,270
Sales and use taxes	13,340	13,689	14,425	16,850	17,498	17,747	18,588	15,705
Hotel occupancy taxes	4,980	2,966	3,418	4,122	4,619	4,958	3,742	4,058
Franchise taxes	4,824	4,841	4,880	5,149	5,375	5,450	4,807	4,756
Payments in lieu of taxes	1,155	568	596	655	737	126	120	120
Net loss on sale of asset		(72)						
Unrestricted investment earnings	733		753	1,650	2,439	1,483	219	115
Miscellaneous	1,196	420	641	669	844	224	418	438
Capital contributions		550						
Loss of assets due to Hurricane Ike						(2,022)		
Impairment of capital assets due to Hurricane Ike						(1,867)	1,112	
Insurance proceeds							4,863	7,170
Transfers	(150)	600	500	500	1,690	600	562	695
Total governmental activities	<u>38,139</u>	<u>36,777</u>	<u>39,051</u>	<u>45,075</u>	<u>49,535</u>	<u>45,339</u>	<u>54,149</u>	<u>51,326</u>
Business-type activities:								
Net (loss) gain on sale of asset		(125)	20	(271)				
Unrestricted investment earnings	350	179	447	1,755	2,454	1,805	877	169
Miscellaneous	(57)	2		170	52	136	28	106
Impairment of capital assets due to Hurricane Ike						(17,897)		(34)
Insurance proceeds							3,509	220
Transfers	150	(600)	(500)	(500)	(1,690)	(600)	(562)	(695)
Total business-type activities	<u>443</u>	<u>(544)</u>	<u>(33)</u>	<u>1,154</u>	<u>816</u>	<u>(16,556)</u>	<u>3,852</u>	<u>(234)</u>
Total primary government	<u>\$ 38,582</u>	<u>\$ 36,233</u>	<u>\$ 39,018</u>	<u>\$ 46,229</u>	<u>\$ 50,351</u>	<u>\$ 28,783</u>	<u>\$ 58,001</u>	<u>\$ 51,091</u>
Change in Net Assets								
Governmental activities	\$ 2,914	\$ 7,571	\$ 5,624	\$ 5,242	\$ 14,492	\$ 13,341	\$ 18,815	\$ 56,564
Business-type activities	2,202	6,227	4,038	9,998	11,474	(10,521)	8,804	14,147
Total primary government	<u>\$ 5,116</u>	<u>\$ 13,798</u>	<u>\$ 9,662</u>	<u>\$ 15,240</u>	<u>\$ 25,966</u>	<u>\$ 2,820</u>	<u>\$ 27,619</u>	<u>\$ 70,711</u>

*The City of Galveston, Texas implemented GASB Statement No. 34 in 2003, therefore only eight years of information is available.

CITY OF GALVESTON, TEXAS
FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
General fund				
Reserved	\$ 1,129,542	\$ 1,234,722	\$ 592,523	\$ 480,561
Unreserved	2,188,846	4,683,830	6,064,743	7,293,827
Total general fund	<u>\$ 3,318,388</u>	<u>\$ 5,918,552</u>	<u>\$ 6,657,266</u>	<u>\$ 7,774,388</u>
 All other governmental funds				
Reserved	\$ 102,052,636	\$ 94,337,975	\$ 34,970,343	\$ 7,463,893
Unreserved	4,278,228	47,988,259	194,337	5,875,754
Unreserved, report in:				
Capital project funds				
Special revenue funds	266,862	2,197,340	2,337,869	2,347,900
Total other governmental funds	<u>\$ 106,597,726</u>	<u>\$ 144,523,574</u>	<u>\$ 37,502,549</u>	<u>\$ 15,687,547</u>

