

**CITY OF GALVESTON, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**



**Prepared by  
Finance Department**



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## **Introductory Section**





# City of Galveston



P. O. Box 779 / Galveston, Texas 77553

March 8, 2012

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, 2011.

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, 2011, 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, 2011, 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 requirements, with special emphasis on internal controls and legal requirements involving the

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

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, this comparison is presented on pages 29 of the Basic Financial Statements. For governmental funds, other than the General 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:

US real gross domestic product (GDP) increased at an annual rate of 2.8 percent in the fourth quarter of 2011 (that is from the third to fourth quarter). The increase in real GDP reflected positive contributions from private inventory investment, personal consumption expenditures (PCE), exports, residential fixed investment and nonresidential fixed investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased. "Real GDP increased 1.6 percent for the 2011 year. Real GDP increased 3.1 percent for 2010." <sup>1</sup> While economic data have been positive on balance downside risks remain. One positive sign is that housing markets have shown tentative signs of stabilization. While labor market conditions have been mediocre, the sector has benefited from positive data revisions. On the downside, financial markets have been volatile due to swings in confidence about resolving the widening European debt crisis. Fears of deflation and excessive inflation continue to subside, with measures of inflation expectations converging at 2 percent. Home prices appear to have stabilized, and private employment figures have undergone positive revisions.

Regional data reflects mixed results. "The Texas economy expanded at a moderate pace. Texas employment grew at 1.5 percent annual rate in December and expanded 2 percent in 2011. Housing indicators suggest the sector is beginning to stabilize and energy activity remains strong. Growth in Texas exports increased in January 2012 according to the Texas Manufacturing Outlook Survey. The Texas unemployment declined to 7.8 percent in December 2011, down from 8.1 percent in November." <sup>2</sup>

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<sup>1</sup> Bureau of Economic Analysis, January, 2012

<sup>2</sup> Federal Reserve Bank of Dallas, Texas Economic Indicators, February, 2012

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

“Economic activity in the Houston metropolitan area, as measured by the Federal Reserve Bank of Dallas business-cycle index, grew at an annualized rate of 7 percent in November. This figure was accompanied by an upward revision of the October growth rate from 9.6 to 9.8 percent. Energy, chemicals and trade have continually allowed the region to outperform the nation and even the state. Despite trouble from Europe and a slowly accelerating national recovery, Houston for the most part left the Great Recession behind in 2011, and its outlook remains positive.”<sup>3</sup>

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 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

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<sup>3</sup> Federal Reserve Bank of Dallas, Houston Branch, Houston Economic Update, January, 2012

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

The University of Texas Medical Branch (UTMB) is the island's largest employer with a labor force of better than 12,500. Soon after the storm the hospital's board of regents reduced the labor force by nearly 2,500 employees and reduced the Island facility's capacity from 600 to 200 beds. On August 25, 2011, the University Of Texas Board Of Regents approved plans for a \$438 million hospital. The new 13-story Jennie Sealy Hospital will include a new surgical tower with 20 state-of-art operating suites that will bring UTMB closer to the number of hospital beds UTMB had before the storm. UTMB employment has climbed to 11,500 since the storm. The new hospital will have a 54-bed intensive care unit and 250 family-centered patient rooms with at least 246 beds.

The City continues to recover and signs of improvement are evident in the tourism industry, a booming cruise industry, convention center bookings and golf course redevelopment. 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.

In May 2011, Galveston voters approved by a 2-1 margin a program that would develop the Island's seawall area through revenues generated by paid seawall parking. The City has solicited for qualifying management firms as part of a private-public partnership that includes collection and enforcement along the 6-mile stretch of seawall. Amenities include lighting, restrooms, showers and litter control.

Landry's recently announced a \$60 million commitment to create a family-oriented, waterfront entertainment pier reminiscent of the Galveston Pleasure Pier from the 1940's. The Pier will employ more than 600 and Landry's is estimating the Pier will attract more than 3 million annually. The opening is tentatively scheduled for May, 2012.

The Galveston Wharves reported strong earnings for the 2010 year and preliminary 2011 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 2011 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. Funded by a \$27 million bond issue through the Texas Industrial Development Agency, the proceeds were used to satisfy the Port's matching requirement of the channel dredging project and will further be used to restore piers 12 and 14. Also, the City awarded the sale of the Shearn Moody Plaza Parking garage to the Galveston Wharves as the highest bidder. The Port's proposal contemplated a \$3 million payment of which \$1 million would be retained to bring the facility to code and add two additional floors as well as provide access to a downtown intermodal terminal facility to the east of the garage.

### **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 \$8.9 million, representing approximately 83 days of maintenance and operation.

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

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.

### **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. To help fund transition costs in connection with operational downsizing the 2010-2011 budget included use of \$3.2 million of General Fund, fund balance. During the year the Police Department authorized force declined from 179 to 133 or 36 positions. Fire suppression full time equivalents were reduced from 125 to 112 or 9 positions. Voluntary early retirement incentives were offered, in lieu of layoff or termination, to eligible civil service and personnel. Civilian budgeted positions declined gradually each year post-storm, primarily through attrition. General Fund budgeted civilian positions declined from 246 in 2008 to 167 in 2012.

### **Major initiatives**

The next three to five years will be a continuance of recovery initiatives. Reductions in civilian and civil service forces carried forward to the New Year. The 2012 annual operating budget identified four primary goals, that of (1) sustainable government, (2) a clean City initiative (3) a streamlining of the permit process and (4) an economic development initiative. Rate increases were included for water, sewer and refuse enterprise functions. All budgeted costs were within revenue projections over the budget cycle. The City's bond rating by Standard and Poor was upgraded from "BBB" to A/positive. The City successfully refunded General Obligation Series 2001 with an annual interest savings of \$100,000 and over \$1 million over term.

### **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, 2010. 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.

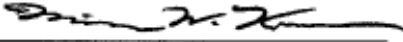
The award is valid for a period of one year only. We believe that the current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

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.

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

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,



Michael W. Kovacs  
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, 2010

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.



*Linda C. Danison*

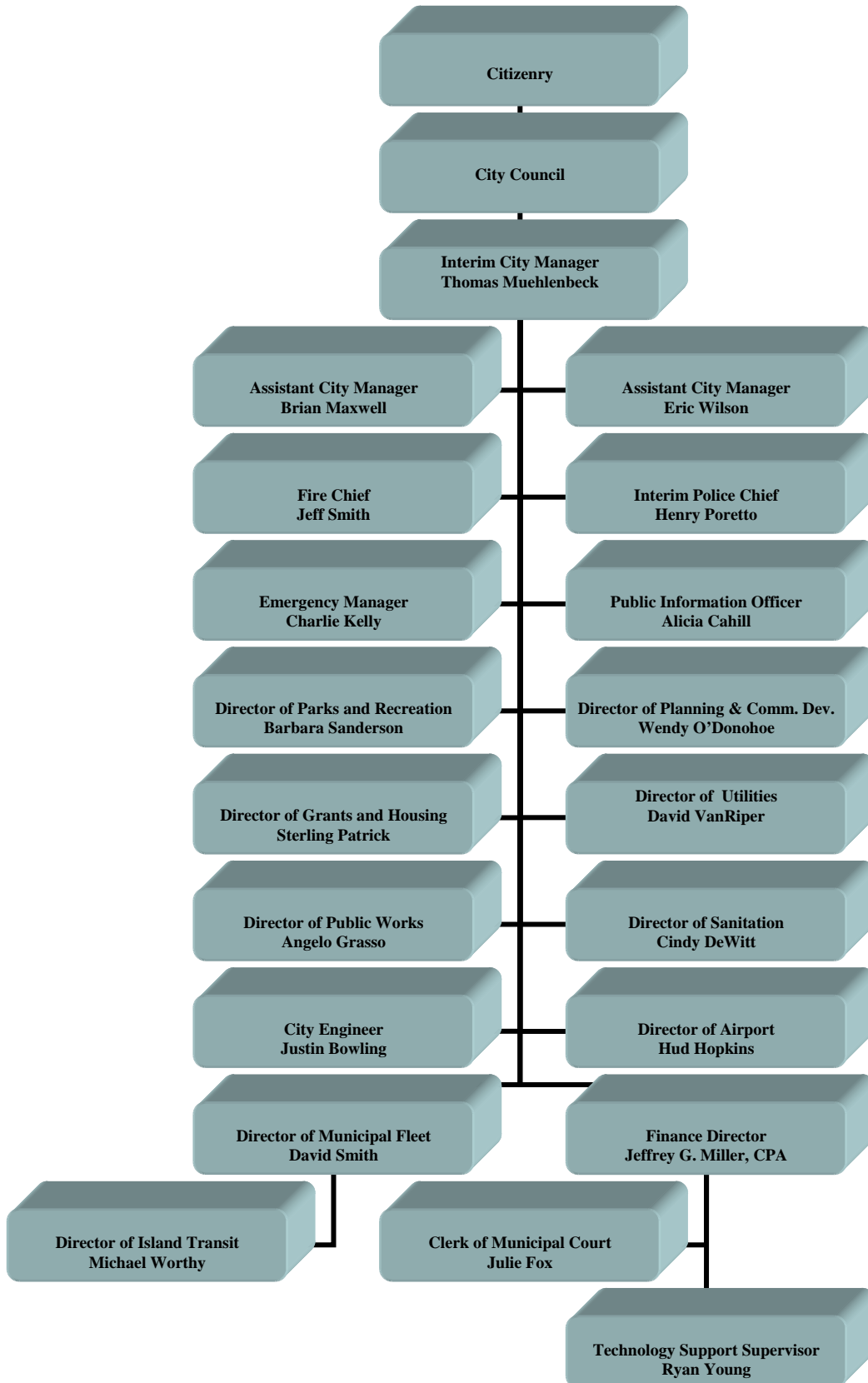
President

*Jeffrey R. Emmer*

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**

<b>City Council</b>		<b>City Council Appointees</b>	
Mayor	Joe Jaworski	City Manager (Interim)	Thomas H. Muhlenbeck
Mayor Pro Tem	Linda Colbert	City Secretary	Douglas Godinich
Council Member	Rusty Legg	City Attorney	Harriet S. Green
Council Member	Elizabeth Beeton	Court Judge	Jim Schweitzer
Council Member	Chris Gonzales	City Auditor	Glenn Bulgherini
Council Member	Steve Greenberg		
Council Member	Dianna Puccetti		

**Departmental Directors  
(City Manager Appointees)**

Airport	Hud N. Hopkins
Assistant City Manager	Brian Maxwell
Assistant City Manager	Eric Wilson
Construction	Justin Bowling
Emergency Management	Charlie Kelly
Finance	Jeffrey G. Miller, CPA
Fire	Jeff Smith
Grants	Sterling W. Patrick
Island Transit	Michael Worthy
Municipal Court	Julie Fox
Municipal Garage	David A. Smith
Parks and Recreation	Barbara E. Sanderson
Planning and Community Development	Wendy O'Donohoe
Police (Interim)	Henry Poretto
Public Information Officer	Alicia Cahill
Public Works	Angelo Grasso
Sanitation	Cindy DeWitt
Technology	Ryan Young
Utilities	David VanRiper

## **Financial Section**



## 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 (the "City") as of and for the year ended September 30, 2011, 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 of Galveston, Texas' 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 67% of total assets and 53% 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 in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 report 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, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparison for the general 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 8, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information system on pages 5 through 17 and 95 through 96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Houston, Texas  
March 8, 2012

## **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, 2011. 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 2010. 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 \$270.0 million (net assets). Of these assets, capital assets increased \$18.3 million, or 6.00%, from the prior year.
- The ratio of total assets to total liabilities for governmental activities was 2.12 times; for business type activities the ratio was 2.24 times.
- General Fund cash and equivalents decreased \$5.9 million or 62.7% compared to the prior year.
- The fund balance of the General Fund decreased from \$11.7 million to \$10.4 million, a 10.8% decrease. The ending balance represents 24.9% of the \$41.9 million in expenditures. Total unassigned fund balance was \$6.6 million, or 15.7% of expenditures.
- Business-type assets increased \$16.4 million over the last fiscal year. Of these, capital assets increased \$17.7 million, an increase of 11.2% 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-eight 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, Hurricane Ike Fund, Texas Water Development Board Grant Fund, CDBG Disaster Fund Housing Grant and the CDBG Disaster Fund Non-Housing grant, 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 22-29 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 30-32 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 33-34 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 35-91 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 95. 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 \$270.0 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (73.5%) 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, 2011*

*With comparative totals for September 30, 2010*

	<u>Governmental activities</u>		<u>Business - type activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 112,746	127,403	\$ 65,856	\$ 67,200	\$ 178,602	\$ 194,603
Capital assets	146,901	146,357	175,455	157,743	322,356	304,100
<b>Total assets</b>	<u>259,647</u>	<u>273,760</u>	<u>241,311</u>	<u>224,943</u>	<u>500,958</u>	<u>498,703</u>
Current liabilities	40,027	36,178	12,720	12,808	52,747	48,985
Long term liabilities	84,118	86,869	94,136	101,422	178,254	188,291
<b>Total liabilities</b>	<u>124,145</u>	<u>123,047</u>	<u>106,856</u>	<u>114,230</u>	<u>231,001</u>	<u>237,277</u>
<b>Net assets</b>						
Invested in capital assets, net of related debt	98,510	98,300	99,989	79,051	198,499	177,351
Restricted	25,326	26,255	11,887	10,949	37,213	37,204
Unrestricted	11,666	26,158	22,579	20,713	34,245	46,871
<b>Total net assets</b>	<u>\$ 135,502</u>	<u>\$ 150,713</u>	<u>\$ 134,455</u>	<u>\$ 110,713</u>	<u>\$ 269,957</u>	<u>\$ 261,426</u>

An additional portion of the City's net assets (13.8%) 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 \$207.9 million, comprising 86.1% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$52.6 million and \$50.6 million, respectively, which is 76.8% of total net assets compared to 75.4% for 2010. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 58.8% 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 73.8% and 26.2% respectively. Expenses were divided between governmental activities and business-type activities 75.7% and 24.3% respectively. Net assets decreased \$15.2 million, or 10.1% from the prior period for governmental activities and increased \$23.7 million or 21.4% for business-type activities. Overall, net assets increased 3.3%.

**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, 2011*  
*With comparative totals for fiscal year ended September 30, 2010*

*Table A-2*

	Governmental activities		Business - type activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 7,282	\$ 5,869	\$ 35,798	\$ 34,647	\$ 43,080	\$ 40,516
Operating grants and contributions	30,449	58,775			30,449	58,775
Capital grants and contributions	24,040	28,255	2,700	11,964	26,740	40,219
<b>General revenues:</b>						
Property taxes	20,087	18,270			20,087	18,270
Sales taxes	16,589	15,705			16,589	15,705
Hotel occupancy taxes	4,722	4,058			4,722	4,058
Franchise fees	5,009	4,756			5,009	4,756
Payments in lieu of taxes	120	120			120	120
Other	1,202	552	312	274	1,514	826
<b>Total revenues</b>	<b>109,500</b>	<b>136,360</b>	<b>38,810</b>	<b>46,885</b>	<b>148,310</b>	<b>183,245</b>
<b>Expenses</b>						
General government	7,413	8,484			7,413	8,484
Public safety	27,056	29,180			27,056	29,180
Public works	23,631	25,589			23,631	25,589
Culture and recreation	8,820	8,289			8,820	8,289
Planning and community development	31,723	7,902			31,723	7,902
Transportation system	4,649	5,347			4,649	5,347
Interest on long-term debt	2,556	2,868			2,556	2,868
Waterworks system			15,519	14,165	15,519	14,165
Sewer system			11,058	11,202	11,058	11,202
Sanitation services			4,108	3,999	4,108	3,999
Drainage utility			1,750	1,736	1,750	1,736
Airport			1,496	1,127	1,496	1,127
<b>Total Expenses</b>	<b>105,848</b>	<b>87,659</b>	<b>33,931</b>	<b>32,229</b>	<b>139,779</b>	<b>119,888</b>
Increase (decrease) in net assets before transfers	3,652	48,701	4,879	14,656	8,531	63,357
Extraordinary Item - Insurance proceeds related to Hurricane Ike		7,170		220		7,390
Extraordinary Item - Impairments to assets due to Hurricane Ike				(35)		(35)
Transfer in (out)	(18,863)	694	18,863	(694)		
Change in net assets	(15,211)	56,565	23,742	14,147	8,531	70,712
<b>Net assets at beginning of year</b>	<b>150,713</b>	<b>94,148</b>	<b>110,713</b>	<b>96,566</b>	<b>261,426</b>	<b>190,714</b>
<b>Net assets at end of year</b>	<b>\$ 135,502</b>	<b>\$ 150,713</b>	<b>\$ 134,455</b>	<b>\$ 110,713</b>	<b>\$ 269,957</b>	<b>\$ 261,426</b>

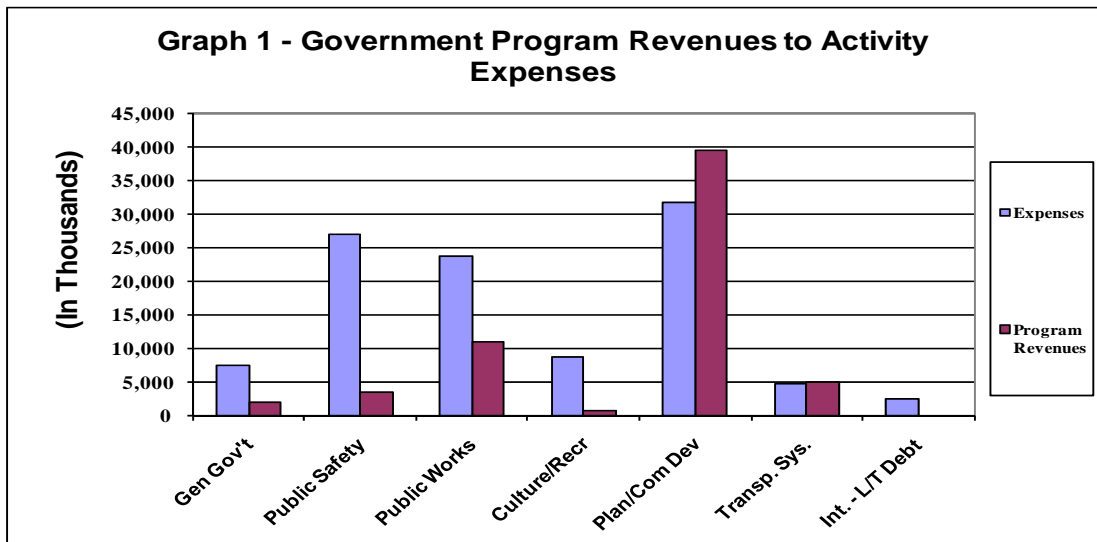
Table A-2 above reflects that:

- Spending for governmental activities for the fiscal year was \$ 105.8 million, an increase of \$18.2 million over the previous fiscal year. Significant activity occurred with U.S. Housing and Urban Development allocations under round one recovery funds, both in housing rebuild, \$21.6 million and alternative (nonhousing or infrastructure), \$12.4 million.