Exhibit III

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 593,765	\$ 334,920	\$ 2,623,562	\$ 2,711,914	\$ 2,925,633	\$ 3,126,964
8,777,795	11,765,355	11,227,881	11,421,882	13,751,737	8,580,214
<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>	<u>\$ 13,851,443</u>	<u>\$ 14,133,796</u>	<u>\$ 16,677,370</u>	<u>\$ 11,707,178</u>
\$ 13,577,627	\$ 20,391,385	\$ 25,381,835	\$ 23,115,229	\$ 24,366,510	\$ 27,663,153
	142,402			33,291,344	30,919,812
	1,416			(56,069)	(56,069)
<u>1,812,875</u>	<u>3,401,893</u>	<u>106,120</u>	<u>(143,555)</u>	<u>(32,382)</u>	<u>(32,377)</u>
<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>	<u>\$ 22,971,674</u>	<u>\$ 57,569,403</u>	<u>\$ 58,494,519</u>

CITY OF GALVESTON, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues				
Taxes:				
Property taxes	\$ 10,636,480	\$ 11,660,813	\$ 12,147,194	\$ 13,186,960
Sales and use taxes	12,802,191	12,757,466	13,339,761	13,689,462
Franchise taxes	5,472,040	4,680,348	4,824,484	4,841,443
Hotel occupancy				
Fines and forfeitures	1,665,389	1,919,173	1,835,900	1,764,861
Licenses and permits	461,130	970,459	882,048	1,179,514
Intergovernmental	6,456,727	6,700,295	8,212,693	8,421,167
Charges for services	2,920,992	2,615,041	2,692,018	2,841,201
Investment earnings	835,654	654,674	716,787	395,202
Miscellaneous	1,442,479	1,696,143	7,433,637	4,841,764
Payments in lieu of taxes				
Total Revenues	<u>42,693,082</u>	<u>43,654,412</u>	<u>52,084,522</u>	<u>51,161,574</u>
Expenditures				
General government	4,499,673	4,116,076	3,988,181	4,213,164
Public safety	19,856,393	20,249,092	19,784,935	20,297,811
Public works	2,822,852	2,725,219	2,807,218	2,777,669
Culture and recreation	2,244,369	2,498,976	3,102,454	3,363,044
Planning and community development	2,376,734	4,259,306	4,353,386	4,394,758
Transportation	4,181,645	3,780,732	3,870,762	3,703,654
Other	781,368	776,488		
Capital outlay	2,461,694	4,457,737	21,006,276	28,812,375
Debt service:				
Principal	1,150,332	1,415,252	2,334,328	2,403,386
Interest and other charges	1,223,679	1,158,490	3,234,649	3,145,796
Total Expenditures	<u>41,598,739</u>	<u>45,437,368</u>	<u>64,482,189</u>	<u>73,111,657</u>
Excess of revenues over (under) expenditures	1,094,343	(1,782,956)	(12,397,667)	(21,950,083)
Other Financing Sources (Uses)				
Transfers in	1,961,125	5,043,951		533,036
Transfers out	(1,961,125)	(5,043,951)	(150,000)	
Bonds issued	14,915,677	42,340,085		
Payments to refunded bond escrow agent	(1,098,590)	(9,610,618)		
Capital leases			195,785	95,720
Proceeds from loan				
Sale of capital assets				623,447
Capital contributions				
Total Other Financing Sources (Uses)	<u>13,817,087</u>	<u>32,729,467</u>	<u>45,785</u>	<u>1,252,203</u>
Extraordinary item - insurance proceeds related to hurricane Ike				
Net change in fund balances	<u>\$ 14,911,430</u>	<u>\$ 30,946,511</u>	<u>\$ (12,351,882)</u>	<u>\$ (20,697,880)</u>
Debt service as a percentage of non-capital expenditures	6.1%	6.0%	9.5%	8.2%

Exhibit IV

2005	2006	2007	2008	2009	2010
\$ 13,883,642	\$ 15,570,356	\$ 16,200,093	\$ 18,647,994	\$ 19,530,352	\$ 18,284,008
14,424,663	16,849,450	22,116,284	22,704,813	22,329,682	19,762,544
4,879,699	5,148,416	5,374,681	5,450,345	4,806,846	4,756,164
	4,122,104				
2,330,349	1,828,036	2,466,285	2,601,586	2,326,075	2,040,355
1,313,886	1,577,415	1,334,749	1,000,361	1,784,222	1,161,760
7,295,013	7,185,304	6,893,575	16,654,859	83,977,409	68,424,863
3,432,738	3,533,981	3,686,864	2,838,980	2,075,934	2,285,567
682,679	1,523,724	2,234,647	1,378,287	414,544	103,811
4,737,887	791,144	1,407,875	1,567,770	1,427,391	2,388,035
	655,190	736,824	125,880	119,753	120,117
<u>52,980,556</u>	<u>58,785,120</u>	<u>62,451,877</u>	<u>72,970,875</u>	<u>138,792,208</u>	<u>119,327,224</u>
4,624,844	5,005,095	5,044,120	5,482,693	5,934,113	7,642,352
22,197,995	23,518,717	25,262,076	31,028,485	28,674,367	28,881,042
2,732,340	3,152,531	3,356,179	9,479,789	66,170,885	17,007,107
3,566,928	6,071,320	6,826,276	7,816,000	8,800,651	6,697,503
3,766,931	3,762,075	4,330,446	3,531,916	3,293,090	6,420,644
4,102,026	4,355,966	4,892,519	5,022,723	4,418,959	4,941,417
6,489,761	3,473,537	5,437,402	8,027,872	7,223,020	33,770,019
2,336,783	2,638,390	2,376,618	1,976,368	2,048,866	22,393,732
2,977,186	3,321,250	3,225,640	3,501,027	3,451,105	3,479,515
<u>52,794,794</u>	<u>55,298,881</u>	<u>60,751,276</u>	<u>75,866,873</u>	<u>130,015,056</u>	<u>131,233,331</u>
185,762	3,486,239	1,700,601	(2,895,998)	8,777,152	(11,906,107)
600,000	4,023,293	4,490,769	4,264,684	4,696,451	6,295,984
(100,000)	(3,523,293)	(3,914,885)	(3,663,853)	(4,080,005)	(5,601,169)
	9,840,254				
	(2,669,235)				
349,786		767,043			
				22,500,000	
264,629	118,052	258,495	61,239	21,898	(3,808)
				316,072	
<u>1,114,415</u>	<u>7,789,071</u>	<u>1,601,422</u>	<u>662,070</u>	<u>23,454,416</u>	<u>691,007</u>
				4,909,735	7,170,024
<u>\$ 1,300,177</u>	<u>\$ 11,275,310</u>	<u>\$ 3,302,023</u>	<u>\$ (2,233,928)</u>	<u>\$ 32,231,568</u>	<u>\$ (4,045,076)</u>
11.2%	12.1%	10.2%	7.8%	4.4%	24.6%

CITY OF GALVESTON, TEXAS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE
OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Tax Year	Real Property		Agriculture, Minerals and Unimproved Land	Less Tax Exempt Real Property
		Residential Property	Commercial Property		
2001	2000	*	*	*	*
2002	2001	*	*	*	*
2003	2002	*	*	*	*
2004	2003	\$ 1,298,374,213	\$ 2,129,572,561	\$ 296,743,081	\$ 1,288,394,811
2005	2004	1,417,277,656	2,170,011,241	350,374,967	1,356,161,582
2006	2005	1,672,452,438	2,820,883,699	377,360,369	1,962,444,790
2007	2006	1,683,926,873	3,003,749,029	314,300,569	1,673,747,884
2008	2007	2,017,563,012	3,434,393,698	414,272,322	1,726,137,187
2009	2008	2,238,512,202	3,448,537,786	481,608,731	1,738,355,125
2010	2009	1,895,989,601	2,915,703,876	471,811,336	1,505,666,315

* Information not available

All properties are assessed at 100% of actual taxable value. The difference between Market value and taxable value is the value of exemptions given for statutory purposes.

Source: Galveston Central Appraisal District

Exhibit V

Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
*	*	*	*
*	*	*	*
*	*	*	*
\$ 2,436,295,044	0.54170	\$ 3,724,887,715	65.41%
2,581,502,282	0.54170	3,937,872,354	65.56%
2,908,251,716	0.54170	4,870,900,236	59.71%
3,328,228,587	0.49400	5,001,976,471	66.54%
4,140,091,845	0.49400	6,138,802,150	67.44%
4,430,303,594	0.49400	6,518,843,089	67.96%
3,777,838,498	0.55400	5,602,592,850	67.43%

CITY OF GALVESTON, TEXAS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years