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

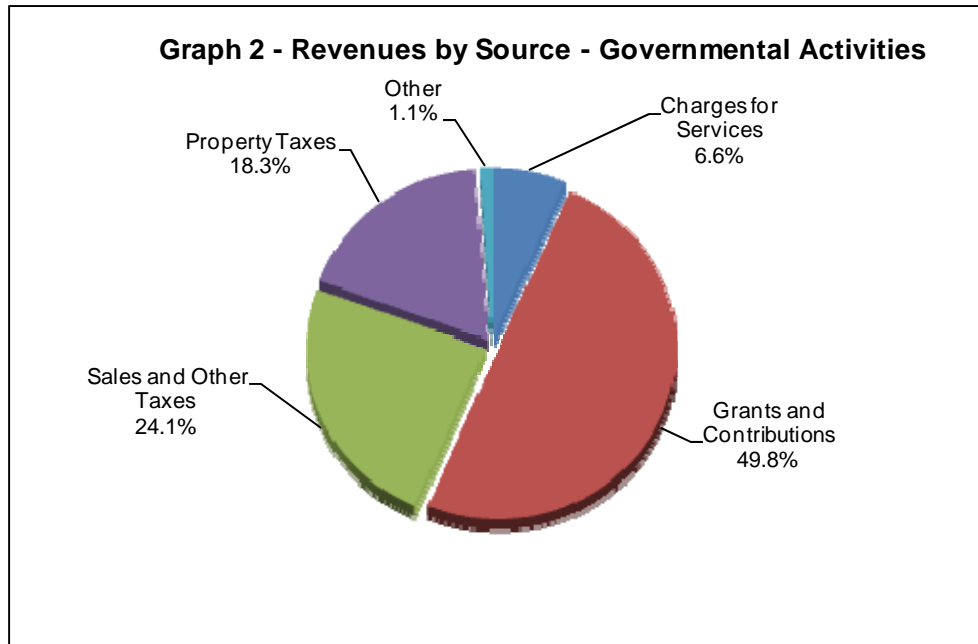
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 25.6% of governmental activities compared to 33.2% in 2010. The authorized force decreased from 169 to 133 through a combination of early retirement incentives and attrition. Public safety operating expenses decreased \$2.1 million or 7.0% compared to the prior year.
- The single largest source of revenue is from operating grants and contributions, representing 27.8% of the \$109.5 million governmental activity revenue stream. The City received an allocation of \$160 million in CDBG recovery round one funds for Island housing rehabilitation, restoration and reconstruction.
- Capital grants and contributions represented another 22.0% of governmental revenues. The City received another allocation of \$107 million in CDBG recovery round one funds for infrastructure repairs and mitigation projects.
- 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 \$46.5 million, an increase of \$3.6 from the previous year. Taxes and franchise fees contributed to 42.5% of governmental activities revenue compared to 30.8% in fiscal year 2010.
- Charges for services account for 6.6% of governmental activities, and increased \$1.4 million in fiscal 2011 to \$7.3 million. The City contracted for collection of delinquent court accounts resulting in increased fine revenue of \$770,000 over the prior year. For Island Transit, several shuttle initiatives (Gulf Coast Center and UTMB) resulted in additional revenues \$167,000 and \$65,000 respectfully.

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 \$ 105.8 million. Program revenues provided \$61.8 million, for a net expense of \$ 46,633 million for the fiscal year 2010-2011. CDBG recovery round one costs were \$34.0 million and Texas Water Development Board (ARRA) was \$10.1 million for a total of \$44.1 million or 35%. The cost of providing public safety was \$ 27.1 million or 25.6% of the cost of governmental activities, a decrease from 33.2% of cost of governmental activities in 2010. 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 ARRA and CDBG recovery assistance program provided 49.8% of the 2011 year funding. A combination of sales taxes (15.1%), hotel taxes (4.3%), franchise fees (4.6%), and payments in lieu of taxes received from business-type activities (0.1%) comprise of the total revenues. The City's property taxes contributed an additional 18.3% of total revenues.



**Business-type Activities.** Business-type activities increased the City's net assets by \$23.7million, or 21.4%. Business-type net assets accounted for 49.8% of the City's total net assets. Revenues derived from charges for services account for 92.2% 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, 2011  
With comparative totals for fiscal year ended September 30, 2010*

<b>Program</b>	<b>Expenses</b>	<b>Program Revenues</b>	<b>2011 Net Revenue (Cost) of Services</b>	<b>2010 Net Revenue (Cost) of Services</b>
Waterworks system	\$ 15,519	\$ 16,132	\$ 615	\$ 8,284
Sewer system	11,058	12,108	1,050	1,851
Sanitation services	4,108	4,247	139	282
Drainage utility	1,750	2,507	757	859
Airport	1,496	3,503	2,007	3,106
<b>Totals</b>	<b>\$ 33,931</b>	<b>\$ 38,497</b>	<b>\$ 4,568</b>	<b>\$ 14,382</b>

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

As indicated in Table A-3, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$ 32.4 million, or 95.6% of all the expenses of business-type activities.

Related revenues of those funds totaled \$35.0 million, or 90.9% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$42.4 million and expenses were \$31.1 million. The Island population and customer service base decreased as a consequence of Hurricane Ike. Consumption remained down 9.0% from pre-Ike levels.

The net excess of program revenues over expenses for the four public utility related funds was \$2.6 million compared to \$11.3 million in 2010. 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 \$4.9 million in 2011 compared to \$14.9 million in 2010.

Table A-4 shows business-type activities revenues by source. Charges for services provided 92.3% of the total, capital grants and contributions provided 7.0% and interest earnings and other provided the balance of 0.7%.

**CITY OF GALVESTON, TEXAS**

*Table A-4*

*Revenues by Source- Business Type Activities*

*(in thousands)*

*For the Fiscal Year Ended September 30, 2011*

*With comparative totals for fiscal year ended September 30, 2010*

	2011		2010	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 35,798	92.3%	\$ 34,647	73.9%
Capital grants and contributions	2,700	7.0%	11,964	25.5%
Other	312	0.7%	274	0.6%
<b>Totals</b>	<b>\$ 38,810</b>	<b>100%</b>	<b>\$ 46,885</b>	<b>100%</b>

**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 \$17.0 million in fiscal 2010 to \$14.7 million in fiscal year 2011. Cash and temporary investments amount to \$3.5 million or 23.9% of total assets and net receivables are reported at \$11.1 million, or 75.5% of the total. Sales and property taxes along with franchise fees account for 58.5% of net receivables.
- General Fund liabilities decreased by \$1.0 million. Liabilities were \$4.3 million in 2011. 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 61.2% of General Fund liabilities compared to 49.5% for fiscal year 2010.



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

- General Fund actual revenues were less than budget by \$151,000. Expenditures were favorable to budget by \$1.4 million. However, expenditures exceeded revenues by \$1.9 million resultant from reorganizational costs.
- The General fund's fund balance decreased \$1.3 million in 2011 to \$10.4 million. The 2009-2010 operating budget included use of \$3.2 million in General fund, fund balance for reorganizational and early retirement incentive costs.
- The General Fund, fund balance assigned for emergency maintenance and operations increased from \$3.2 million in 2010 to \$3.4 million in 2011. Another \$200 thousand increase has been provided in the 2011-2011 budget.
- Two other major funds are recognized this year, the CDBG Disaster Fund Housing Fund and the CDBG Disaster Nonhousing Fund.
- Other governmental non-major funds (23 separate funds) have cash and investments totaling \$30.7 million, comprising 40.1% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$53,671 to \$ 4.6 million at the end of 2011. IDC bond reserves, required by bonded debt covenant, are \$1.8 million or 39.5% 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 \$50.2 million. Of this amount, \$6.4 million constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted amounts for capital projects amounted to \$29.2. Committed amounts are reported for operations, \$3.2 million and capital construction \$2.3 million. Assigned amounts for insurance proceeds in connection with Hurricane Ike and tied to FEMA public assistance claims amounted to \$8.8 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 \$207.9 million, which comprises 86.1% of the total assets of all proprietary funds. Unrestricted net assets of those two funds are \$7.4 million and \$5.9 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 2011 all departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2011 set General Fund revenue and expenditures at \$40.2 million (exclusive of other financing sources), which amounted to a \$35,000 increase over the prior year. The property tax rate remained the same as the prior year, at \$0.554 mills. While the 2011 budget contemplated a \$3.2 million decrease in fund balance, the actual deficiency in revenues over expenditures was \$1.9 million. Sales tax brought about by recessionary pressures and further declines in consumer spending was not anticipated. Property taxes realized were favorable to budget by \$17,000. Franchise

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

taxes, tied to consumption, were off \$278,000. Fines and forfeits, through efforts of a delinquent account manager, were favorable to budget by \$77,000. Investment earnings, tied to pool investment performance, were down \$32,000 compared to budget. Actions by the Federal Open Market Committee held fixed income rates at record lows over the fiscal year.

General Fund budgeted expenditures were \$43.3 million. As noted above, the City implemented cost cutting measures resulted in savings in all departments. Departments reported a favorable variance to budgets in all areas, including general government, \$450,000; public safety, \$240,000; public works, \$191,000; culture and recreation, \$193,000; planning and community development, \$163,000. Reductions in public safety authorized force, vacancy lapse, suspension of capital and discretionary spending and other restrictive spending policies contributed to the favorable year-end results.

Island Transit intergovernmental revenues were under budget \$827,000 due to timing differences in Federal Transit Administration (FTA) congressional appropriation. Mobility initiatives, including an off-Island shuttle contributed to a favorable revenue budget variance of \$273,000 for charges for services. Routes were kept on a one-hour headway (as opposed to a half-hour headway), resulting in favorable budget variance for transportation operating costs of \$296,000.

**Capital Asset and Debt Administration**

**CITY OF GALVESTON, TEXAS**  
*Capital Assets, net of depreciation where applicable (in thousands)*  
*September 30, 2011*  
*With comparative totals for September 30, 2010*

*Table A-5*

	Governmental activities		Busines - type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 19,884	\$ 18,116	\$ 2,485	\$ 2,449	\$ 22,369	\$ 20,565
Infrastructure	68,222	70,976	71,358	64,666	139,580	135,642
Buildings	41,962	42,232	46,636	29,338	88,598	71,571
Equipment and furniture	11,837	11,416	6,380	6,183	18,217	17,599
Contractual water rights			17,012	18,981	17,012	18,981
Construction in progress	4,996	3,617	31,583	36,126	36,579	39,743
<b>Totals</b>	<b>\$ 146,901</b>	<b>\$ 146,357</b>	<b>\$ 175,454</b>	<b>\$ 157,743</b>	<b>\$ 322,355</b>	<b>\$ 304,101</b>

As shown in Table A-5, at the end of 2011, the City's investment in capital assets has a carrying value of \$322.4 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 \$146.9 million in capital assets, while business-type activities have invested in \$175.5 million of capital assets.

Governmental capital assets subject to depreciation decreased \$2.6 million. Construction in progress increased \$1.4 million. Depreciation expense accounted for a decrease in carrying value of \$6.9 million. In governmental capital assets, work is continuing to be done with Island transit maintenance facility with bus wash still to be constructed.

Business type capital assets subject to depreciation increased \$22.2 million. Construction in progress decreased \$4.5 million. Depreciation expense accounted for a decrease in carrying value of \$7.5 million.

Total construction in progress has decreased from \$39.7 million in fiscal year 2010 to \$36.6 million at the close of fiscal year 2011. This is due in large part to completion of the 30<sup>th</sup> Street pump station.

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 \$162.4 million. Of this amount, \$18.5 million was comprised of debt backed by the full faith and credit of the government, and \$31.7 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 (\$112.3 million) primarily represents bonds secured solely by specified revenue sources, \$74.5 million and certificates of obligation, \$37.8 million.

**CITY OF GALVESTON, TEXAS**  
**Outstanding Debt (in thousands)**  
**September 30, 2011**  
**With comparative totals for September 30, 2010**

*Table A-6*

	Governmental activities		Business - type activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ 18,478	\$ 19,834	\$	\$	\$ 18,478	\$ 19,834
Special obligation bonds	31,595	32,835			31,595	32,835
Contracts payable			34,719	39,590	34,719	39,590
Revenue bonds			39,800	41,765	39,800	41,765
Certificates of obligation	22,605	22,691	15,174	15,668	37,779	38,359
Notes payable	2,516	2,601	8,873	9,894	11,389	12,495
Capital lease obligations	124	163	397	649	521	812
<b>Total Debt</b>	<b>\$ 75,318</b>	<b>\$ 78,124</b>	<b>\$ 98,963</b>	<b>\$ 107,566</b>	<b>\$ 174,281</b>	<b>\$ 185,690</b>

The City's total debt overall decreased \$11.4 during the current fiscal year. Contract revenue bonds issued to GCWA decreased \$4.9 million in part due to defeasements of the Series 1998 A and Series 1997 bonds.

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 2011 tax year appraised values increased to \$4.2 billion, still off from pre-storm levels by 3.0%. The city adopted a tax rate of \$0.554 mills, the same as the previous year. Property, sales and other tax revenue contribute 42.1% of the City's Government fund revenue. The City's budgeted property tax revenue has been projected to increase 8.3% over the prior year. Appraised values increased by \$146 million, bringing net taxable roll values to \$3.5 billion. Sales tax revenue has been budgeted to decrease 2.0% 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 2011-2012. The rate for the General Fund (maintenance and operation) increased 1.1% from 44.64 cents to 45.12 cents per \$100. General fund property tax revenue is projected to increase \$920,000 in the 2012 year.

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

For the first year after Hurricane Ike the 2012 budget does not include use of fund balance to assist in meeting its obligations. 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 the cost of service levels within a sustainable revenue stream. Additionally, funds have been provided for future vehicle replacement (\$264,104), emergency reserve (\$200,000) and a current vehicle replacement allocation of \$1 million.

A ten percent rate increase was approved for the Waterworks, Sewer System and Sanitation Enterprise Funds. The rate increases were necessary to provide a funding source for matching components of federal assistance grants, capital maintenance, and capital replacement. Each fund has budgeted costs within estimates of revenues.

The unemployment rate for the City is currently 8.0%, which is a decrease from a rate of 8.4% a year ago. This is comparable to the state's average unemployment rate of about 8.4% 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, 2011

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and equivalents	\$ 8,940,164	\$ 10,087,553	\$ 19,027,717
Investments			
Receivables, net of allowance for uncollectibles	8,188,415	9,393,943	17,582,358
Internal balances	(4,284,710)	4,284,710	
Due from other governments	20,539,077	15,032	20,554,109
Due from component units	19,323,672		19,323,672
Restricted assets	59,219,297	40,509,066	99,728,363
Inventories	350,861	24,534	375,395
Prepaid items	421,988	45,086	467,074
Deferred charges	47,205	1,496,334	1,543,539
Other assets			
Net investments in direct financing lease			
Capital assets not being depreciated	24,880,219	34,068,808	58,949,027
Capital assets net of depreciation	122,021,218	141,385,884	263,407,102
<b>Total Assets</b>	<b>259,647,406</b>	<b>241,310,950</b>	<b>500,958,356</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	18,930,222	1,067,045	19,997,267
Accrued interest	658,339	1,133,601	1,791,940
Due to other governments	337,072	261,241	598,313
Due to primary government			
Unearned revenue	17,003,123	1,189,043	18,192,166
Customer deposits		2,276,248	2,276,248
Long-term liabilities:			
Due within one year	3,098,394	6,793,255	9,891,649
Due in more than one year	84,118,035	94,135,935	178,253,970
<b>Total Liabilities</b>	<b>124,145,185</b>	<b>106,856,368</b>	<b>231,001,553</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	98,509,875	99,988,720	198,498,595
Restricted for:			
Capital projects	16,943,451		16,943,451
Debt service	8,382,852	11,886,974	20,269,826
Unrestricted	11,666,043	22,578,888	34,244,931
<b>Total net assets</b>	<b>\$ 135,502,221</b>	<b>\$ 134,454,582</b>	<b>\$ 269,956,803</b>

See Notes to Financial Statements.

*Exhibit I*

<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>
\$ 7,501,666	\$ 19,796,813
2,922,680	
3,314,529	4,802,899
31,930	
	33,753,505
6,020	
179,767	761,810
51,351	
	639,183
	11,607,319
3,151,994	28,971,577
343,981,316	73,347,678
<u>361,141,253</u>	<u>173,680,784</u>
1,125,237	3,423,553
354,050	1,605,163
237,650	
13,285	182,000
1,051,158	6,268,710
25,501,208	69,864,167
<u>28,282,588</u>	<u>81,343,593</u>
343,984,332	69,949,657
1,223,499	
1,320,089	4,891,517
(13,669,255)	17,496,017
<u>\$ 332,858,665</u>	<u>\$ 92,337,191</u>

**CITY OF GALVESTON, TEXAS**

**STATEMENT OF ACTIVITIES**

*For the Year Ended September 30, 2011*

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
Governmental Activities:				
General government	\$ 7,413,227	\$ 1,840,856	\$ 175,917	\$
Public safety	27,055,680	3,029,859	536,951	
Public works	23,631,010	317,533	281,017	10,246,926
Culture and recreation	8,819,894	1,450	734,040	2,919
Planning and community development	31,723,373	1,441,377	25,706,065	12,397,860
Transportation system	4,649,002	650,477	3,015,399	1,392,359
Interest on long-term debt	2,554,952			
<b>Total governmental activities</b>	<b>105,847,138</b>	<b>7,281,552</b>	<b>30,449,389</b>	<b>24,040,064</b>
Business-type Activities				
Waterworks	15,518,929	16,132,468		
Sewer system	11,058,180	12,107,726		
Sanitation	4,107,836	4,247,271		
Drainage	1,749,795	2,506,554		
Airport	1,496,347	803,592		2,699,561
<b>Total business-type activities</b>	<b>33,931,087</b>	<b>35,797,611</b>		<b>2,699,561</b>
<b>Total primary government</b>	<b>\$ 139,778,225</b>	<b>\$ 43,079,163</b>	<b>\$ 30,449,389</b>	<b>\$ 26,739,625</b>
<b>Component Units</b>				
Governmental activities	\$ 24,237,217	\$ 3,977,723	\$	\$ 1,900,371
Business-type activities	21,804,407	24,611,213	3,421,521	
<b>Total component units</b>	<b>\$ 46,041,624</b>	<b>\$ 28,588,936</b>	<b>\$ 3,421,521</b>	<b>\$ 1,900,371</b>

**General revenues:**

Taxes:

Property taxes

Sales and use taxes

Hotel occupancy taxes

Franchise fees

Payments in lieu of taxes

Unrestricted investment earnings

Miscellaneous

Extraordinary item - insurance proceeds related 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
\$ (5,396,454)		\$ (5,396,454)		
(23,488,870)		(23,488,870)		
(12,785,534)		(12,785,534)		
(8,081,485)		(8,081,485)		
7,821,929		7,821,929		
409,233		409,233		
(2,554,952)		(2,554,952)		
<u>(44,076,133)</u>		<u>(44,076,133)</u>		
	\$ 613,539	613,539		
	1,049,546	1,049,546		
	139,435	139,435		
	756,759	756,759		
	<u>2,006,806</u>	<u>2,006,806</u>		
	<u>4,566,085</u>	<u>4,566,085</u>		
<u>(44,076,133)</u>	<u>4,566,085</u>	<u>(39,510,048)</u>		
			\$ (18,359,123)	\$ 6,228,327
			<u>(18,359,123)</u>	<u>6,228,327</u>
20,087,417		20,087,417	4,177,365	
16,588,760		16,588,760		
4,721,663		4,721,663	6,721,954	
5,009,456		5,009,456		
119,726		119,726		
88,676	154,556	243,232	88,547	379,085
1,113,249	157,634	1,270,883		(2,886,466)
			26,580,103	7,144,859
				(983,760)
<u>(18,863,317)</u>	<u>18,863,317</u>			
<u>28,865,630</u>	<u>19,175,507</u>	<u>48,041,137</u>	<u>37,567,969</u>	<u>3,653,718</u>
<u>(15,210,503)</u>	<u>23,741,592</u>	<u>8,531,089</u>	<u>19,208,846</u>	<u>9,882,045</u>
<u>150,712,724</u>	<u>110,712,990</u>	<u>261,425,714</u>	<u>313,649,819</u>	<u>82,455,146</u>
<u>\$ 135,502,221</u>	<u>\$ 134,454,582</u>	<u>\$ 269,956,803</u>	<u>\$ 332,858,665</u>	<u>\$ 92,337,191</u>

**CITY OF GALVESTON, TEXAS, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

September 30, 2011

	<u>General Fund</u>	<u>Hurricane Ike</u>	<u>Texas Water Development Board Grant</u>	<u>CDBG Disaster Fund Housing</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 3,522,352	\$ 24,730,590	\$ 84,433	\$ 3,218,297
Receivables, net of allowance for uncollectibles	3,436,975		519,481	
Due from other governments	2,385,073	1,686,393	1,753,104	10,874,561
Due from other funds	5,297,999			
Inventories				
Prepaid items	88,521			
<b>Total Assets</b>	<u>\$ 14,730,920</u>	<u>\$ 26,416,983</u>	<u>\$ 2,357,018</u>	<u>\$ 14,092,858</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 834,418	\$ 127,878	\$ 2,352,865	\$ 9,804,390
Accrued expenditures	504,287	7,225	4,153	19,859
Due to other funds		2,869,864		4,268,609
Payable to other governments	323,406			
Deferred revenue	2,626,677	14,629,462		
<b>Total Liabilities</b>	<u>4,288,788</u>	<u>17,634,429</u>	<u>2,357,018</u>	<u>14,092,858</u>
<b>Fund balances:</b>				
Non-spendable				
Inventories				
Prepaid items	88,521			
Restricted				
Debt Service				
Capital projects		8,782,550		
Committed				
Emergency reserves	3,225,226			
Other	363,296			
Assigned	176,999			
Unassigned	6,588,090			
<b>Total Fund Balances</b>	<u>10,442,132</u>	<u>8,782,550</u>		
<b>Total Liabilities and Fund Balances</b>	<u>\$ 14,730,920</u>	<u>\$ 26,416,979</u>	<u>\$ 2,357,018</u>	<u>\$ 14,092,858</u>

See Notes to Financial Statements.

**Exhibit 3**

<b>CDBG Disaster Fund Non- Housing</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 30,721,258	\$ 62,276,930
2,334,116	1,643,438	7,934,010
423,512	3,390,762	20,513,405
		5,297,999
	151,858	151,858
		88,521
<u>\$ 2,757,628</u>	<u>\$ 35,907,316</u>	<u>\$ 96,262,723</u>
\$ 2,611,760	\$ 1,841,096	\$ 17,572,407
2,136	50,685	588,345
136,128	893,262	8,167,863
	11,051	334,457
7,604	2,089,220	19,352,963
<u>2,757,628</u>	<u>4,885,314</u>	<u>46,016,035</u>
	151,858	151,858
		88,521
	8,447,339	8,447,339
	20,425,128	29,207,678
		3,225,226
	2,145,641	2,508,937
		176,999
	(147,964)	6,440,126
	<u>31,022,002</u>	<u>50,246,684</u>
<u>\$ 2,757,628</u>	<u>\$ 35,907,316</u>	<u>\$ 96,262,719</u>

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**CITY OF GALVESTON, TEXAS, TEXAS***Exhibit 4***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS***September 30, 2011*

<b>Total fund balance, governmental funds</b>	<b>\$ 50,246,684</b>
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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.	141,010,806
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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	1,515,700
Adjudicated municipal court fines	834,140
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.	3,219,136
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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	(69,397,160)
Notes payable	(1,300,000)
Capital lease obligation	(124,085)
Compensated absences	(7,660,931)
Accrued interest	(658,339)
Net pension obligation	(1,042,627)
Deferred bond issuance premium / discount	(470,681)
Deferred bond issuance costs	5,906

<b>Net Assets of Governmental Activities in the Statement of Net Assets</b>	<b>\$ 135,502,221</b>
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See Notes to Financial Statements.

**CITY OF GALVESTON, TEXAS, TEXAS**

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

**GOVERNMENTAL FUNDS**

*For the Year Ended September 30, 2011*

	<u>General Fund</u>	<u>Hurricane Ike</u>	<u>Texas Water Development Board Grant</u>	<u>CDBG Disaster Fund Housing</u>
<b>Revenues</b>				
Property taxes	\$ 16,161,994	\$	\$	\$
Sales and use taxes	12,563,220			
Franchise fees	5,009,456			
Licenses and permits	1,143,096			
Fines and forfeitures	2,720,344			
Charges for services	1,553,674			
Investment earnings	26,559			
Intergovernmental	119,726	1,033,691	9,816,813	21,583,731
Other	787,353	65,804		
<b>Total Revenues</b>	<u>40,085,422</u>	<u>1,099,495</u>	<u>9,816,813</u>	<u>21,583,731</u>
<b>Expenditures</b>				
Current:				
General government	5,775,809	624,717		
Public safety	27,289,040	136,289		
Highways and roads	2,576,998	18,216,346		
Culture and recreation	1,888,307	53,105		
Planning and community development	1,975,195	11,675		21,583,731
Transportation	736,627	(6,948)		
Debt Service:				
Principal	162,931	25,915		
Interest and other charges	6,925	4,160		
Cost of issuance				
Capital outlay	1,505,178	4,352,690	10,133,224	
<b>Total Expenditures</b>	<u>41,917,010</u>	<u>23,417,949</u>	<u>10,133,224</u>	<u>21,583,731</u>
Excess (deficiency) of revenues over expenditures	<u>(1,831,588)</u>	<u>(22,318,454)</u>	<u>(316,411)</u>	
<b>Other Financing Sources (Uses)</b>				
General obligation refunding bonds issued				
Premiums on debt issued				
Payment to refunded bond escrow agent				
Proceeds from capital leases		150,000		
Sale of assets	148,649			
Transfers in	600,000	150,124	316,411	
Transfers (out)	(182,107)			
<b>Total Other Financing Sources (Uses)</b>	<u>566,542</u>	<u>300,124</u>	<u>316,411</u>	
Net change in fund balances	(1,265,046)	(22,018,330)		
<b>Fund balances - beginning</b>	<u>11,707,178</u>	<u>30,800,880</u>		
<b>Fund balances - ending</b>	<u>\$ 10,442,132</u>	<u>\$ 8,782,550</u>	<u>\$</u>	<u>\$</u>

See Notes to Financial Statements.

*Exhibit 5*

<u>CDBG Disaster Fund Non- Housing</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 3,971,287	\$ 20,133,281
	8,747,203	21,310,423
		5,009,456
		1,143,096
	113,013	2,833,357
	1,093,852	2,647,526
	51,080	77,639
12,397,860	9,512,455	54,464,276
	1,382,610	2,235,767
<u>12,397,860</u>	<u>24,871,500</u>	<u>109,854,821</u>
	164,818	6,565,344
	325,833	27,751,162
	154,375	20,947,719
	5,991,933	7,933,345
3,704,659	2,775,887	30,051,147
	4,385,455	5,115,134
	2,285,997	2,474,843
	3,429,383	3,440,468
	217,405	217,405
8,693,201	2,051,288	26,735,581
<u>12,397,860</u>	<u>21,782,374</u>	<u>131,232,148</u>
	3,089,126	(21,377,327)
	7,520,000	7,520,000
	509,904	509,904
	(7,810,944)	(7,810,944)
		150,000
	1,840	150,489
	3,214,781	4,281,316
	(3,196,344)	(3,378,451)
	<u>239,237</u>	<u>1,422,314</u>
	3,328,363	(19,955,013)
	<u>27,693,639</u>	<u>70,201,697</u>
<u>\$</u>	<u>\$ 31,022,002</u>	<u>\$ 50,246,684</u>

**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, 2011*

Net change in fund balances - total governmental funds: \$ (19,955,013)

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 (\$7,200,165) exceeds depreciation (\$6,589,640) in the current period. 610,525

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. (70,980)

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. 162,453

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.

General obligation refunding bonds issued	(7,520,000)
Deferred charge - issuance cost	217,405
Premium on refunded bonds	(509,904)
Repayment of bonds	10,272,402
Amortization of deferred charges	(443)
Accretion on capital appreciation bonds	31,694
Proceeds from capital lease	(150,000)
Amortization of bond discount/premium	39,223

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:

Accrued interest on long-term debt	241,657
Compensated absences	927,008
Net pension obligation	(117,194)

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. 610,664

**Change in net assets of governmental activities** \$ (15,210,503)

See Notes to Financial Statements.



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

BUDGET AND ACTUAL (Budgetary Basis)

GENERAL FUND

For the Year Ended September 30, 2011

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget Positive/(Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Property taxes	\$ 16,145,111	\$ 16,145,111	\$ 16,161,994	\$ 16,883
Sales and use taxes	12,638,083	12,638,083	12,563,220	(74,863)
Franchise taxes	5,287,019	5,287,019	5,009,456	(277,563)
Licenses and permits	1,139,582	1,139,582	1,143,096	3,514
Intergovernmental	122,195	122,195	119,726	(2,469)
Charges for services	1,460,009	1,460,009	1,553,674	93,665
Fines and forfeitures	2,643,463	2,643,463	2,720,344	76,881
Investment earnings	58,719	58,719	26,534	(32,185)
Other	742,019	742,019	787,353	45,334
<b>Total Revenues</b>	<b>40,236,200</b>	<b>40,236,200</b>	<b>40,085,397</b>	<b>(150,803)</b>
<b>Expenditures</b>				
Current:				
General government	5,667,956	6,086,549	5,636,982	449,567
Public safety	26,049,040	28,244,008	28,003,929	240,079
Public works	2,813,340	2,838,294	2,597,523	240,771
Culture and recreation	2,122,573	2,132,367	1,938,947	193,420
Planning and community development	2,155,234	2,138,234	1,975,203	163,031
Transportation	850,000	850,000	850,000	
Vehicle capital outlay	846,005	816,005	775,599	40,406
Special projects	2,821,029	219,720	138,827	80,893
<b>Total Expenditures</b>	<b>43,325,177</b>	<b>43,325,177</b>	<b>41,917,010</b>	<b>1,408,167</b>
Excess (deficiency) of revenues over expenditures	(3,088,977)	(3,088,977)	(1,831,613)	1,257,364
<b>Other Financing Sources (Uses)</b>				
Transfer to emergency reserves	(563,296)	(563,296)	(563,296)	
Other funding sources				
Sale of assets			148,649	148,649
Transfers in (out)	467,948	467,948	417,893	(50,055)
<b>Total Other Financing Sources (Uses)</b>	<b>(95,348)</b>	<b>(95,348)</b>	<b>3,246</b>	<b>98,594</b>
Net change in fund balance	(3,184,325)	(3,184,325)	(1,828,367)	1,355,958
<b>Fund balances - beginning</b>	<b>11,696,148</b>	<b>11,696,148</b>	<b>11,696,148</b>	
<b>Fund balances - ending</b>	<b>\$ 8,511,823</b>	<b>\$ 8,511,823</b>	<b>\$ 9,867,781</b>	<b>\$ 1,355,958</b>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS, TEXAS

Exhibit 8

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2011

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
<b>Assets</b>					
<b>Current assets:</b>					
Cash and temporary investments	\$ 5,571,419	\$ 2,539,499	\$ 1,976,635	\$ 10,087,553	\$ 5,411,441
Accounts receivable, net of allowance for doubtful accounts	3,197,700	3,323,333	2,872,910	9,393,943	280,077
Due from other funds	370,499	1,057,907	1,256,963	2,685,369	184,495
Receivables from other governments			15,032	15,032	
Inventories	12,267	12,267		24,534	199,003
Prepaid expenses	16,907	16,907	11,272	45,086	333,467
Restricted assets:					
Cash and investments	13,373,584	19,148,196	3,287,378	35,809,158	471,092
Investment with trustee	4,699,908			4,699,908	
<b>Total current assets</b>	<u>27,242,284</u>	<u>26,098,109</u>	<u>9,420,190</u>	<u>62,760,583</u>	<u>6,879,575</u>
<b>Non-current assets:</b>					
Deferred charges	1,044,695	447,900	3,739	1,496,334	41,299
Capital assets not being depreciated	20,541,519	10,039,019	3,488,270	34,068,808	
Capital assets (net of depreciation)	73,373,499	49,064,796	18,947,589	141,385,884	5,890,656
<b>Total non-current assets</b>	<u>94,959,713</u>	<u>59,551,715</u>	<u>22,439,598</u>	<u>176,951,026</u>	<u>5,931,955</u>
<b>Total Assets</b>	<u>122,201,997</u>	<u>85,649,824</u>	<u>31,859,788</u>	<u>239,711,609</u>	<u>12,811,530</u>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts payable and accrued expenses	668,094	137,915	261,037	1,067,046	704,920
Accrued interest payable	602,795	521,218	9,588	1,133,601	67,188
Due to other governments	7,174	300	253,767	261,241	
Customer deposits	1,134,873	1,141,375		2,276,248	
Unearned revenue	776,524	250	412,269	1,189,043	
Long-term debt, current portion					
Compensated absences	6,006	33,435	668	40,109	
Capital lease obligation			261,963	261,963	
Claims and judgments					395,156
Contracts payable	2,889,183			2,889,183	
Notes payable	525,555	525,545		1,051,100	89,253
Bonds and certificates of obligation payable	1,004,087	1,436,813	110,000	2,550,900	89,100
<b>Total Current Liabilities</b>	<u>7,614,291</u>	<u>3,796,851</u>	<u>1,309,292</u>	<u>12,720,434</u>	<u>1,345,617</u>
<b>Non-current liabilities:</b>					
Long-term debt, noncurrent portion:					
Compensated absences	191,790	405,007	465,346	1,062,143	403,978
Capital lease obligation			134,697	134,697	
Claims and judgments					1,451,269
Contracts payable	33,260,684			33,260,684	424,539
Notes payable	5,561,147	2,061,147	200,000	7,822,294	1,126,417
Bonds and certificates of obligation payable	22,962,135	28,778,982	115,000	51,856,117	3,173,903
<b>Total non-current liabilities</b>	<u>61,975,756</u>	<u>31,245,136</u>	<u>915,043</u>	<u>94,135,935</u>	<u>6,580,106</u>
<b>Total Liabilities</b>	<u>69,590,047</u>	<u>35,041,987</u>	<u>2,224,335</u>	<u>106,856,369</u>	<u>7,925,723</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	37,675,100	40,491,468	21,822,164	99,988,732	1,542,535
Restricted for debt service	7,577,626	4,194,170	115,178	11,886,974	189,069
Unrestricted	7,359,224	5,922,199	7,698,111	20,979,534	3,154,203
<b>Total Net Assets</b>	<u>\$ 52,611,950</u>	<u>\$ 50,607,837</u>	<u>\$ 29,635,453</u>	<u>132,855,240</u>	<u>\$ 4,885,807</u>

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**

1,599,342  
\$ 134,454,582

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, 2011*

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental</b>
	<b>Waterworks</b>	<b>Sewer System</b>	<b>Other Enterprise</b>	<b>Total</b>	<b>Internal Service</b>
	<b>System</b>		<b>Funds</b>		<b>Funds</b>
<b>Operating Revenues</b>					
Charges for services	\$ 16,102,287	\$ 12,107,726	\$ 7,557,423	\$ 35,767,436	\$ 14,831,165
Miscellaneous	35,808	379	46,358	82,545	9,000
<b>Total Operating Revenues</b>	<u>16,138,095</u>	<u>12,108,105</u>	<u>7,603,781</u>	<u>35,849,981</u>	<u>14,840,165</u>
<b>Operating Expenses</b>					
Personnel services	1,500,300	3,296,845	3,377,513	8,174,658	2,104,452
Contractual services	869,601	1,650,527	1,945,949	4,466,077	1,810,686
Supplies and materials	915,607	1,263,803	256,719	2,436,129	3,080,200
Surface water contract	5,956,653			5,956,653	
Insurance claims and premiums					5,754,498
Other expenses	479,742	591,638	429,724	1,501,104	851,169
Administrative charge	603,940	368,600	284,552	1,257,092	
Depreciation	3,896,579	2,503,446	1,122,184	7,522,209	283,307
<b>Total Operating Expenses</b>	<u>14,222,422</u>	<u>9,674,859</u>	<u>7,416,641</u>	<u>31,313,922</u>	<u>13,884,312</u>
Operating income (loss)	<u>1,915,673</u>	<u>2,433,246</u>	<u>187,140</u>	<u>4,536,059</u>	<u>955,853</u>
<b>Non-Operating Revenues (Expenses)</b>					
Interest and investment revenue	98,581	43,431	12,541	154,553	11,032
Insurance proceeds		77,469		77,469	20,209
Gain (loss) on disposal of capital assets	14,707	10,422	2,672	27,801	18,626
Interest expense	(1,231,682)	(1,431,512)	(35,739)	(2,698,933)	(216,593)
Amortization of bond issuance costs	(114,628)	(37,617)	(2,244)	(154,489)	(2,723)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(1,233,022)</u>	<u>(1,337,807)</u>	<u>(22,770)</u>	<u>(2,593,599)</u>	<u>(169,449)</u>
Income (loss) before contributions and transfers	682,651	1,095,439	164,370	1,942,460	786,404
Capital contributions	11,522,182	8,316,280	2,755,125	22,593,587	
Transfers in					132,052
Transfers out	(506,315)	(315,138)	(209,256)	(1,030,709)	(4,208)
Change in net assets	11,698,518	9,096,581	2,710,239	23,505,338	914,248
<b>Total net assets - beginning</b>	<u>40,913,432</u>	<u>41,511,256</u>	<u>26,925,214</u>	<u>109,349,902</u>	<u>3,971,559</u>
<b>Total net assets - ending</b>	<u>\$ 52,611,950</u>	<u>\$ 50,607,837</u>	<u>\$ 29,635,453</u>	<u>\$ 132,855,240</u>	<u>\$ 4,885,807</u>

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.

236,254

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

\$ 23,741,592

See Notes to Financial Statements.