City of Galveston						
Fiscal Year	Tax Year	General Fund	Library Fund	Debt Service Fund	Total	Galveston I.S.D.
2001	2000	0.43140	0.05000	0.06720	0.54860	1.52000
2002	2001	0.44210	0.05000	0.06380	0.55590	1.52000
2003	2002	0.44210	0.05000	0.06280	0.55490	1.57000
2004	2003	0.44240	0.05000	0.04930	0.54170	1.56000
2005	2004	0.43580	0.05000	0.05590	0.54170	1.71000
2006	2005	0.42280	0.05000	0.06890	0.54170	1.71000
2007	2006	0.38340	0.05000	0.06060	0.49400	1.52500
2008	2007	0.38980	0.05000	0.05420	0.49400	1.17500
2009	2008	0.39310	0.05000	0.05090	0.49400	1.16500
2010	2009	0.44040	0.05000	0.06360	0.55400	1.16500

Source: Galveston Central Appraisal District, 2009 Taxing Entities and Tax Rates

Exhibit VI

Galveston College	Navigation District 1	Galveston County	Total Millage
0.19780	0.04060	0.54500	2.85200
0.19520	0.04060	0.56540	2.87710
0.19520	0.04200	0.59390	2.95600
0.19520	0.04200	0.62760	2.96650
0.19520	0.04090	0.62795	3.11575
0.19180	0.03800	0.64000	3.12150
0.17000	0.03370	0.58740	2.81010
0.17000	0.03300	0.56860	2.44060
0.17000	0.03200	0.55860	2.41960
0.19000	0.04800	0.61860	2.57560

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CITY OF GALVESTON, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Exhibit VII

Taxpayer	2010			2001		
	Taxable Assessed Value	Rank	% of Total Assessed Valuation	Taxable Assessed Value	Rank	% of Total Assessed Valuation
Centerpoint Energy / Reliant HL&P	\$ 38,663,230	1	1.02%	\$ 37,301,730	1	1.92%
Fertitta Hospitality, Incorporated	30,297,770	2	0.80%	17,753,830	3	0.92%
East Beach Partners, Ltd	20,587,500	3	0.54%			
Halliburton Energy Services	19,163,354	4	0.51%			
Galveston Island Water Park LP	16,420,010	5	0.43%			
Southwestern Bell Telephone Co.	14,936,010	6	0.40%	22,868,430	2	1.18%
Emerald Tower Ltd	14,418,750	7	0.38%			
Island Hospitality	13,876,630	8	0.37%			
Diamond Beach VP, LP	13,623,810	9	0.36%			
Enjet Inc	13,248,520	10	0.35%			
Sealy & Smith Foundation				10,826,200	7	0.56%
MPB Corp				11,635,600	5	0.60%
American National Insurance Co.				11,468,960	6	0.59%
Dawn on the Seawall				8,999,990	9	0.46%
Walmart				10,396,260	8	0.54%
NewPark Shipbuilding				12,328,320	4	0.64%
Petroleum Helicopters Inc				8,552,660	10	0.44%
Total Assessed Valuation for Principal Property Taxpayers	\$ 195,235,584		5.17%	\$ 152,131,980		7.84%

Source: Galveston County Tax Office.

Total Taxable Assessed Value	\$ 3,777,838,498	\$ 1,939,434,927
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CITY OF GALVESTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Tax Year	Tax Rate (A)	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years
				Amount	Percentage of Levy	Amount
2001	2000	0.54860	\$ 10,627,198	\$ 10,233,447	96.3%	\$ 344,237
2002	2001	0.55590	11,798,824	11,214,542	95.0%	520,060
2003	2002	0.55490	12,227,748	11,707,895	95.7%	435,003
2004	2003	0.54170	13,168,877	12,608,244	95.7%	447,609
2005	2004	0.54170	13,908,839	13,142,435	94.5%	547,588
2006	2005	0.54170	15,753,999	15,104,332	95.9%	460,883
2007	2006	0.49400	16,373,557	15,524,973	94.8%	392,080
2008	2007	0.49400	18,845,581	17,848,399	94.7%	482,864
2009	2008	0.49400	19,933,324	18,814,521	94.4%	383,514
2010	2009	0.55400	18,549,699	17,435,131	94.0%	525,369

Source: Tax department records of the City.

Note (A): The basis for property tax rates is per \$100 of the assessed valuation.

Exhibit VIII

Total Collections to Date

Amount	Percentage of Levy
\$ 10,577,684	99.5%
11,734,602	99.5%
12,142,898	99.3%
13,055,853	99.1%
13,690,023	98.4%
15,565,215	98.8%
15,917,053	97.2%
18,331,263	97.3%
19,198,035	96.3%
17,960,500	96.8%

CITY OF GALVESTON, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Governmental Activities					Business-Type Activities			
	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other**	Revenue Bonds	Capital Leases	Certificates of Obligation	Other**
2001	\$ 18,702	\$ 11,615	\$ 2,634	\$	\$ 6,924	\$ 56,244	\$	\$ 4,025	\$ 48,713
2002	18,334	43,170	3,073		6,165	53,007	94	3,355	46,565
2003	17,984	42,075	2,449		5,998	60,569		3,940	46,736
2004	17,599	40,910	1,559	19,324	6,268	75,215	594	3,850	45,285
2005	17,184	39,670	1,072	19,324	7,754	50,860	627	2,870	63,631
2006	23,733	38,360	608	19,324	10,502	62,544	725	725	68,537
2007	22,898	36,985	756	19,324	21,433	60,575	2,128	630	63,645
2008	21,967	35,535	748	22,905	21,077	56,450	2,892	16,849	64,493
2009	20,963	34,010	880	22,772	35,171	80,585	2,420	16,146	68,998
2010	19,834	32,835	606	22,691	17,139	75,980	2,025	15,668	66,549

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See the Schedule of Demographic and Economic Statistics for personal income and population data.

**Other Columns consist of contract and notes payable

Discretely Presented Component Units are included in this schedule.

Exhibit IX

Total Primary Government	Percentage of Personal Income *	Per Capita *
\$ 148,857	2.10%	\$ 2,600
173,763	1.72%	3,048
179,751	1.76%	3,121
210,604	2.05%	3,637
202,992	1.97%	3,506
225,058	2.19%	3,887
228,374	2.25%	3,989
242,916	2.34%	4,165
281,945	2.68%	4,764
253,327	2.83%	5,036

CITY OF GALVESTON, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Ten Fiscal Years

Exhibit X

Fiscal Year	Gross Bonded Debt^{1, 2}	Less Amounts Available in Debt Service Fund and Debt Payable from Enterprise Revenues	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2001	\$ 18,871,931	\$ 1,428,121	\$ 17,443,810	0.81%	\$ 305
2002	18,334,425	1,528,664	16,805,761	0.71%	294
2003	17,983,514	2,737,460	15,246,054	0.69%	266
2004	17,599,221	2,580,396	15,018,825	0.60%	262
2005	17,184,352	2,807,277	14,377,075	0.29%	248
2006	23,733,322	3,467,805	20,265,517	0.41%	354
2007	22,897,644	3,738,669	19,158,975	0.38%	328
2008	21,966,543	3,954,839	18,011,704	0.29%	304
2009	20,962,765	4,504,517	16,458,248	0.25%	350
2010	19,833,738	4,557,189	15,276,549	0.27%	271

1. Includes all long term general obligation debt

2. FY 2010 Includes \$1,477,629 accretion

CITY OF GALVESTON, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL
ACTIVITIES DEBT
As of September 30, 2010

Exhibit XI

<u>Name of Governmental Unit</u>		<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Estimated Debt Applicable to City</u>
Galveston Independent School District	1	\$ 74,065,000	89.29%	\$ 66,132,639
Galveston County	2	313,816,047	17.19%	53,944,978
Galveston County MUD No. 29	3	4,290,000	100.00%	<u>4,290,000</u>
Total Net Overlapping Debt				124,367,617
Total Direct Debt				<u>19,833,738</u>
Total Direct and Overlapping Net Debt				<u><u>\$ 144,201,355</u></u>
Ratio of total direct and overlapping net debt to 2009 assessed valuation				<u><u>3.82%</u></u>
Direct and overlapping net debt per capita				<u><u>\$ 2,557</u></u>

(1) Per GISD audited financial statements as of 8/31/10.