**CITY OF GALVESTON, TEXAS, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2011

Exhibit 10

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 15,999,929	\$ 12,022,718	\$ 7,933,256	\$ 35,955,903	\$ 14,847,352
Disbursed for personnel services	(1,533,732)	(3,356,388)	(3,481,134)	(8,371,254)	(2,130,094)
Disbursed for goods and services	(8,757,047)	(3,874,478)	(2,928,597)	(15,560,122)	(11,044,640)
Administrative service charge	(603,940)	(368,600)	(284,552)	(1,257,092)	
Other operating revenues	35,808	379		36,187	
<b>Net cash provided (used) by operating activities</b>	<u>5,141,018</u>	<u>4,423,631</u>	<u>1,238,973</u>	<u>10,803,622</u>	<u>1,672,618</u>
<b>Cash Flows from Non-Capital Financing Activities</b>					
Interfund transfers in					132,052
Interfund transfers out	(506,315)	(315,138)	(209,256)	(1,030,709)	(4,208)
Insurance proceeds		77,469		77,469	20,209
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(506,315)</u>	<u>(237,669)</u>	<u>(209,256)</u>	<u>(953,240)</u>	<u>148,053</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for capital acquisitions (net of sales)	(12,713,774)	(8,815,195)	(3,691,829)	(25,220,798)	(287,062)
Proceeds from issuance of bonds	23,152,467			23,152,467	
Principal payments on debt - bonds	(2,689,875)	(1,387,225)	(105,000)	(4,182,100)	
Principal payments on debt - long term contracts	(510,058)	(510,068)		(1,020,126)	(171,162)
Principal payments on debt - capital leases			(252,360)	(252,360)	
Interest paid on revenue bonds & long term contracts	(1,020,930)	(1,364,857)	(7,806)	(2,393,593)	(1,603)
Interest paid on capital leases & notes payable	(148,450)	(87,200)	(25,612)	(261,262)	(216,593)
Due from other funds	4,151,043	429,885		4,580,928	
Refunded principal of contract revenue bonds	(24,870,070)			(24,870,070)	
Bond issuance costs/gain on refunding	261,372			261,372	
Proceeds from sale of equipment					17,956
Contributed capital	11,522,173	8,316,280	2,755,125	22,593,578	
<b>Net cash used by capital and related financing activities</b>	<u>(2,866,102)</u>	<u>(3,418,380)</u>	<u>(1,327,482)</u>	<u>(7,611,964)</u>	<u>(658,464)</u>
<b>Cash Flows from Investing Activities</b>					
Investment with trustee	1,094,504			1,094,504	
Interest on investments	98,577	43,436	12,541	154,554	11,032
<b>Net cash provided (used) by investing activities</b>	<u>1,193,081</u>	<u>43,436</u>	<u>12,541</u>	<u>1,249,058</u>	<u>11,032</u>
Net increase (decrease) in cash and equivalents	2,961,682	811,018	(285,224)	3,487,476	1,173,239
<b>Cash and equivalents, beginning of year</b>	<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>
<b>Cash and equivalents, end of year</b>	<u>\$ 18,945,003</u>	<u>\$ 21,687,695</u>	<u>\$ 5,264,013</u>	<u>\$ 45,896,711</u>	<u>\$ 5,882,533</u>
Unrestricted cash and equivalents	\$ 5,571,419	\$ 2,539,499	\$ 1,976,635	\$ 10,087,553	\$ 5,411,441
Restricted cash and equivalents	13,373,584	19,148,196	3,287,378	35,809,158	471,092
	<u>\$ 18,945,003</u>	<u>\$ 21,687,695</u>	<u>\$ 5,264,013</u>	<u>\$ 45,896,711</u>	<u>\$ 5,882,533</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income (loss)	\$ 1,915,673	\$ 2,433,246	\$ 187,140	\$ 4,536,059	\$ 955,853
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	3,896,579	2,503,446	1,122,184	7,522,209	283,307
(Increase) decrease in accounts receivable	(898,889)	(107,015)	14,434	(991,470)	7,184
(Increase) decrease in inventory and prepaid expenses	(607)	(607)	11,652	10,438	94,122
(Increase) decrease in deferred revenue	774,524		315,043	1,089,567	
Increase (decrease) in accounts payable	(534,837)	(367,903)	(307,857)	(1,210,597)	357,795
Increase (decrease) in salaries payable	(42,180)	(94,067)	(78,183)	(214,430)	(63,291)
Increase (decrease) in customer deposits	22,007	22,007		44,014	
Increase (decrease) in compensated absences payable	8,748	34,524	(25,440)	17,832	37,648
<b>Net cash provided (used) by operating activities</b>	<u>\$ 5,141,018</u>	<u>\$ 4,423,631</u>	<u>\$ 1,238,973</u>	<u>\$ 10,803,622</u>	<u>\$ 1,672,618</u>

See Notes to Financial Statements.

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**September 30, 2011**

*Exhibit 11*

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 5,342,624	\$ 702,889
Receivables:		
Interest and dividends	133,608	
Loans to participants	76,348	
<b>Total receivables</b>	<u>209,956</u>	
Investments:		
Common stock	41,400,643	
Equity funds	14,951,306	
Corporate and foreign bonds	14,834,288	
Fixed income funds	18,104,456	
<b>Total investments</b>	<u>89,290,693</u>	
Prepaid benefits	292,116	
<b>Total assets</b>	<u>95,135,389</u>	<u>702,889</u>
 <b>Liabilities</b>		
Accounts payable	243,710	597
Refunds payable and others		702,292
<b>Total liabilities</b>	<u>243,710</u>	<u>\$ 702,889</u>
 <b>Net Assets</b>		
Held in trust for benefits and other purposes	<u>\$ 94,891,679</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, 2011**

*Exhibit 12*

	<b>Pension Trust Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 3,915,362
Plan members	3,205,305
<b>Total contributions</b>	<u>7,120,667</u>
Investment earnings:	
Net increase (decrease) in fair value of investments	8,139,779
Interest	479,405
Dividends	2,025,724
Investment activity expense	(514,272)
<b>Total net investment earnings (loss)</b>	<u>10,130,636</u>
Other Additions:	
Miscellaneous	27,142
<b>Total additions (loss) on investments and contributions</b>	<u>17,278,445</u>
 <b>Deductions</b>	
Benefits	9,799,508
Administrative	314,853
<b>Total deductions</b>	<u>10,114,361</u>
Change in net assets	7,164,084
<b>Net assets - beginning</b>	<u>87,727,595</u>
<b>Net assets - ending</b>	<u><u>\$ 94,891,679</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, 2010.

**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

**Note 1 - Summary of Significant Accounting Policies (continued)**

**A. Reporting Entity (continued)**

*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.

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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**B. Government-wide and Fund Financial Statements (continued)**

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.

**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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus and Basis of Accounting (continued)**

- **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.
- **CDBG Disaster Fund Housing** entered into with the Texas Department of Housing and Community Affairs (TDHCA), an agency of the State of Texas. The funds are available via Community Development Programs as appropriated for Hurricane Ike/Dolly Consolidated Security, Disaster Assistance and Continuing Appropriations Act of 2009, Public Law 110-329. Expenditures are for disaster relief, long-term recovery, and restoration of housing including affordable rental housing in declared federal disaster areas in 2008.
- **CDBG Disaster Recovery Non-housing** are made available from 2008 Supplemental Community Development Block Grant funding associated with the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, (Public Law 110-329) appropriated by Congress through the United States Department of Housing and Urban Development. Projects included in the funding are for waste water treatment plant, sewer lift station, water systems, historic building front preservation, economic development loans, fire station #4 and fire apparatus.

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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus and Basis of Accounting (continued)**

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. This fund is custodial in nature and does not involve measurement of results of operations. Agency funds include Fibercrete Maintenance funds, Cemetery Trust funds, Confiscated Monies Pending Disposition, etc.

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.

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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

**1. Deposits and Investments (continued)**

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 35.8% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 24.6% 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.

**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, 2011, 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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

**4. Capital Assets (continued)**

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.

**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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

**6. Long-term Obligation (continued)**

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**

The governmental fund financial statements of the City will present fund balances based on classifications including a hierarchy that is based primarily on the extent to which the City is bound to honor restrictions on the specific purposes for which amounts in a particular governmental fund can be spent. The five classifications used in the governmental fund financial statements will be as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. These amounts would include inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. These guidelines are used for restricted net assets.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council (ordinance or resolution). These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. The action must be taken by close of the reporting period. The amount of the commitment can be determined and approved by the council at a later date.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or by the City Council's designee, for example mayor, city manager or finance director. The assigned fund balance is similar to the prior unreserved/designated fund balance in that it implies the intent of the government. The Council has the opportunity to designate one or more persons to assign fund balances in an operational manner. The City's budgetary policy should list the council's designated person. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The general fund should be the only fund that reports a positive unassigned fund balance.



**Note 1 - Summary of Significant Accounting Policies (continued)**

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

**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:

	<b>Enterprise Funds</b>				<b>Total Business Type Activities</b>
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Sanitation</b>	<b>Drainage</b>	
Restricted for:					
Capital projects	\$ 8,918,166	\$ 13,216,695	\$ 4,226	\$ 3,165,386	\$ 25,304,473
Debt service	3,320,551	4,715,388	117,766		8,153,705
Investments with Trustee- Debt Service	2,722,965				2,722,965
Investments with Trustee - Capital Projects	1,976,943				1,976,943
Meter Deposits	1,134,867	1,216,113			2,350,980
	<u>\$ 18,073,492</u>	<u>\$ 19,148,196</u>	<u>\$ 121,992</u>	<u>\$ 3,165,386</u>	<u>\$ 40,509,066</u>

**Inter-fund Transactions**

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.

**E. 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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Legal Compliance - Budgets (continued)**

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.

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 2011. 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:

	<b>General Fund</b>				
	<u>Budgetary Basis</u>	<u>Classification Differences</u>	<u>Sub-Funds</u>	<u>Budgeted Transfer to Reserves</u>	<u>GAAP Basis</u>
Revenues	\$ 40,085,397	\$	\$ 25	\$	\$ 40,085,422
Expenditures	41,917,010				41,917,010
Revenues over (under) expenditures	(1,831,613)		25		(1,831,588)
Other financing sources (uses)	3,246			563,296	566,542
Net fund balance	(1,828,367)		25	563,296	(1,265,046)
<b>Fund balance at beginning of year</b>	11,696,148		11,030		11,707,178
<b>Fund balance at end of year</b>	<u>\$ 9,867,781</u>	<u>\$</u>	<u>\$ 11,055</u>	<u>\$ 563,296</u>	<u>\$ 10,442,132</u>

**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.

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, 2011,

- investment in the State Treasurer's AAA-rated local government investment pool represented 58.26% of the total portfolio, and
- holdings in a rated money market mutual fund represented 11% of the total portfolio.
- holdings in US Government securities rated AAA represented 31% of the total portfolio.

**Note 2 - Deposits and Investments (continued)**

**Credit Risk (continued)**

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	100 %
▪ US Agency/Instrumentality Obligations	80 %
▪ SEC Registered Money Market Funds	50 %
▪ Repurchase Agreements	100 %
▪ Municipal Securities	20 %
▪ Local Government Investment Pools	100 %
○ Participation per pool	10 % of pool

**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.

<b>Exhibit A</b>	<b>Investment Maturities in Years</b>
<b>Investment Type</b>	<b>Less than 1 year</b>
US Treasury Notes and Bills	\$ 15,000,000
US Agencies:	
FHLMC	3,000,000
FHLB	3,000,000
FFCB	6,000,000
FNMA	3,000,000
2A-7 like Local Government Pools	56,816,793
SEC Registered Money Market Fund	10,713,750
	<u>\$ 97,530,543</u>

**Note 2 - Deposits and Investments (continued)**

**Interest rate risk: (continued)**

As of September 30, 2011, 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 21 days.

As of September 30, 2011, the portfolio contained one structured note as shown in Exhibit B.

City of Galveston, Texas  
 Period Ending September 30, 2011  
 Listing of Structured Notes with Interest Rate Risk

Security	Par	Coupon	Purchase Date	Maturity Date	Call Date	Structure	Cusip	Book Value	Market Value
<b>Discretely callable securities:</b>									
US Treasure Notes	\$ 6,000,000	1.000%	4/30/2010	4/30/2012			912828NB2	\$ 6,000,000	\$ 6,030,480
US Treasure Notes	6,000,000	0.375%	10/31/2010	10/31/2012			912828PD6	6,000,000	6,012,420
US Treasure Notes	3,000,000	1.1250%	3/15/2011	3/15/2014			9128289Z7	3,000,000	3,064,440
FFCB	6,000,000	0.180%	10/20/2010	8/20/2012			31331JU27	6,000,000	5,996,340
FHLMC	3,000,000	4.625%	9/7/2007	10/25/2012			3137EAAZ2	3,000,000	3,138,342
FNMA	3,000,000	0.625%	11/9/2010	11/9/2012	11/9/2011	One Time Call	31398A5V0	3,000,000	3,000,891
FHLB	3,000,000	4.500%	11/22/2002	11/15/2012			3133MTZL5	3,000,000	3,137,313
	<u>\$ 30,000,000</u>							<u>\$30,000,000</u>	<u>\$30,380,226</u>

**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 FIRREA<sup>1</sup>. 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, 2011:

- 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.

<sup>1</sup> U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989

**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

Within these guidelines, the adopted tax rate per \$100 of assessed valuation, for the year ended September 30, 2011, was \$0.554. The tax rate to finance general governmental services was set at \$0.49643 and the tax rate for all other purposes, including debt service, was set at \$0.057568 per \$100 of assessed valuation.

**Note 4 - Sales Tax**

The City's sales tax rate is 2 % for the year ended September 30, 2011. 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 25% of the 2% sales tax collected in the prior year. This 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 \$3.9 million in fiscal year 2011. The total maximum allowable tax rate of \$ 0.70 was thus limited to \$0.560756 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 % tax, 75% is allocated to the General Fund and 25% of the 2% is for Industrial Development Corporation (IDC) Projects. On November 4, 2008, the voters extended the offset amount for IDC projects for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC 25% of the 2% is allocated as follows: 20% allocated for the purpose of beach re-nourishment, 20% cent for streets, sewer and drainage improvement projects, 20% allocated to economic development, and 20% 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	Texas Water Development Board Grant	CDBG Disaster Fund Non-Housing	Non-major Governmental Funds	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total
Receivables:									
Taxes	\$ 2,631	\$	\$	\$ 324	\$	\$	\$	\$	\$ 2,955
Accounts	4,240	519	2,334	1,413	3,752	4,198	3,757	280	20,494
Gross receivables	6,871	519	2,334	1,737	3,752	4,198	3,757	280	23,449
Less: allowance for uncollectibles	(3,434)			(93)	(554)	(876)	(884)		(5,842)
Net total receivables	\$ 3,437	\$ 519	\$ 2,334	\$ 1,643	\$ 3,198	\$ 3,322	\$ 2,873	\$ 280	\$ 17,606

**Note 5 - Receivables (continued)**

**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	Internal Service Funds	
General Fund	\$	\$ 31,618	\$	\$ 18,437	\$ 132,052	\$ 182,107
Non-major Governmental Funds				3,196,344		3,196,344
Waterworks System	200,000	5,735	300,580			506,315
Sewer System	200,000	99,307	15,831			315,138
Non-major Enterprise Funds	200,000	9,256				209,256
Internal Service Funds		4,208				4,208
<b>Totals</b>	<u>\$ 600,000</u>	<u>\$ 150,124</u>	<u>\$ 316,411</u>	<u>\$ 3,214,781</u>	<u>\$ 132,052</u>	<u>\$ 4,413,368</u>

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	Hurricane Ike	Local match for public assistance
General Fund	ARRA	To transfer for paving project
General Fund	Garge Fund	To transfer for rolling stock
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
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
Drainage Fund	Hurricane Ike	Local match for public assistance
Garage Fund	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:

<b>Payable Funds: Due From</b>	<b>Receivable Funds: Due To</b>						<b>Total</b>
	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Waterworks Fund</b>	<b>Sewer Fund</b>	<b>Non-Major Enterprise Funds</b>	<b>Internal Service Funds</b>	
Governmental Funds:							
General Fund	\$	\$	\$	\$	\$	\$	\$
Hurricane Ike Fund			370,499	1,057,907	1,256,963	184,495	2,869,864
CDBG Disaster Fund Housing	4,268,609						4,268,609
CDBG Disaster Recovery Alternative	136,128						136,128
Non-Major Governmental Funds	893,262						893,262
	<u>\$ 5,297,999</u>	<u>\$</u>	<u>\$ 370,499</u>	<u>\$ 1,057,907</u>	<u>\$ 1,256,963</u>	<u>\$ 184,495</u>	<u>\$ 8,167,863</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.

**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**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 18,115,800	\$ 1,768,032	\$	\$ 19,883,832
Construction in progress	3,617,205	1,379,182		4,996,387
Total capital assets, not being depreciated	<u>21,733,005</u>	<u>3,147,214</u>		<u>24,880,219</u>
Capital assets, being depreciated:				
Buildings	48,514,813	215,482		48,730,295
Improvements other than buildings	5,334,142	798,062		6,132,204
Machinery and equipment	10,565,269	1,507,508	(15,584)	12,057,193
Licensed vehicles	13,729,857	898,947	(467,745)	14,161,059
Infrastructure	128,784,232	920,684		129,704,916
Total capital assets being depreciated	<u>206,928,313</u>	<u>4,340,683</u>	<u>(483,329)</u>	<u>210,785,667</u>
Less accumulated depreciation for:				
Buildings	(7,886,730)	(1,083,232)		(8,969,962)
Improvements other than buildings	(3,729,901)	(200,435)		(3,930,336)
Machinery and equipment	(6,605,365)	(768,653)	15,584	(7,358,434)
Licensed vehicles	(6,273,936)	(1,145,803)	396,765	(7,022,974)
Infrastructure	(57,807,916)	(3,674,827)		(61,482,743)
Total accumulated depreciation	<u>(82,303,848)</u>	<u>(6,872,950)</u>	<u>412,349</u>	<u>(88,764,449)</u>
Total capital assets, being depreciated, net	<u>124,624,465</u>	<u>(2,532,267)</u>	<u>(70,980)</u>	<u>122,021,218</u>
Governmental activities capital assets, net	<u>\$ 146,357,470</u>	<u>\$ 614,947</u>	<u>\$ (70,980)</u>	<u>\$ 146,901,437</u>

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,448,963	\$ 36,431	\$	\$ 2,485,394
Construction in progress	36,126,294	22,225,538	(26,768,418)	31,583,414
Total capital assets, not being depreciated	<u>38,575,257</u>	<u>22,261,969</u>	<u>(26,768,418)</u>	<u>34,068,808</u>
Capital assets, being depreciated:				
Buildings and system	46,122,017	18,652,774		64,774,791
Improvements other than buildings	107,282,665	9,792,132		117,074,797
Machinery and equipment	17,486,861	1,295,105	(40,058)	18,741,908
Contractual water rights	27,701,138			27,701,138
Total capital assets, being depreciated	<u>198,592,681</u>	<u>29,740,011</u>	<u>(40,058)</u>	<u>228,292,634</u>
Less accumulated depreciation for:				
Buildings and system	(16,783,665)	(1,354,873)		(18,138,538)
Improvements other than buildings	(42,617,134)	(3,100,053)		(45,717,187)
Machinery and equipment	(11,303,476)	(1,098,327)	40,058	(12,361,745)
Contractual water rights	(8,720,324)	(1,968,956)		(10,689,280)
Total accumulated depreciation	<u>(79,424,599)</u>	<u>(7,522,209)</u>	<u>40,058</u>	<u>(86,906,750)</u>
Total capital assets, being depreciated, net	<u>119,168,082</u>	<u>22,217,802</u>		<u>141,385,884</u>
Business-type activities capital assets, net	<u>\$ 157,743,339</u>	<u>\$ 44,479,771</u>	<u>\$ (26,768,418)</u>	<u>\$ 175,454,692</u>

**Note 7 - Capital Assets (continued)**

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

Governmental activities:

General government	\$ 26,482
Public safety	917,325
Public works	2,580,845
Culture and recreation	2,122,035
Planning and community development	171,149
Transportation system	771,807
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	283,307
Total depreciation expense - governmental activities	<u><u>\$ 6,872,950</u></u>

Business-type activities:

Waterworks	\$ 3,896,579
Sewer system	2,503,446
Sanitation	320,796
Drainage	181,227
Airport	620,161
Total depreciation expense - business-type activities	<u><u>\$ 7,522,209</u></u>

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	\$ 7,416,000	\$ 806,205	\$ 6,609,795
Seawall Beautification	2,017,255	387,900	1,629,355
Island Transit Maintenance Facility - Design	4,623,225	1,841,805	2,781,420
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	1,424,866	665,260	759,606
Broadway Beautification	154,322	154,322	
	<u><u>\$ 19,340,810</u></u>	<u><u>\$ 4,996,387</u></u>	<u><u>\$ 14,344,423</u></u>

**Note 7 - Capital Assets (continued)**

**Business-Type Activities**

<b>Construction in Progress</b>	<b>Project Authorization</b>	<b>Project Cost to Date</b>	<b>Remaining Commitment</b>
<i>Waterworks System Fund Projects</i>			
GCWA Water Lines at Jamaica Beach, Pelican Island, etc (2002 Bond)	\$ 2,421,916	\$ 2,071,562	\$ 350,354
2 Million Gallon Elevated Storage Tank - Isla del Sol	7,315,715	7,189,089	126,626
Jamaica Beach Storage Tank and Pump Station	8,970,940	8,070,905	900,035
Airport Pump Station Generator	245,877	167,652	78,225
Two 7.5 Million Gallon Ground Storage Tank - 30th Street Pump Station	1,263,610	640,039	623,571
30th Street to 59th Street Waterline	720,083	501,248	218,835
20 Inch Waterline along Pelican Island	681,667	621,835	59,832
Various Water Projects	693,283	595,331	97,952
<i>Sewer System Fund Projects</i>			
Construction of Main Waste Water Treatment Plant	9,773,812	5,963,076	3,810,736
Sanitation Sewer Lift Station I	344,566	294,966	49,600
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	1,790,055	1,292,811	497,244
<i>Sanitation Fund Projects</i>			
Repair of Sanitation Barn	21,002	21,002	
<i>Drainage Fund Projects</i>			
Various Drainage Projects	1,695,643	1,652,982	42,661
<i>Airport Fund Projects</i>			
Design of North and South Hangar Access Taxiways	533,328	310,011	223,317
Various Airport Projects	280,915	273,509	7,406
<b>Totals</b>	<b>\$ 38,720,653</b>	<b>\$ 31,583,414</b>	<b>\$ 7,137,239</b>

**Note 8 - Long-Term Debt**

**Governmental Activities**

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

<b>Description</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>Primary Government</b>					
General Obligation Bonds	\$ 18,356,109	\$ 7,520,000	\$ (8,732,612)	\$ 17,143,497	\$ 1,096,391
Accretion on Capital Interest Bonds	1,477,629		(142,638)	1,334,991	
Special Obligation Bonds	32,835,000		(1,240,000)	31,595,000	1,305,000
Certificates of Obligation	22,690,572		(85,500)	22,605,072	89,100
Capital Leases	162,931	150,000	(188,846)	124,085	34,394
Notes Payable	2,601,332		(85,662)	2,515,670	89,253
Accrued Compensated Absences	8,954,269	756,297	(1,645,657)	8,064,909	383,692
Claims Payable-Unemployment Tax		254,658	(254,658)		
Claims Payable - Workers Comp.	1,452,712	648,251	(633,888)	1,467,075	395,156
Claims Payable-Health Insurance	398,521	3,516,366	(3,535,537)	379,350	379,350
Deferred Bond Issuance Discount/Premium	(19,236)	509,904	(38,384)	452,284	
Other Post Employment Benefit Liability	300,112	452,553	(330,626)	422,039	
Net Pension Obligation	925,433	3,047,184	(2,929,990)	1,042,627	
<b>Total primary Government</b>	<b>90,135,384</b>	<b>16,855,213</b>	<b>(19,843,998)</b>	<b>87,146,599</b>	<b>3,772,336</b>
<b>Discretely presented component units</b>					
Special Revenue Bonds	750,000		(90,000)	660,000	95,000
Capital Leases	443,151		(355,355)	87,796	87,796
Notes Payable	13,787,447	157,280	(667,093)	13,277,634	868,362
Accrued Compensated Absences	171,902	18,949		190,851	
Due to developer	13,865,000	346,085	(1,875,000)	12,336,085	
<b>Total discretely presented component units</b>	<b>29,017,500</b>	<b>522,314</b>	<b>(2,987,448)</b>	<b>26,552,366</b>	<b>1,051,158</b>
<b>Total reporting entity</b>	<b>\$ 119,152,884</b>	<b>\$ 17,377,527</b>	<b>\$(22,831,446)</b>	<b>\$ 113,698,965</b>	<b>\$ 4,823,494</b>

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.

The City sponsors 3 single-employer Defined Benefit Pension Plans (Employees Retirement Plan for Police, Retirement Plan for City Employees and the Firefighters' Pension Plan). The City recognizes annual pension cost (APC) equal to the annual required contribution (ARC), net of employee contributions.

If actual City funding is less than (or greater than) the APC, the City recognizes a liability (or asset) on its balance sheet referred to as the *net pension obligation (NPO)*. The liability is calculated as the sum of three components:

- Cumulative difference between net employer annual pension cost and actual contributions.
- Interest on the net pension obligation at the rate assumed for the actuarial valuation.
- Adjustment for amortization of any funding shortfall already included in the ARC.

**Note 8 - Long-Term Debt (continued)**

**Governmental Activities (continued)**

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

**Governmental Activities**

**Primary Government:**

**General Obligation Bonds**

	<b>Total</b>
\$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 \$1,334,991 is included in the long-term debt. The bonds will be paid upon maturity in the fiscal years ending 2011 through 2015.	\$ 3,288,488
\$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%.	7,670,000
\$7,520,000 Series 2011 Obligation and Refunding Bonds due in annual installments of \$20,000 to \$1,175,000 May 2012 through May, 2023; interest at 2% to 4%.	<u>7,520,000</u>
<b>Total General Obligation Bonds</b>	<u><u>\$ 18,478,488</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).	\$ 3,225,000
\$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%.	14,560,000
\$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>13,810,000</u>
<b>Total Special Obligation Bonds</b>	<u><u>\$ 31,595,000</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>3,281,400</u>
<b>Total Certificates of Obligation</b>	<u><u>\$ 22,605,072</u></u>

**Capital Leases**

\$150,000 - 2011 Capital Lease Purchase due in monthly installments of \$3,146.62 through March 2014, interest at 3.604%	<u>\$ 124,085</u>
<b>Total Capital Leases</b>	<u><u>\$ 124,085</u></u>

**Note 8 - Long-Term Debt (continued)**

**Governmental Activities (continued)**

**Notes Payable**

\$1,531,488- 2007 note payable incurred due in semi-annual installment of \$69,380 through July 2022; interest 3.80%. \$ 1,215,670

\$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** \$ 2,515,670

**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. \$ 660,000

**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, 2011 for TIRZ 11 are \$640,388. Total costs incurred and recognized for TIRZ 13 are \$11,695,697. \$ 12,336,085

**Capital Leases**

Park Board of Trustees - \$560,808 capital lease purchase due in annual installments of through September 30, 2011. \$ 87,796

**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 November 30, 2012. \$ 255,651

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. 742,003

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. 2,063,528

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. 5,635,000

**Total Notes Payable** \$ 13,277,634

**Note 8 - Long-Term Debt (continued)**

**Governmental Activities (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
2012	\$ 1,096,391	\$ 897,198	\$ 1,305,000	\$ 1,559,091	\$ 89,100	\$ 943,425
2013	1,008,350	968,132	1,380,000	1,506,069	2,518,600	878,791
2014	996,829	981,066	1,465,000	1,443,019	2,637,200	761,567
2015	986,927	991,631	1,550,000	1,375,413	2,761,700	638,548
2016	1,480,000	498,733	740,000	1,303,050	2,901,200	497,851
2017-2021	7,950,000	1,669,977	4,675,000	5,884,025	9,506,672	4,373,591
2022-2026	3,625,000	221,269	6,690,000	4,496,500	757,800	494,352
2027-2031			9,295,000	2,574,500	969,300	281,245
2032-2036			4,495,000	396,750	463,500	37,158
<b>Total</b>	<b>\$ 17,143,497</b>	<b>\$ 6,228,006</b>	<b>\$ 31,595,000</b>	<b>\$ 20,538,417</b>	<b>\$ 22,605,072</b>	<b>\$ 8,906,528</b>

**Discretely Presented Component  
Units**

**Galveston Island Redevelopment  
Authority**

Fiscal Year Ending September 30,	Principal	Interest
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
2017-2021	2,300,000	554,037
2022-2026	1,025,000	72,076
<b>Total</b>	<b>\$ 6,295,000</b>	<b>\$ 1,800,344</b>

**Note 8 - Long-Term Debt (continued)**

**Governmental Activities (continued)**

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:

<u>Fiscal year ending September 30</u>	<u>Governmental Activities</u>
2012	\$ 38,711
2013	37,759
2014	37,759
2015	18,881
Total minimum payments	133,110
Less: Interest	(9,025)
Present value of minimum lease payments	124,085
Current portion	34,394
Long term portion	<u>\$ 89,691</u>

**Business Type Activities**

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
<b>Primary Government</b>					
Contracts (Gulf Coast Water Authority)	\$ 39,590,070	\$21,329,395	\$(26,200,070)	\$ 34,719,395	\$ 2,889,183
Revenue Bonds-Water Fund	17,557,394		(772,525)	16,784,869	801,137
Revenue Bonds-Sewer Fund	24,207,606		(1,192,475)	23,015,131	1,233,863
Certificates of Obligation	15,668,100		(494,500)	15,173,600	515,900
Notes Payable	9,893,520		(1,020,126)	8,873,394	1,051,100
Capital Lease	649,020		(252,360)	396,660	261,963
Accrued Compensated Absences	1,084,420	133,845	(116,013)	1,102,252	40,109
Deferred Bond Issuance Discount/Premium	(594,546)	1,338,578	119,857	863,889	
<b>Total primary Government</b>	<u>108,055,584</u>	<u>22,801,818</u>	<u>(29,928,212)</u>	<u>100,929,190</u>	<u>6,793,255</u>
<b>Discretely presented component units</b>					
Special Obligation Bonds	8,500,000			8,500,000	
Revenue Bonds	34,170,000		(2,685,000)	31,485,000	1,850,000
Notes payable	8,565,751	2,239,399	(1,973,531)	8,831,619	505,000
Capital Lease	1,376,280	1,246,569	(1,376,280)	1,246,569	460,000
Accrued Compensated Absences	817,431	334,889	(300,988)	851,332	250,734
Deferred Bond Issuance Discount	277,441		(31,745)	245,696	
<b>Total discretely presented component units</b>	<u>53,706,903</u>	<u>3,820,857</u>	<u>(6,367,544)</u>	<u>51,160,216</u>	<u>3,065,734</u>
<b>Total reporting entity</b>	<u>\$ 161,762,487</u>	<u>\$ 26,622,675</u>	<u>\$(36,295,756)</u>	<u>\$ 152,089,406</u>	<u>\$ 9,858,989</u>



**Note 8 - Long-Term Debt (continued)**

**Business Type Activities (continued)**

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

**Business Type Activities**

**Primary Government**

**Contracts (Gulf Coast Water Authority)**

\$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%. \$ 7,960,000

\$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 5,430,000

\$4,320,000 - Gulf Coast Water Authority Water System Contract Revenue Refunding Bonds, Series 2011E, due in annual installments of \$665,000 to \$795,000 through August 15, 2017; interest at 2.0%-5.0%. 4,320,000

\$17,730,000 - Gulf Coast Water Authority Contract Refunding Revenue Bonds, Series 2011A, due in annual installments of \$400,000 to \$2,370,000 through August 15, 2022; interest at 2% to 5%.  
 (Liability represents the City's 98.15% share of the remaining balance). 17,009,395

**Total Contracts Payable - Enterprise Funds** \$ 34,719,395

**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%. \$ 7,535,000

\$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%. 32,265,000

**Total Revenue Bonds, Face Value** \$ 39,800,000

**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%. \$ 225,000

\$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%. 14,948,600

**Total Certificates of Obligation, Face Value** \$ 15,173,600

**Note 8 - Long-Term Debt (continued)**

**Business Type Activities (continued)**

**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 \$849,043 as of year end.

\$ 396,660

**Total Capital Leases - Enterprise Funds, Net**

\$ 396,660

**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.

\$ 5,173,394

\$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**

\$ 8,873,394

**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

**Revenue Bonds**

**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**

\$ 34,170,000

**Note 8 - Long-Term Debt (continued)**

**Business Type Activities (continued)**

**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% \$ 1,246,569

**Notes Payable**

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5% \$ 5,092,220

\$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. 3,739,399

**Total Notes Payable** \$ 8,831,619

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 - Business Type Activities**

<b>Fiscal Year Ending 9/30</b>	<b>Revenue Bonds</b>		<b>Contracts</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 2,035,000	\$ 1,639,683	\$ 2,889,183	\$ 1,435,071
2013	2,105,000	1,565,983	2,978,905	1,346,037
2014	2,185,000	1,490,320	3,083,443	1,238,545
2015	2,265,000	1,409,185	3,202,888	1,119,416
2016	2,360,000	1,323,670	3,347,055	976,547
2017-2021	12,470,000	5,135,310	15,981,768	2,897,248
2022-2026	9,070,000	2,767,801	3,236,153	162,946
2027-2030	7,310,000	840,374		
<b>Total</b>	<u>\$ 39,800,000</u>	<u>\$ 16,172,326</u>	<u>\$ 34,719,395</u>	<u>\$ 9,175,810</u>

**Note 8 - Long-Term Debt (continued)**

**Business Type Activities (continued)**

<b>Fiscal Year Ending 9/30</b>	<b>Certificates of Obligation</b>		<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2012	\$ 515,900	\$ 734,584	\$ 1,051,101	\$ 187,320
2013	541,400	716,320	1,082,981	155,312
2014	442,800	697,132	4,815,835	230,020
2015	463,300	678,312	1,149,688	44,850
2016	483,800	658,622	773,789	10,806
2017-2021	2,747,000	2,957,298		
2022-2026	3,452,200	2,252,052		
2027-2031	4,415,700	1,281,226		
2032-2036	2,111,500	169,278		
<b>Total</b>	<b>\$ 15,173,600</b>	<b>\$ 10,144,824</b>	<b>\$ 8,873,394</b>	<b>\$ 628,308</b>

**Discretely presented component units**

<b>Year Ending December 31,</b>	<b>Special obligation bonds</b>		<b>Revenue bonds</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2012	\$	\$ 467,500	\$ 2,815,000	\$ 1,098,750
2013		467,500	2,945,000	973,032
2014		467,500	1,385,000	900,025
2015		467,500	1,465,000	851,550
2016	8,500,000	233,750	1,545,000	800,275
2017-2021			9,185,000	3,123,925
2021-2026			12,145,000	1,321,250
<b>Total</b>	<b>\$ 8,500,000</b>	<b>\$ 2,103,750</b>	<b>\$ 31,485,000</b>	<b>\$ 9,068,807</b>

**Note 8 - Long-Term Debt (continued)**

**Business Type Activities (continued)**

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:

<u>Fiscal year ending September 30</u>	<u>Business-type Activities</u>
2012	\$ 274,472
2013	137,236
Total minimum payments	<u>411,708</u>
Less: Interest	<u>(15,047)</u>
Present value of minimum lease payments	396,661
Current portion	261,963
Long term portion	<u><u>\$ 134,698</u></u>

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, 2010 are as follows:

<u>Year Ended December 31</u>	<u>Future Minimum Lease Payments</u>
2011	\$ 205,332
2012	205,332
2013	990,521
	<u>1,401,185</u>
Less Interest portion	<u>(154,616)</u>
Capital Lease Payable	<u><u>\$ 1,246,569</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.

**Note 8 - Long-Term Debt (continued)**

**Long-term Contracts - Waterworks System (continued)**

On July 15, 2011, the City entered into a contract with GCWA whereby GCWA issued \$4,320,000 of *Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011E* to be used to repay all of its GCWA Contract Revenue Bonds Series 1997 and to pay costs of issuance of the Bonds. The Series 1997 Bonds were used 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. The Bonds will be repaid with pledged revenues from the City's Waterworks funds.

On June 1, 2011, the City entered into a contract with GCWA whereby GCWA issued \$17,730,000 of *Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011A* with the City's percentage share of 98.15% and League City's share being the remainder 1.85%. This will repay its outstanding Series 1998B and to pay the cost of issuance of the bonds. These Bonds allowed Galveston to receive treated water from the Texas City plant upon completion of its expansion. The Bonds will be repaid with pledged revenues from the City's Waterworks funds.

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.

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.

**Note 8 - Long-Term Debt (continued)**

**Refunding of Debt**

**Governmental Activities**

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.

In August 4, 2011, the City issued \$7,520,000 in General Obligation Refunding Bonds (series 2011) which resulted in an economic gain of \$1,115,000. Interest rates on the bonds range from 2.05% to 4.0%. Premiums on the bonds totaled \$509,904. The City paid \$217,405 in bond issuance costs. The difference between the net carrying value of the old debt and the refunding bonds was negligible and did not result in a gain or loss on refunding. A portion of the proceeds (\$7,810,944) were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2001 series bonds. As a result, the refunded portion of the 2001 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's general long-term debt account group.

**Business Type Activities**

On May 12, 2011, Gulf Coast Water Authority issued \$17,730,000 in Waterworks Contract Revenue Refunding bonds (South Project) Series 2011A which resulted in an economic gain of \$2.1 million. Interest rates on the bond range from 2%-5%. Premiums on the bonds totaled \$1,210,388. The City paid issuance costs of \$453,816. The deferred gain on the funding of \$342,438 will be amortized over the life of the new bonds or the refunded bonds, whichever is less. A portion of the proceeds (\$19,823,972) was deposited into an escrow fund and used to purchase U.S. government securities. The securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998A series bonds. As a result the 1998A series bonds are considered to be defeased and the liability for those bonds has been removed from the City's Contract Revenue Bonds payable account.