(2) Galveston County Auditors Office

(3) MUD 29 Debt Schedule-City Finance Department

CITY OF GALVESTON, TEXAS
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Fiscal Years

Exhibit XII

Fiscal Year	Population ⁴	Personal Income	Per Capita Personal Income ¹	Median Age ¹	Education Level in Years of Formal Schooling ²	School Enrollment ²	Unemployment Rate ³
2001	57,013	\$ 1,013,063,997	\$ 17,769	35.5	12.0	9,005	7.8%
2002	57,601	1,023,512,169	17,769	35.5	12.0	9,191	9.5%
2003	57,905	1,028,913,945	17,769	35.5	12.0	9,619	10.6%
2004	57,905	1,028,913,945	17,769	35.5	12.0	9,841	9.9%
2005	57,905	1,028,913,945	17,769	35.5	12.0	9,149	6.0%
2006	57,247	1,017,221,943	17,769	35.5	12.0	9,200	5.5%
2007	58,329	1,036,448,001	17,769	35.5	12.0	8,400	4.9%
2008	59,186	1,051,676,034	17,769	35.5	12.0	6,876	5.6%
2009	50,308	893,922,852	17,769	35.5	12.0	6,047	7.7%
2010	56,391	1,002,011,679	17,769	35.5	12.0	6,400	8.4%

Data Sources:

- 1 - United States Census Bureau, 2000 Census
- 2 - Galveston Chamber of Commerce
- 3 - Texas Workforce Commission (Data for Galveston County)
- 4 - 2010 City population data projection from Texas State Data Center

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

CITY OF GALVESTON, TEXAS

Exhibit XIII

PRINCIPAL EMPLOYERS

Current Year and Nine Years Ago

Employer	2010		2001	
	Employees	Rank	Employees	Rank
University of Texas Medical Branch	7,900	1	12,765	1
County of Galveston (Island only)	1,210	2	1,200	4
Galveston Independent School District	1,044	3	1,405	3
American National Insurance Company	850	4	1,612	2
Moody Gardens	783	5	1,077	5
City of Galveston	748	6	755	6
Landry's Restaurants	746	7	560	7
Fertitta Hospitality	743	8	535	8
Texas A&M University at Galveston	329	9		
Galveston College	140	10		
First Wave - Newpark Ship Building			450	9
Wyndham Historic Hotels Hospitality			430	10
Total	14,493		20,789	

Source: Galveston Chamber of Commerce and GEDP Survey

CITY OF GALVESTON, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	2001	2002	2003	2004
General Government				
City Secretary	3	3	3	3
Municipal Court	13	13	12	12
City Manager	5	4	4	4
City Auditor	1			
Finance	16	17	16	17
Legal	4	3	4	4
Human Resources	3	3	3	4
Police	207	208	211	218
Fire	103	103	106	113
Emergency Management	1	1	1	1
Streets & Traffic	32	31	40	49
Parks	28	29	30	34
Planning & Community Development	21	19	22	25
Total General Government	437	433	452	484
Pensions				
Waterworks	71	69	49	45
Sewer System	75	76	84	86
Drainage Utility		13	22	25
Municipal Golf Course	17	18	18	18
Sanitation	44	44	37	46
Municipal Airport	9	9	9	9
Central Service	13	13	12	11
Central Garage	26	24	23	22
Municipal Insurance	2	3	3	3
Construction Management				
Island Transit	64	65	56	52
Total Other Funds	321	332	313	317
Total Full Time Equivalent Personnel	758	765	765	801