On June 1, 2011, Gulf Coast Water Authority issued \$4,320,000 in Waterworks Contract Revenue Refunding bonds (South Project) Series 2011E which resulted in an economic gain of \$0.9 million. Interest rates on the bond range from 2%-5%. Premiums on the bonds totaled \$242,477. The City paid issuance costs of \$122,806. The deferred loss on the funding of \$79,823 will be amortized over the life of the new bonds or the refunded bonds, whichever is less. A portion of the proceeds was deposited into an escrow fund and used to purchase U.S. government securities. The securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's Contract Revenue Bonds payable account.

**Note 8 - Long-Term Debt (continued)**

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

<b>Issue</b>	<b>Refunded Principal Outstanding 9/30/2010</b>	<b>Additions (Retirements)</b>	<b>Refunded Principal Outstanding 9/30/2011</b>
Series 2001	\$ 2,500,000	\$ 7,700,000	\$ 10,200,000
Series 1995	3,920,000	(700,000)	3,220,000
Series 2000	6,420,000	(500,000)	5,920,000
Series 1998A		18,430,917	18,430,917
Series 1997		4,930,000	4,930,000
	<u>\$12,840,000</u>	<u>\$ 29,860,917</u>	<u>\$ 42,700,917</u>

**Note 9 - Fund Equity**

**Deficit Fund Balance**

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

	<b><u>Deficit Balance</u></b>
Non-major Governmental Funds:	
Special Revenue Funds:	
Grants and Government Contracts	\$ (32,382)
Capital Project Funds:	
Island Transit Capital Projects	(56,069)
Internal Service Funds:	
Workers Compensation Insurance	(517,096)
Construction Management	(2,410)

Deficit fund balances reported for Government Contracts and Grants and Island Transit Capital Projects are resultant from timing differences between the cognizant agency annual Federal appropriation and local grantee qualifying outlays. Deficits in both of these funds are considered temporary and expected to be relieved during the next fiscal year.

The deficit fund balance reported in the Workers Compensation Insurance Fund is in connection with a long-term liability portion of self-insured claims. Local resources are obligated during each budget year to satisfy annual claims requirements only. Construction Management Fund deficit results from monitoring costs incurred above program allowances from several Water and Sewer ARRA grants. The deficit will be satisfied either by a grant program or through subsequent year charge back.



**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.

On January 10, 2012 the City received notice from the State General Land Office of a change in program administrators for the Housing and Urban Development phase one-housing recovery program funds. The \$160 million original allocation included program administration activities for \$16 million and another \$6.5 million in direct charges to housing specific activities. The GLO has further advised that the City must negotiate final pay amounts with the predecessor firm and provide sufficient remaining program administrative funds to provide for the successor firm. Both old and new contracts are based on time and materials and each are subject to performance benchmarks. The City did not extend the prior administrator's contract and is in negotiations with this firm currently. Given administrative allocations are insufficient to satisfy both administrators' claims within HUD program allowances, the City's General Fund could be responsible for funding the difference. The range of potential cost is from \$0-\$7 million.

**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.

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.

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

<b>Fiscal Year</b>	<b>Beginning of Year Accrual</b>	<b>Current Year Estimates</b>	<b>Current Year Payments</b>	<b>End of Year Accrual</b>
2010	\$ 1,452,712	\$ (405,996)	\$ 405,996	\$ 1,452,712
2011	\$ 1,452,712	\$ 648,251	\$ (633,888)	\$ 1,467,075

**Note 11 - Risk Management (continued)**

**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:

<b>Fiscal Year</b>	<b>Beginning of Year Accrual</b>	<b>Current Year Estimates</b>	<b>Current Year Payments</b>	<b>End of Year Accrual</b>
2010	\$ 550,342	\$ 3,021,184	\$ (3,173,005)	\$ 398,521
2011	\$ 398,521	\$ 3,516,366	\$ (3,535,537)	\$ 379,350

**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 November 30, 2012. The balance of the line of credit at September 30, 2011 is \$255,651.

**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, 2011, is \$997,654 .

<u>Fiscal Year Ending 9/30</u>	<b>Park Board of Trustees</b>		
	<b>Notes Payable</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 278,547	\$ 62,110	\$ 340,657
2013	719,107	20,874	739,981
<b>Totals</b>	<b>\$ 997,654</b>	<b>\$ 82,984</b>	<b>\$ 1,080,638</b>

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, 2011 is \$2,063,528.

**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, 2011 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, 2011 is \$2,290,726.

**Note 12 - Major Contracts and Commitments (continued)**

**Discretely Presented Component Units: (continued)**

**Governmental Activities (continued)**

*Park Board of Trustees (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>	<b>Park Board of Trustees</b>		
	<b>Capital Lease Requirements</b>		
	<b>Minimum Lease Payments</b>	<b>Present Value Lease Payments</b>	<b>Representing Interest</b>
2012	\$ 91,387	\$ 87,796	\$ 3,591
<b>Totals</b>	<b>\$ 91,387</b>	<b>\$ 87,796</b>	<b>\$ 3,591</b>

**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>	<b>Minimum Payments</b>
2011	\$ 405,000
2012	405,000
2013	405,000
2014	118,125
	<b>\$ 1,333,125</b>

**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)**

**Discretely Presented Component Units: (continued)**

**Business-Type Activities (continued)**

*Board of Trustees of the Galveston Wharves (continued)*

**Direct Financing Lease - Dockside Elevator (continued)**

The outstanding balance of the 1998 special revenue bond as of December 31, 2010, 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, 2010:

	<u><b>12/31/2010</b></u>
Minimum lease rental payments receivable	
Due within one year	\$ 956,606
Due after one year	17,611,986
	<u>18,568,592</u>
Unearned income, direct financing lease	
Due within one year	\$ 754,169
Due after one year	6,004,667
	<u>6,758,836</u>
Net investment in direct financing lease	<u><u>\$ 11,809,756</u></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.

**Note 12 - Major Contracts and Commitments (continued)**

**Discretely Presented Component Units: (continued)**

**Business-Type Activities (continued)**

*Board of Trustees of the Galveston Wharves (continued)*

**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, 2010 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.

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

<b>Year Ended December 31</b>	<b>Future Minimum Lease Payments</b>
2011	\$ 956,607
2012	956,607
2013	956,607
2014	956,607
2015	956,607
Thereafter	13,785,557
<b>Total</b>	<b>\$ 18,568,592</b>

**Operating Leases**

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2010, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

<b>Year Ended December 31</b>	<b>Future Lease Payments</b>
2011	\$ 1,555,737
2012	1,608,541
2013	1,675,811
2014	1,779,207
2015	1,832,583
<b>Total</b>	<b>\$ 8,451,879</b>

**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.

**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, 2011 is as follows:

<b>Other Post Employment Benefits (OPEB) Obligation</b>		
Net OPEB obligation - 10/1/10		\$ 300,112
Plus:		
Annual required contribution	\$ 452,553	
Annual OPEB cost (expense) - 9/30/11	452,553	
Net estimated employer contributions	<u>(330,626)</u>	
Change in OPEB obligation		<u>121,927</u>
Net OPEB obligation (asset) 9/30/11		<u><u>\$ 422,039</u></u>



**Note 13 - Other Post Employment Benefits (continued)**

**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:

<b>City of Galveston Retiree Health Plan</b>					
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	
12/31/2009	\$	\$ 5,709,319	\$ 5,709,319	0.0%	
12/31/2010	-	4,573,093	4,753,093	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 December 31, 2010.

**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:

<b>Actuarial Methods and Assumptions</b>	
Actuarial valuation date	12/31/2010
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:

<b>Retirement Plan</b>	<b>Year Ending</b>	<b>Annual Pension Cost</b>	<b>Actual Contributions Made</b>	<b>Contributed</b>	<b>Net Pension Obligation (Asset)</b>
<i>Primary Government</i>					
Employees' Retirement Plan for City Employees	12/31/2008	\$ 1,502,411	\$ 1,507,536	100%	\$ 133,748
	12/31/2009	1,897,907	1,672,741	88%	133,421
	12/31/2010	1,802,530	1,700,302	94%	235,649
Galveston Firefighters' Pension Fund	12/31/2008	\$ 772,039	\$ 964,703	125%	\$ (361,472)
	12/31/2009	905,497	1,147,527	127%	(603,502)
	12/31/2010	994,678	972,131	98%	(580,955)
Employees' Retirement Plan for City Police	12/31/2008	\$ 475,958	\$ 1,196,658	251%	\$ 495,157
	12/31/2009	1,318,576	1,021,721	77%	792,012
	12/31/2010	1,244,654	1,229,688	99%	806,978

Note 14 - Employee Retirement Benefits (continued)

A. Primary Government Benefit Plans (continued)

	Employees' Retirement Plan	Firefighters' Pension Fund	Police Retirement Plan
<b>Contribution Rates:</b>			
City	9.00%	14.00%	12.00%
Plan Members	6.00%	12.00%	12.00%
<b>Actuarial valuation date</b>	01/01/11	01/01/10	01/01/11
<b>Actuarial cost method</b>	Entry Age	Entry Age	Entry Age
<b>Asset valuation method</b>	Smoothed market value	Smoothed market value	Market value smoothed by a 5-year deferred recognition method with a 90% / 110% corridor on market
<b>Amortization method</b>	Level percentage of pay contribution	Level percentage of projected payroll, open	Level percentage of pay contribution
<b>Amortization period</b>	30	36.5	30.4
<b>Actuarial assumptions:</b>			
Inflation	3.25%	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 12/31/09		\$ 133,421
Plus:		
Annual required contribution	\$ 1,803,371	
Interest on NPO	29,942	
Adjustment to ARC	(30,783)	
Annual pension cost	1,802,530	
Actual contributions made	(1,700,302)	
Change in NPO		<u>102,228</u>
NPO 12/31/10		<u>\$ 235,649</u>

**Note 14 - Employee Retirement Benefits (continued)**

**A. Primary Government Benefit Plans (continued)**

<b>Retirement Plan for Police - Net Pension Obligation Components</b>		
NPO 12/31/09		\$ 792,012
Plus:		
Annual required contribution	\$ 1,229,546	
Interest on NPO	52,601	
Adjustment to ARC	(37,493)	
Annual pension cost	1,244,654	
Actual contributions made	(1,229,688)	
Change in NPO		<u>14,966</u>
NPO 12/31/10		<u>\$ 806,978</u>

<b>Firefighters' Pension Fund - Net Pension Asset Components</b>		
NPO 12/31/09		\$ (603,502)
Plus:		
Annual required contribution	\$ 1,009,313	
Interest on NPO	(48,280)	
Adjustment to ARC	(33,645)	
Annual pension cost	994,678	
Actual contribution made	(972,131)	
Change in NPO		<u>22,547</u>
NPO 12/31/10		<u>\$ (580,955)</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, 2010</u>	<u>January 1, 2009</u>	<u>January 1, 2008</u>
Actuarial value of plan assets	\$ 8,261,569	\$ 6,763,164	\$ 10,042,804
Actuarial accrued liability	<u>11,915,880</u>	<u>11,284,681</u>	<u>10,624,989</u>
Total funding excess (deficit)	<u>\$ (3,654,311)</u>	<u>\$ (4,521,517)</u>	<u>\$ (582,185)</u>
Annual covered payroll	<u>\$ 3,990,184</u>	<u>\$ 4,146,487</u>	<u>\$ 4,096,280</u>
Ratio-over (under) funded to covered payroll	<u>-92%</u>	<u>-109%</u>	<u>-14%</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	30
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%

Actuarial required contributions contributed to the Plan by the Wharves during 2010 were \$ \$595,057 . At December 31, 2010 the Plan had an unfunded actuarial liability of \$3,654,311 .

**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 <sup>1/2</sup>) 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 \$97,911, which was five percent (5%) of \$1,958,217, its current-year covered payroll. Employees' required and actual contributions amounted to \$76,099. Total current year payroll was \$3,524,751.

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.

**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 - 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, 2011*

	<b>Park Board of Trustees</b>	<b>Galveston Island Redevelopment Authority</b>	<b>Campeche Shores- Public Improvement District No. 1</b>
<b>Assets</b>			
Cash and equivalents	\$ 3,830,443	\$ 3,669,394	\$
Investments	2,922,680		
Receivables-less allowance for uncollectibles	2,835,864	377,169	96,886
Due from other governments		31,930	
Inventories	6,020		
Prepaid items	179,767		
Deferred charges		51,351	
Restricted assets			
Capital assets not being depreciated	3,151,994		
Capital assets (net of accumulated depreciation)	343,981,316		
<b>Total assets</b>	<b>356,908,084</b>	<b>4,129,844</b>	<b>96,886</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	803,342	321,895	
Accrued interest	218,291	135,759	
Due to other governments	237,650		
Due to primary government		13,285	
Long-term liabilities:			
Due within one year	476,158	575,000	
Due in more than one year	7,445,123	18,056,085	
<b>Total liabilities</b>	<b>9,180,564</b>	<b>19,102,024</b>	
<b>Net Assets</b>			
Invested in capital assets, net of related debt	343,984,332		
Restricted:			
Capital projects	1,223,499		
Debt service		1,320,089	
Unrestricted	2,519,689	(16,292,269)	96,886
<b>Total Net Assets</b>	<b>\$ 347,727,520</b>	<b>\$ (14,972,180)</b>	<b>\$ 96,886</b>



**Note 15 - Major Discretely Presented Component Units (continued)**

<b>Preserve at Sweetwater Lake- Public Improvement District</b>	<b>Beachside Village - Public Improvement District</b>	<b>Totals</b>
\$	\$ 1,829	\$ 7,501,666
		2,922,680
	4,610	3,314,529
		31,930
		6,020
		179,767
		51,351
		3,151,994
		343,981,316
	6,439	361,141,253
		1,125,237
		354,050
		237,650
		13,285
		1,051,158
		25,501,208
		28,282,588
		343,984,332
		1,223,499
		1,320,089
	6,439	(13,669,255)
\$	\$ 6,439	\$ 332,858,665

**Note 15 - Major Discretely Presented Component Units (continued)**

**DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES**  
**COMBINING STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2011**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Component Unit</b>				
Park Board of Trustees	\$ 23,212,833	\$ 3,977,723	\$	\$ 1,833,271
Galveston Island Redevelopment Authority	863,981			67,100
Campeche Shores- Public Improvement District No. 1	99,039			
Preserve at Sweetwater Lake- Public Improvement District				
Beachside Village - Public Improvement District	61,364			
	<u>\$ 24,237,217</u>	<u>\$ 3,977,723</u>	<u>\$</u>	<u>\$ 1,900,371</u>

**General revenues:**

Taxes:

Property taxes

Hotel occupancy taxes

Unrestricted investment earnings

Capital asset contributions, net

**Total general revenues and extraordinary items**

Change in net assets

**Net assets - beginning as restated**

**Net assets - ending**

**Note 15 - Major Discretely Presented Component Units (continued)**

<b>Net (Expense) and Changes in Net Assets</b>					
<b>Park Board of Trustees</b>	<b>Galveston Island Redevelopment Authority</b>	<b>Campeche Shores- Public Improvement District No. 1</b>	<b>Preserve at Sweetwater Lake- Public Improvement District</b>	<b>Beachside Village - Public Improvement District</b>	<b>Totals</b>
\$ (17,401,839)	\$	\$	\$	\$	\$ (17,401,839)
	(796,881)				(796,881)
		(99,039)			(99,039)
				(61,364)	(61,364)
(17,401,839)	(796,881)	(99,039)		(61,364)	(18,359,123)
	4,028,761	88,200		60,404	4,177,365
6,721,954					6,721,954
86,097	2,763		(313)		88,547
27,007,563	(427,460)				26,580,103
33,815,614	3,604,064	88,200	(313)	60,404	37,567,969
16,413,775	2,807,183	(10,839)	(313)	(960)	19,208,846
331,313,745	(17,779,363)	107,725	313	7,399	313,649,819
\$ 347,727,520	\$ (14,972,180)	\$ 96,886	\$	\$ 6,439	\$ 332,858,665

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**Note 15 - Major Discretely Presented Component Units (continued)**

*DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES*  
*STATEMENT OF NET ASSETS*  
*December 31, 2010*

	<u>Board of Trustees of Galveston Wharves</u>	<u>Galveston Housing Finance Corporation</u>	<u>Galveston Property Finance Authority</u>	<u>Total</u>
<b>Assets</b>				
Cash and equivalents	\$ 19,499,667	\$ 251,647	\$ 45,499	\$ 19,796,813
Investments				
Receivables-less allowance for uncollectibles	4,802,899			4,802,899
Internal balances		(88,898)	88,898	
Prepays	761,810			761,810
Restricted assets	33,752,774		731	33,753,505
Other assets	639,183			639,183
Net investment in direct financing and capital leases- noncurrent	11,607,319			11,607,319
Capital assets not being depreciated	28,070,755	41,970	858,852	28,971,577
Capital assets (net of accumulated depreciation)	73,347,678			73,347,678
<b>Total Assets</b>	<u>172,482,085</u>	<u>204,719</u>	<u>993,980</u>	<u>173,680,784</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	3,396,053	13,600	13,900	3,423,553
Accrued interest	1,605,163			1,605,163
Due to primary government	182,000			182,000
Long-term liabilities				
Due within one year	6,268,710			6,268,710
Due in more than one year	69,864,167			69,864,167
<b>Total liabilities</b>	<u>81,316,093</u>	<u>13,600</u>	<u>13,900</u>	<u>81,343,593</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	69,949,657			69,949,657
Restricted for:				
Debt service	4,890,786		731	4,891,517
Unrestricted	16,325,549	191,119	979,349	17,496,017
<b>Total Net Assets</b>	<u>\$ 91,165,992</u>	<u>\$ 191,119</u>	<u>\$ 980,080</u>	<u>\$ 92,337,191</u>

**Note 15 - Major Discretely Presented Component Units (continued)**

**DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended December 31, 2010*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Component Units</b>			
<b>Business-type Activities:</b>			
Board of Trustees			
of Galveston Wharves	\$ 21,748,933	\$ 24,678,500	\$ 3,421,521
Galveston Housing			
Finance Corporation	19,000	(69,657)	
Galveston Property			
Finance Authority	36,474	2,370	
<b>Totals</b>	<u>\$ 21,804,407</u>	<u>\$ 24,611,213</u>	<u>\$ 3,421,521</u>

**General revenues:**

- Unrestricted investment earnings
- Miscellaneous
- Extraordinary item-insurance proceeds for business loss and casualty
- Extraordinary item-clean up and repair - Hurricane Ike

**Total general revenues and transfers**

- Change in net assets
- Net assets - beginning**
- Net assets - ending**

**Note 15 - Major Discretely Presented Component Units (continued)**

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Component Unit</b>			
<b>Board of Trustees of Galveston Wharves</b>	<b>Galveston Housing Finance Corporation</b>	<b>Galveston Property Finance Authority</b>	<b>Total</b>
\$ 6,351,088	\$	\$	\$ 6,351,088
	(88,657)		(88,657)
		(34,104)	(34,104)
<u>6,351,088</u>	<u>(88,657)</u>	<u>(34,104)</u>	<u>6,228,327</u>
375,976	922	2,187	379,085
(2,886,466)			(2,886,466)
7,144,859			7,144,859
(983,760)			(983,760)
<u>3,650,609</u>	<u>922</u>	<u>2,187</u>	<u>3,653,718</u>
10,001,697	(87,735)	(31,917)	9,882,045
81,164,295	278,854	1,011,997	82,455,146
<u>\$ 91,165,992</u>	<u>\$ 191,119</u>	<u>\$ 980,080</u>	<u>\$ 92,337,191</u>

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**Required Supplementary Information**

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**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)
01/01/2009	\$ 35,177,509	\$ 45,482,941	\$ 10,305,432	77.3%	\$ 18,171,916	56.7%
01/01/2010	\$ 38,723,983	\$ 47,045,470	\$ 8,321,487	82.3%	\$ 17,581,734	47.3%
01/01/2011	\$ 39,645,731	\$ 48,387,558	\$ 8,741,827	81.9%	\$ 18,433,456	47.4%

**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)
01/01/2006	\$ 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%
01/01/2010	\$ 37,630,993	\$ 51,718,539	\$ 14,087,546	72.8%	\$ 7,941,553	177.4%

**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)
01/01/2009	\$ 21,248,164	\$ 46,445,245	\$ 25,197,081	45.7%	\$ 9,081,963	277.4%
01/01/2010	\$ 23,780,731	\$ 48,073,240	\$ 24,292,509	49.5%	\$ 9,986,209	243.3%
01/01/2011	\$ 24,390,425	\$ 48,521,735	\$ 24,131,310	50.3%	\$ 8,570,162	281.6%

**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)
12/31/2009	\$	\$ 5,709,319	\$ 5,709,319	0.0%
12/31/2010	-	4,573,093	4,753,093	0.0%

**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 Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
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%
01/01/2010	\$ 8,261,569	\$ 11,915,880	\$ 3,654,311	69.3%	\$ 3,990,184	91.6%

## **Other Supplementary Information**

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**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, 2011**

	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget- Positive (Negative)</b>
<b>General government</b>			
Legislative	\$ 438,766	\$ 424,486	\$ 14,280
Judicial	812,782	810,952	1,830
Executive	1,674,868	1,436,719	238,149
City auditor	33,911	32,009	1,902
Finance	1,759,107	1,735,333	23,774
Legal	741,927	636,961	104,966
Personnel	426,585	402,851	23,734
Taxation	198,603	157,671	40,932
<b>Total general government</b>	<b>6,086,549</b>	<b>5,636,982</b>	<b>449,567</b>
<b>Public safety</b>			
Police	17,849,217	17,774,339	74,878
Fire	9,737,849	9,590,722	147,127
Emergency medical service	516,200	516,011	189
Emergency management	140,742	122,857	17,885
<b>Total public safety</b>	<b>28,244,008</b>	<b>28,003,929</b>	<b>240,079</b>
Public works and traffic	2,838,294	2,597,523	240,771
Culture and recreation	2,132,367	1,938,947	193,420
Planning and community development	2,138,234	1,975,203	163,031
Transportation system	850,000	850,000	
Special projects	1,035,723	914,428	121,295
<b>Total expenditures</b>	<b>\$ 43,325,175</b>	<b>\$ 41,917,012</b>	<b>\$ 1,408,163</b>

## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

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

***Island Transit*** – accounts for the receipt of and expenditure of Federal, State, and Local revenues designated for transit and other livable communities projects.

***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

***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.



## **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.

***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, 2011

	<u>Island Transit</u>	<u>Rosenberg Library</u>	<u>Parks and Recreation Improvement</u>	<u>Grants and Government Contracts</u>	<u>Industrial Development Corporation</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 200	\$	\$ 450	\$ 252,430	\$
Receivables (net of allowance for uncollectibles)	163,416	118,380		992,996	1,594
Due from other governments	27,985			501,106	736,537
Inventories	151,858				
<b>Total Assets</b>	<u>\$ 343,459</u>	<u>\$ 118,380</u>	<u>\$ 450</u>	<u>\$ 1,746,532</u>	<u>\$ 738,131</u>
 <b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 57,572	\$ 7,056	\$	\$ 272,349	\$ 443
Other accrued expenses	36,043			12,958	
Due to other funds	157,954	4,543			
Payable to other governments				71	
Deferred revenue		106,781		1,493,531	
<b>Total Liabilities</b>	<u>251,569</u>	<u>118,380</u>		<u>1,778,909</u>	<u>443</u>
<b>Fund balances:</b>					
Non-spendable					
Inventories	151,858				
Restricted					
Debt Service					737,688
Capital projects					
Other					
Unassigned	(59,968)		450	(32,377)	
<b>Total Fund Balances</b>	<u>91,890</u>		<u>450</u>	<u>(32,377)</u>	<u>737,688</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 343,459</u>	<u>\$ 118,380</u>	<u>\$ 450</u>	<u>\$ 1,746,532</u>	<u>\$ 738,131</u>

Project Specific Programs	Mary Moody Northern Endowment	Convention Center Funds	2008 Buffer Zone Protection	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)
\$ 2,640,520	\$ 6,371	\$ 4,712,335	\$	\$	\$ 23,422	\$	\$
50						25,672	217,555
1,042,175				19,172	6,480		21,110
<u>\$ 3,682,745</u>	<u>\$ 6,371</u>	<u>\$ 4,712,335</u>	<u>\$</u>	<u>\$ 19,172</u>	<u>\$ 29,902</u>	<u>\$ 25,672</u>	<u>\$ 238,665</u>
\$ 1,099,814	\$	\$	\$	\$ 255	\$ 29,778	\$	\$ 1,574
					124		
				18,917		672	20,917
10,980							
275	6,371					25,000	216,174
<u>1,111,069</u>	<u>6,371</u>			<u>19,172</u>	<u>29,902</u>	<u>25,672</u>	<u>238,665</u>
426,035		4,712,335					
2,145,641							
<u>2,571,676</u>		<u>4,712,335</u>					
<u>\$ 3,682,745</u>	<u>\$ 6,371</u>	<u>\$ 4,712,335</u>	<u>\$</u>	<u>\$ 19,172</u>	<u>\$ 29,902</u>	<u>\$ 25,672</u>	<u>\$ 238,665</u>

**CITY OF GALVESTON, TEXAS, TEXAS**

**COMBINING BALANCE SHEET**

**NON-MAJOR GOVERNMENTAL FUNDS**

September 30, 2011

	ARRA Asphalt Project	Neighborhood Stabilization Program (ARRA)	Drainage and Street Improvements	Sewer Improvements	General Obligation Bond 2001 Capital Projects
<b>Assets</b>					
Cash and cash equivalents	\$	\$	\$ 2,145,157	\$ 3,070,841	\$ 356,615
Receivables (net of allowance for uncollectibles)					
Due from other governments	18,143	709,929			
Inventories					
<b>Total Assets</b>	<u>\$ 18,143</u>	<u>\$ 709,929</u>	<u>\$ 2,145,157</u>	<u>\$ 3,070,841</u>	<u>\$ 356,615</u>
 <b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$	\$ 20,958	\$	\$	\$
Other accrued expenses		875			
Due to other funds	2,163	688,096			
Payable to other governments					
Deferred revenue	15,980				
<b>Total Liabilities</b>	<u>18,143</u>	<u>709,929</u>			
<b>Fund balances:</b>					
Non-spendable					
Inventories					
Restricted					
Debt Service					
Capital projects			2,145,157	3,070,841	356,615
Other					
Unassigned					
<b>Total Fund Balances</b>			<u>2,145,157</u>	<u>3,070,841</u>	<u>356,615</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 18,143</u>	<u>\$ 709,929</u>	<u>\$ 2,145,157</u>	<u>\$ 3,070,841</u>	<u>\$ 356,615</u>

Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Totals
\$ 88,471	\$ 3,125,062	\$ 6,589,083	\$ 4,611,510	\$ 3,098,791	\$ 30,721,258
			123,775		1,643,438
308,125					3,390,762
					151,858
<u>\$ 396,596</u>	<u>\$ 3,125,062</u>	<u>\$ 6,589,083</u>	<u>\$ 4,735,285</u>	<u>\$ 3,098,791</u>	<u>\$ 35,907,316</u>
\$ 350,647	\$	\$	\$ 650	\$	\$ 1,841,096
685					50,685
					893,262
					11,051
101,333			123,775		2,089,220
<u>452,665</u>			<u>124,425</u>		<u>4,885,314</u>
					151,858
			4,610,860	3,098,791	8,447,339
	3,125,062	6,589,083			20,425,128
					2,145,641
(56,069)					(147,964)
<u>(56,069)</u>	<u>3,125,062</u>	<u>6,589,083</u>	<u>4,610,860</u>	<u>3,098,791</u>	<u>31,022,002</u>
<u>\$ 396,596</u>	<u>\$ 3,125,062</u>	<u>\$ 6,589,083</u>	<u>\$ 4,735,285</u>	<u>\$ 3,098,791</u>	<u>\$ 35,907,316</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, 2011*

	Island Transit	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Industrial Development Corporation
<b>Revenues</b>					
Property taxes	\$	\$ 1,844,311	\$	\$	\$
Sales and use taxes					4,025,540
Fines and forfeitures					
Charges for services	983,159				
Investment earnings			3	60	3,428
Intergovernmental	2,249,311			3,235,920	
Other	55,652				
<b>Total Revenues</b>	<u>3,288,122</u>	<u>1,844,311</u>	<u>3</u>	<u>3,235,980</u>	<u>4,028,968</u>
<b>Expenditures</b>					
Current:					
General government					
Public safety				32,431	
Highways and roads				154,375	
Culture and recreation		1,844,311		641,049	104,382
Planning and community development				1,288,828	
Transportation	3,501,169				
Debt Service:					
Principal					
Interest and other charges					
Bond issuance cost					
Capital outlay				1,119,297	
<b>Total Expenditures</b>	<u>3,501,169</u>	<u>1,844,311</u>	<u>3</u>	<u>3,235,980</u>	<u>104,382</u>
Excess (deficiency) of revenues over expenditures	<u>(213,047)</u>		<u>3</u>		<u>3,924,586</u>
<b>Other Financing Sources (Uses)</b>					
General obligation refunding bonds issued					
Premiums on debt issued					
Payment to refunded bond escrow agent					
Sale of assets	1,840				
Transfers in					
Transfers (out)	(9,446)				(3,186,898)
<b>Total Other Financing Sources (Uses)</b>	<u>(7,606)</u>				<u>(3,186,898)</u>
Net change in fund balances	(220,653)		3		737,688
<b>Fund balances - beginning</b>	<u>312,543</u>		<u>447</u>	<u>(32,377)</u>	
<b>Fund balances - ending</b>	<u>\$ 91,890</u>	<u>\$</u>	<u>\$ 450</u>	<u>\$ (32,377)</u>	<u>\$ 737,688</u>

Project Specific Programs	Mary Moody Northern Endowment	Convention Center Funds	2008 Buffer Zone Protection	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)
\$	\$	\$	\$	\$	\$	\$	\$
138,874		2,634,960					
113,013							
110,693							
6,195							
211,265			2,524	15,202	290,844	91,142	97,593
68,919	2,300	1,245,114					
648,959	2,300	3,880,074	2,524	15,202	290,844	91,142	97,593
164,818							
273,376	2,300		2,524	15,202			
573,276		2,828,915					
					290,844	91,142	97,593
33,896							
1,045,366	2,300	2,828,915	2,524	15,202	290,844	91,142	97,593
(396,407)		1,051,159					
(396,407)		1,051,159					
2,968,083		3,661,176					
\$ 2,571,676	\$	\$ 4,712,335	\$	\$	\$	\$	\$

**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, 2011*

	ARRA Asphalt Project	Neighborhood Stabilization Program (ARRA)	Drainage and Street Improvements	Sewer Improvements	General Obligation Bond 2001 Capital Projects
<b>Revenues</b>					
Property taxes	\$	\$	\$	\$	\$
Sales and use taxes					
Fines and forfeitures					
Charges for services					
Investment earnings			5,801	7,340	1,237
Intergovernmental	275,790	713,253			
Other					
<b>Total Revenues</b>	<u>275,790</u>	<u>713,253</u>	<u>5,801</u>	<u>7,340</u>	<u>1,237</u>
<b>Expenditures</b>					
Current:					
General government					
Public safety					
Highways and roads					
Culture and recreation					
Planning and community development	294,227	713,253			
Transportation					
Debt Service:					
Principal					
Interest and other charges					
Capital outlay			213,795		
<b>Total Expenditures</b>	<u>294,227</u>	<u>713,253</u>	<u>213,795</u>		
Excess (deficiency) of revenues over expenditures	<u>(18,437)</u>		<u>(207,994)</u>	<u>7,340</u>	<u>1,237</u>
<b>Other Financing Sources (Uses)</b>					
General obligation refunding bonds issued					
Premiums on debt issued					
Payment to refunded bond escrow agent					
Transfers in	18,437				
Transfers (out)					
<b>Total Other Financing Sources (Uses)</b>	<u>18,437</u>				
Net change in fund balances			(207,994)	7,340	1,237
<b>Fund balances - beginning</b>			<u>2,353,151</u>	<u>3,063,501</u>	<u>355,378</u>
<b>Fund balances - ending</b>	<u>\$</u>	<u>\$</u>	<u>\$ 2,145,157</u>	<u>\$ 3,070,841</u>	<u>\$ 356,615</u>



Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Totals
\$	\$	\$	\$ 2,126,976	\$	\$ 3,971,287
				1,947,829	8,747,203
					113,013
					1,093,852
	7,190	9,886	9,940		51,080
1,547,435			782,176		9,512,455
10,625					1,382,610
<u>1,558,060</u>	<u>7,190</u>	<u>9,886</u>	<u>2,919,092</u>	<u>1,947,829</u>	<u>24,871,500</u>
					164,818
					325,833
					154,375
					5,991,933
					2,775,887
884,286					4,385,455
			1,770,997	515,000	2,285,997
			2,006,189	1,423,194	3,429,383
			217,405		217,405
683,220	1,080				2,051,288
<u>1,567,506</u>	<u>1,080</u>		<u>3,994,591</u>	<u>1,938,194</u>	<u>21,782,374</u>
(9,446)	6,110	9,886	(1,075,499)	9,635	3,089,126
			7,520,000		7,520,000
			509,904		509,904
			(7,810,944)		(7,810,944)
					1,840
9,446		2,276,688	910,210		3,214,781
					(3,196,344)
<u>9,446</u>		<u>2,276,688</u>	<u>1,129,170</u>		<u>239,237</u>
	6,110	2,286,574	53,671	9,635	3,328,363
(56,069)	3,118,952	4,302,509	4,557,189	3,089,156	27,693,639
<u>\$ (56,069)</u>	<u>\$ 3,125,062</u>	<u>\$ 6,589,083</u>	<u>\$ 4,610,860</u>	<u>\$ 3,098,791</u>	<u>\$ 31,022,002</u>

**CITY OF GALVESTON, TEXAS, TEXAS**  
**SPECIAL REVENUE FUND - ISLAND TRANSIT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

*Exhibit B-3*

	<b>2011</b>		<b>Variance Positive / (Negative)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Intergovernmental - federal	\$ 1,934,405	\$ 1,155,203	\$ (779,202)
Intergovernmental - state	492,008	487,120	(4,888)
Intergovernmental - local	650,000	606,988	(43,012)
Farebox revenues	220,000	265,946	45,946
Charges for services	490,000	717,213	227,213
Other	10,000	55,650	45,650
<b>Total Revenues</b>	<b>3,796,413</b>	<b>3,288,120</b>	<b>(508,293)</b>
<b>Expenditures</b>			
<b>Current:</b>			
Transportation system:			
Transit system:			
Personnel services	1,499,042	1,286,393	212,649
Materials and supplies	54,802	30,731	24,071
Contractual services	419,930	405,981	13,949
Other charges	126,045	126,045	
<b>Total transportation system expenditures</b>	<b>2,099,819</b>	<b>1,849,150</b>	<b>250,669</b>
Maintenance:			
Personnel services	887,053	848,387	38,666
Materials and supplies	327,400	336,404	(9,004)
Contractual services	43,215	46,404	(3,189)
<b>Total maintenance expenditures</b>	<b>1,257,668</b>	<b>1,231,195</b>	<b>26,473</b>
Administration:			
Personnel services	262,691	259,221	3,470
Materials and supplies	40,860	37,954	2,906
Contractual services	134,075	123,675	10,400
Other charges	1,300	(28)	1,328
<b>Total administration expenditures</b>	<b>438,926</b>	<b>420,822</b>	<b>18,104</b>
<b>Total Expenditures</b>	<b>3,796,413</b>	<b>3,501,167</b>	<b>295,246</b>
Revenues over (under) expenditures		(213,047)	(213,047)
<b>Other Financing Sources (Uses)</b>			
Sale of assets		1,840	1,840
Transfers (out)		(9,446)	(9,446)
Revenues and other financing sources over/(under) expenditures		(220,653)	(220,653)
<b>Fund balances, beginning of year</b>	<b>312,543</b>	<b>312,543</b>	
<b>Fund balances at year end</b>	<b>\$ 312,543</b>	<b>\$ 91,890</b>	<b>\$ (220,653)</b>

**CITY OF GALVESTON, TEXAS, TEXAS**  
**SPECIAL REVENUE FUND - ROSENBERG LIBRARY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

*Exhibit B-4*

	<b>2011</b>		<b>Variance Positive / (Negative)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Property taxes - current	\$ 1,816,481	\$ 1,793,920	\$ (22,561)
Property taxes - delinquent	51,059	50,391	(668)
<b>Total Revenues</b>	<u>1,867,540</u>	<u>1,844,311</u>	<u>(23,229)</u>
<b>Expenditures</b>			
Current:			
Payments to Rosenberg Library	1,867,540	1,844,311	23,229
<b>Total Expenditures</b>	<u>1,867,540</u>	<u>1,844,311</u>	<u>23,229</u>
Revenues over (under) expenditures	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Fund balances, beginning of year</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Fund balances at year end</b>	<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, 2011**

*Exhibit B-5*

	<b>2011</b>		<b>Variance Positive / (Negative)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Investment earnings	\$	\$ 3	\$ 3
<b>Total Revenues</b>		<u>3</u>	<u>3</u>
<b>Expenditures</b>			
Capital outlay	<u>7,547</u>		<u>7,547</u>
<b>Total Expenditures</b>	<u>7,547</u>		<u>7,547</u>
<b>Revenues over (under) expenditures</b>	<u>(7,547)</u>	<u>3</u>	<u>7,550</u>
Revenues and other financing sources over/(under) expenditures	(7,547)	3	7,550
<b>Fund balances, beginning of year</b>	<u>447</u>	<u>447</u>	
<b>Fund balances at year end</b>	<u>\$ (7,100)</u>	<u>\$ 450</u>	<u>\$ 7,550</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, 2011**