Source: City Budget Office

Full-time Equivalent Employees as of September 30,

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
3	3	3	3	4	3
12	13	13	13	9	9
4	4	4	4	4	3
			1	1	
17	16	17	16	20	18
5	6	5	5	5	5
4	4	3	4	4	5
216	219	220	205	192	197
123	127	131	131	119	124
2	2	1	1	2	1
50	50	50	51	44	45
36	51	34	38	44	39
25	33	23	35	42	54
<u>497</u>	<u>528</u>	<u>504</u>	<u>507</u>	<u>490</u>	<u>503</u>
43	39	38	34	36	39
80	73	74	69	55	65
25	23	22	16	16	7
12	12	12			
57	55	55	43	39	39
9	9	9	9	8	8
11	11	10	12	9	10
22	22	23	22	20	19
2	2	2	2	2	
6	6	6	7	7	6
64	65	65	59	48	52
<u>331</u>	<u>317</u>	<u>316</u>	<u>273</u>	<u>240</u>	<u>245</u>
<u>828</u>	<u>845</u>	<u>820</u>	<u>780</u>	<u>730</u>	<u>748</u>

CITY OF GALVESTON, TEXAS
OPERATING INDICATORS BY FUNCTION
Last Ten Fiscal Years

Function	2001	2002	2003	2004
Police				
Physical arrests	8,542	10,316	9,069	9,094
Parking violations	64,428	60,600	57,431	47,116
Traffic violations	42,733	42,930	45,450	43,435
Fire				
Number of calls	7,219	7,034	7,276	7,657
Number of inspections	651	614	531	1,154
Water				
Number of service connections	22,000	22,000	22,000	22,000
Daily average consumption (gallons)	15,520,101	17,192,000	17,192,000	13,648,765
Sewer				
Average daily flow (gallons)	10,000,000	10,000,000	10,000,000	10,215,000
Max. daily capacity of plants (gallons)	14,500,000	14,500,000	14,500,000	14,500,000

Source: Various City departments.

Fiscal Year					
2005	2006	2007	2008	2009	2010
9,094	17,845	14,245	10,889	7,154	7,043
47,116	38,822	38,822	18,600	5,733	4,391
43,435	21,084	21,084	32,804	31,072	25,499
7,657	7,299	7,751	7,852	7,024	6,382
1,154	1,654	2,276	2,099	1,913	2,123
22,000	22,000	25,747	22,688	25,083	26,305
13,648,765	13,648,765	16,696,885	16,458,298	15,399,203	16,013,795
10,215,000	10,215,000	10,877,000	8,161,875	8,175,912	8,529,000
14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	14,580,000

CITY OF GALVESTON, TEXAS
CAPITAL ASSETS STATISTICS BY FUNCTION
Last Ten Fiscal Years

Function	2001	2002	2003	2004
Public safety				
Police				
Stations	3	3	3	3
Patrol units	77	61	63	58
Police Officers	162	164	164	170
Fire				
Fire stations	6	6	6	6
Firefighters	103	103	105	109
Highways and streets				
Streets (miles)	288	288	288	288
Street lights	3,812	3,812	3,812	3,812
Culture and recreation				
Parks acreage	250	277	277	277
Parks	15	16	16	16
Tennis courts	15	15	15	15
Community centers	2	2	2	1
Cemeteries	7	7	7	7
Athletic fields	16	28	28	28
Municipal Golf Course	1	1	1	1
Water				
Water mains (miles)	240	240	240	317
Fire hydrants	1,800	1,800	1,800	1,931
Maximum daily capacity (thousands of gallons)	33,000,000	33,000,000	33,000,000	33,000,000
Sewer				
Treatment Plants	4	4	4	4
Sanitary sewers (miles)	220	220	220	182
Storm sewers (miles)	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,500,000	14,500,000	14,500,000	14,500,000

Source: Various City departments and Centerpoint Energy

Note: No capital asset indicators are available for the general government function.

Exhibit XVI

Fiscal Year					
2005	2006	2007	2008	2009	2010
3	2	3	1	1	3
58	58	63	60	63	51
170	154	162	158	152	158
6	6	6	6	6	6
109	117	131	120	120	112
288	288	321	321	321	321
3,812	3,812	4,199	4,212	4,236	4,257
277	277	277	128	50	50
16	16	16	10	14	14
15	15	15	19	15	15
1	1	1	2	2	2
7	7	7	6	5	5
28	28	28	20	22	22
1	1	1			
317	317	333	380	385	386
1,931	1,931	2,350	2,368	2,410	2,414
33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
4	4	4	5	4	4
182	220	182	238	238	243
75	75	75	75	75	75
14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	8,529,000