	<b>2011</b>		<b>Variance Positive / (Negative)</b>
	<b>Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Property taxes	\$ 2,142,467	\$ 2,126,976	\$ (15,491)
Earnings on investments	20,000	9,940	(10,060)
Intergovernmental	782,675	782,175	(500)
<b>Total Revenues</b>	<u>2,945,142</u>	<u>2,919,091</u>	<u>(26,051)</u>
<b>Expenditures</b>			
Principal retirement	1,766,612	1,770,996	(4,384)
Interest and fiscal agent fees	2,020,906	2,006,189	14,717
		217,405	
<b>Total Expenditures</b>	<u>3,787,518</u>	<u>3,994,590</u>	<u>10,333</u>
Revenues over (under) expenditures	<u>(842,376)</u>	<u>(1,075,499)</u>	<u>(15,718)</u>
<b>Other Financing Sources (Uses)</b>			
General obligation refunding bonds issued		7,520,000	7,520,000
Premiums on debt issued		509,904	509,904
Payment to refunded bond escrow agent		(7,810,944)	(7,810,944)
Transfer in:			
Industrial Development Corporation	910,435	910,210	(225)
	<u>910,435</u>	<u>1,129,170</u>	<u>218,735</u>
Revenues and other financing sources over/(under) expenditures	68,059	53,671	203,017
<b>Fund balances, beginning of year</b>	4,557,189	4,557,189	
<b>Fund balances at year end</b>	<u>\$ 4,625,248</u>	<u>\$ 4,610,860</u>	<u>\$ 203,017</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, 2011**

*Exhibit C-1*

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sanitation</b>	<b>Drainage</b>	<b>Airport</b>	<b>Total</b>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and temporary investments	\$ 520,036	\$ 581,985	\$ 874,614	\$ 1,976,635
Accounts receivable, net of allowance for doubtful accounts	2,029,696	735,066	108,148	2,872,910
Due from other funds	260,052	226,450	770,461	1,256,963
Receivables from other governments			15,032	15,032
Prepaid expenses	6,763	4,509		11,272
Restricted assets:				
Cash and investments	121,992	3,165,386		3,287,378
<b>Total current assets</b>	<b>2,938,539</b>	<b>4,713,396</b>	<b>1,768,255</b>	<b>9,420,190</b>
<b>Non-current Assets:</b>				
Deferred charges	3,739			3,739
Capital assets not being depreciated	21,002	1,652,984	1,814,284	3,488,270
Capital assets (net of depreciation)	2,145,334	2,714,005	14,088,250	18,947,589
<b>Total non-current assets</b>	<b>2,170,075</b>	<b>4,366,989</b>	<b>15,902,534</b>	<b>22,439,598</b>
<b>Total Assets</b>	<b>5,108,614</b>	<b>9,080,385</b>	<b>17,670,789</b>	<b>31,859,788</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued expenses	87,094	95,753	78,190	261,037
Accrued interest payable	9,588			9,588
Due to other governments	253,677		90	253,767
Unearned revenue	14,675		397,594	412,269
Long-term debt, current portion				
Compensated absences	400	268		668
Capital lease obligation	261,963			261,963
Bonds and certificates of obligation payable	110,000			110,000
<b>Total current liabilities</b>	<b>737,397</b>	<b>96,021</b>	<b>475,874</b>	<b>1,309,292</b>
<b>Non-current Liabilities:</b>				
Long-term debt, noncurrent portion:				
Compensated absences	290,841	112,304	62,201	465,346
Capital lease obligation	134,697			134,697
Notes payable	200,000			200,000
Bonds and certificates of obligation payable	115,000			115,000
<b>Total non-current liabilities</b>	<b>740,538</b>	<b>112,304</b>	<b>62,201</b>	<b>915,043</b>
<b>Total Liabilities</b>	<b>1,477,935</b>	<b>208,325</b>	<b>538,075</b>	<b>2,224,335</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,552,641	4,366,989	15,902,534	21,822,164
Restricted for debt service	115,178			115,178
Unrestricted	1,962,860	4,505,071	1,230,180	7,698,111
<b>Total Net Assets</b>	<b>\$ 3,630,679</b>	<b>\$ 8,872,060</b>	<b>\$17,132,714</b>	<b>\$ 29,635,453</b>



**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, 2011*

	<b>Enterprise Funds</b>			<b>Total</b>
	<b>Sanitation</b>	<b>Drainage</b>	<b>Airport</b>	
<b>Operating Revenues</b>				
Charges for services	\$4,247,273	\$2,506,558	\$ 803,592	\$ 7,557,423
Miscellaneous	1,243	45,115		46,358
<b>Total Operating Revenues</b>	<u>4,248,516</u>	<u>2,551,673</u>	<u>803,592</u>	<u>7,603,781</u>
<b>Operating Expenses</b>				
Personnel services	1,973,596	1,035,265	368,652	3,377,513
Contractual services	1,434,860	344,111	166,978	1,945,949
Supplies and materials	61,855	73,084	121,780	256,719
Other expenses	148,811	100,197	180,716	429,724
Administrative charge	192,102	43,223	49,227	284,552
Depreciation	320,796	181,227	620,161	1,122,184
<b>Total Operating Expenses</b>	<u>4,132,020</u>	<u>1,777,107</u>	<u>1,507,514</u>	<u>7,416,641</u>
Operating income (loss)	<u>116,496</u>	<u>774,566</u>	<u>(703,922)</u>	<u>187,140</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest and investment revenue	1,875	8,397	2,269	12,541
Gain (loss) on disposal of capital assets	2,672			2,672
Interest expense	(35,739)			(35,739)
Amortization of bond issuance costs	(2,244)			(2,244)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(33,436)</u>	<u>8,397</u>	<u>2,269</u>	<u>(22,770)</u>
Income (loss) before contributions and transfers	83,060	782,963	(701,653)	164,370
Capital contributions	21,002	34,562	2,699,561	2,755,125
Transfers out	(200,385)	(8,871)		(209,256)
Change in net assets	(96,323)	808,654	1,997,908	2,710,239
<b>Total net assets - beginning</b>	<u>3,727,002</u>	<u>8,063,406</u>	<u>15,134,806</u>	<u>26,925,214</u>
<b>Total net assets - ending</b>	<u>\$3,630,679</u>	<u>\$8,872,060</u>	<u>\$17,132,714</u>	<u>\$29,635,453</u>

**CITY OF GALVESTON, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended September 30, 2011**

*Exhibit C-3*  
*Page 1 of 2*

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Totals</u>
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 4,258,221	\$ 2,569,060	\$ 1,105,975	\$ 7,933,256
Cash payments to suppliers for goods and services	(2,049,502)	(444,804)	(434,291)	(2,928,597)
Cash payments to employees	(2,007,220)	(1,090,310)	(383,604)	(3,481,134)
Administrative service charge	(192,102)	(43,223)	(49,227)	(284,552)
<b>Net cash provided (used) by operating activities</b>	<u>9,397</u>	<u>990,723</u>	<u>238,853</u>	<u>1,238,973</u>
<b>Cash flows from noncapital and related financing activities:</b>				
Interfund transfers in				
Interfund transfers out	(200,385)	(8,871)		(209,256)
<b>Net cash provided (used) by noncapital and related financing activities</b>	<u>(200,385)</u>	<u>(8,871)</u>		<u>(209,256)</u>
<b>Cash flows from capital and related financing activities</b>				
Payments for capital acquisitions (net of sales)	(18,330)	(668,235)	(3,005,264)	(3,691,829)
Principal paid on bonds	(105,000)			(105,000)
Interest paid on bonds	(7,806)			(7,806)
Principal paid on capital leases	(252,360)			(252,360)
Interest paid on capital leases	(25,612)			(25,612)
Contributed capital	21,002	34,562	2,699,561	2,755,125
<b>Net cash provided (used) by capital and related financing activities</b>	<u>(388,106)</u>	<u>(633,673)</u>	<u>(305,703)</u>	<u>(1,327,482)</u>
<b>Cash flows from investing activities</b>				
Interest on investments	1,875	8,397	2,269	12,541
Net increase (decrease) in equity in pooled cash and investments	(577,219)	356,576	(64,581)	(285,224)
<b>Cash and temporary investments, beginning of year</b>	<u>1,219,247</u>	<u>3,390,795</u>	<u>939,195</u>	<u>5,549,237</u>
<b>Cash and temporary investments, end of year</b>	<u>\$ 642,028</u>	<u>\$ 3,747,371</u>	<u>\$ 874,614</u>	<u>\$ 5,264,013</u>
<b>Cash and temporary investments per balance sheet</b>				
Unrestricted	\$ 520,036	\$ 581,985	\$ 874,614	\$ 1,976,635
Restricted	121,992	3,165,386		3,287,378
<b>Cash and temporary investments, end of year</b>	<u>\$ 642,028</u>	<u>\$ 3,747,371</u>	<u>\$ 874,614</u>	<u>\$ 5,264,013</u>

**CITY OF GALVESTON, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS (continued)**  
**NON-MAJOR ENTERPRISE FUNDS**  
**For the Year Ended September 30, 2011**

*Exhibit C-3*  
*Page 2 of 2*

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Totals</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
Operating income (loss)	\$ 116,496	\$ 774,566	\$ (703,922)	\$ 187,140
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization and depreciation expense	320,796	181,227	620,161	1,122,184
(Increase) decrease in accounts receivable	8,457	17,387	(11,410)	14,434
(Increase) decrease in inventory and prepaid	(501)	(334)	12,487	11,652
Increase (decrease) in salaries and benefits payable	(43,874)	(23,344)	(10,965)	(78,183)
Increase (decrease) in accounts payable	(403,477)	72,922	22,698	(307,857)
Increase (decrease) in deferred revenue	1,250		313,793	315,043
Increase (decrease) in compensated absences payable	10,250	(31,701)	(3,989)	(25,440)
<b>Total adjustments</b>	<u>(107,099)</u>	<u>216,157</u>	<u>942,775</u>	<u>1,051,833</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 9,397</u>	<u>\$ 990,723</u>	<u>\$ 238,853</u>	<u>\$ 1,238,973</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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>
<b>Operating Revenues</b>				
Charges for sales and services, net:				
Water sales	\$ 14,770,000	\$ 14,770,000	15,769,710	\$
Tap fees	264,000	264,000	332,577	
Other	8,500	8,500	35,808	
<b>Total Operating Revenues</b>	<u>15,042,500</u>	<u>15,042,500</u>	<u>16,138,095</u>	
<b>Operating Expenses</b>				
Personnel services	1,630,831	1,638,096	1,500,300	
Materials and supplies	1,281,324	1,069,129	915,607	
Contractual services	931,385	1,032,280	869,601	
Other charges	364,832	464,932	479,742	
Administrative service charge	603,940	603,940	603,940	
Surface water contract	8,641,288	9,005,147	5,956,653	2,724,152
Depreciation			3,896,579	(3,896,579)
<b>Total Operating Expenses</b>	<u>13,453,600</u>	<u>13,813,524</u>	<u>14,222,422</u>	<u>(1,172,427)</u>
Operating income (loss)	<u>1,588,900</u>	<u>1,228,976</u>	<u>1,915,673</u>	<u>1,172,427</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest earned	25,000	25,000	98,581	(22,788)
Interest expense	(1,185,028)	(1,185,028)	(1,231,682)	
Principal expenditure	(1,477,344)	(1,477,344)		(1,477,344)
Capital outlay	(5,900)	(38,697)		(32,781)
Gain (loss) on retirement of capital asset	2,000	2,000	14,707	
Amortization of bond issuance costs	(114,628)	(114,628)	(114,628)	
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(2,755,900)</u>	<u>(2,788,697)</u>	<u>(1,233,022)</u>	<u>(1,532,913)</u>
Income (loss) before operating transfers and capital contributions	(1,167,000)	(1,559,721)	682,651	(360,486)
Capital contributions			11,522,182	(11,522,182)
Operating transfer in (out)	(1,200,000)	(807,279)	(506,315)	(300,964)
Change in net assets	(2,367,000)	(2,367,000)	11,698,518	(12,183,632)
<b>Net assets, beginning of year</b>	<u>40,913,432</u>	<u>40,913,432</u>	<u>40,913,432</u>	
<b>Net assets, end of year</b>	<u>\$ 38,546,432</u>	<u>\$ 38,546,432</u>	<u>\$ 52,611,950</u>	<u>\$ (12,183,632)</u>

*Exhibit C-4*

<u>Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 15,769,710	\$ 999,710
332,577	68,577
35,808	27,308
<u>16,138,095</u>	<u>1,095,595</u>
1,500,300	137,796
915,607	153,522
869,601	162,679
479,742	(14,810)
603,940	
8,680,805	324,342
<u>13,049,995</u>	<u>763,529</u>
<u>3,088,100</u>	<u>1,859,124</u>
75,793	50,793
(1,231,682)	(46,654)
(1,477,344)	
(32,781)	5,916
14,707	12,707
(114,628)	
<u>(2,765,935)</u>	<u>22,762</u>
322,165	1,881,886
(807,279)	
<u>(485,114)</u>	<u>1,881,886</u>
40,913,432	
<u>\$ 40,428,318</u>	<u>\$ 1,881,886</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, 2011**

	<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>
<b>Operating Revenues</b>				
Charges for sales and services, net:				
Sewer charges	\$ 11,385,500	\$ 11,385,500	\$ 12,020,456	\$ (518,091)
Tap fees	41,000	41,000	29,900	(4,600)
Waste hauler fees	70,000	70,000	57,370	
Other	6,500	6,500	379	
<b>Total Operating Revenues</b>	<u>11,503,000</u>	<u>11,503,000</u>	<u>12,108,105</u>	<u>(522,691)</u>
<b>Operating Expenses</b>				
Personnel services	3,651,444	3,676,909	3,296,845	
Materials and supplies	1,272,257	1,355,052	1,263,803	
Contractual services	1,573,874	1,312,769	1,650,527	(502,409)
Other charges	484,955	584,925	591,638	
Administrative service charge	368,600	368,600	368,600	
Depreciation			2,503,446	(2,503,446)
<b>Total Operating Expenses</b>	<u>7,351,130</u>	<u>7,298,255</u>	<u>9,674,859</u>	<u>(3,005,855)</u>
Operating income (loss)	<u>4,151,870</u>	<u>4,204,745</u>	<u>2,433,246</u>	<u>2,483,164</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest earned	25,000	25,000	43,431	(30,946)
Interest expense	(1,452,057)	(1,452,057)	(1,431,512)	
Principal expenditure	(1,897,295)	(1,897,295)		(1,897,295)
Insurance proceeds			77,469	(77,469)
Capital outlay		(104,768)		(103,330)
Gain (loss) on retirement of capital asset	100	100	10,422	
Amortization of bond issuance costs	(37,618)	(37,618)	(37,617)	
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(3,361,870)</u>	<u>(3,466,638)</u>	<u>(1,337,807)</u>	<u>(2,109,040)</u>
Income (loss) before operating transfers and capital contributions	790,000	738,107	1,095,439	374,124
Capital contributions			8,316,280	(8,316,280)
Operating transfer in (out)	(2,000,000)	(1,948,106)	(315,138)	(1,632,968)
Change in net assets	(1,210,000)	(1,209,999)	9,096,581	(9,575,124)
<b>Net assets, beginning of year</b>	<u>41,511,256</u>	<u>41,511,256</u>	<u>41,511,256</u>	
<b>Net assets, end of year</b>	<u>\$ 40,301,256</u>	<u>\$ 40,301,257</u>	<u>\$ 50,607,837</u>	<u>\$(9,575,124)</u>

*Exhibit C-5*

<b>Actual (Budgetary Basis) Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
\$ 11,502,365	\$ 116,865
25,300	(15,700)
57,370	(12,630)
379	(6,121)
11,585,414	82,414
3,296,845	380,064
1,263,803	91,249
1,148,118	164,651
591,638	(6,713)
368,600	
6,669,004	629,251
4,916,410	711,665
12,485	(12,515)
(1,431,512)	20,545
(1,897,295)	
(103,330)	1,438
10,422	10,322
(37,617)	1
(3,446,847)	19,791
1,469,563	731,456
(1,948,106)	
(478,543)	731,456
41,511,256	
\$ 41,032,713	\$ 731,456

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual (GAAP Basis)</u>	<u>Reconciling Items</u>
<b>Operating Revenues</b>				
Charges for sales and services, net	\$ 4,417,100	\$ 4,417,100	\$ 4,247,273	\$
Other	2,000	2,000	1,243	
<b>Total Operating Revenues</b>	<u>4,419,100</u>	<u>4,419,100</u>	<u>4,248,516</u>	
<b>Operating Expenses</b>				
Personnel services	2,071,442	1,966,628	1,973,596	(10,250)
Materials and supplies	78,473	68,297	61,855	
Contractual services	1,330,721	1,445,236	1,434,860	
Other charges	164,837	164,927	148,811	
Administrative service charge	192,102	192,102	192,102	
Depreciation			320,796	(320,796)
<b>Total Operating Expenses</b>	<u>3,837,575</u>	<u>3,837,190</u>	<u>4,132,020</u>	<u>(331,046)</u>
Operating income (loss)	581,525	581,910	116,496	331,046
<b>Non-Operating Revenues (Expenses)</b>				
Interest earned	5,500	5,500	1,876	(12)
Interest expense	(33,421)	(33,421)	(35,739)	
Principal expenditure	(357,360)	(357,360)		(357,360)
Capital outlay - improvements		(385)		(385)
Gain (loss) on retirement of capital asset	6,000	6,000	2,671	
Amortization of bond issuance costs	(2,244)	(2,244)	(2,244)	
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(381,525)</u>	<u>(381,910)</u>	<u>(33,436)</u>	<u>(357,757)</u>
Income (loss) before operating transfers	200,000	200,000	83,060	(26,711)
Capital contributions			21,002	(21,002)
Operating transfer in (out)	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,385)</u>	<u>385</u>
Changes in net assets			(96,323)	(47,328)
<b>Net assets, beginning of year</b>	<u>3,727,002</u>	<u>3,727,002</u>	<u>3,727,002</u>	
<b>Net assets, end of year</b>	<u>\$ 3,727,002</u>	<u>\$ 3,727,002</u>	<u>\$ 3,630,679</u>	<u>\$ (47,328)</u>



*Exhibit C-6*

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 4,247,273	\$ (169,827)
<u>1,243</u>	<u>(757)</u>
<u>4,248,516</u>	<u>(170,584)</u>
1,963,346	3,282
61,855	6,442
1,434,860	10,376
148,811	16,116
192,102	
<u>3,800,974</u>	<u>36,216</u>
447,542	(134,368)
1,864	(3,636)
(35,739)	(2,318)
(357,360)	
(385)	
2,671	(3,329)
(2,244)	
<u>(391,193)</u>	<u>(9,283)</u>
56,349	(143,651)
(200,000)	
<u>(143,651)</u>	<u>(143,651)</u>
3,727,002	
<u>\$ 3,583,351</u>	<u>\$ (143,651)</u>

**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, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	
	<b>Original</b>	<b>Final</b>	<b>Actual (GAAP Basis)</b>	<b>Reconciling Items</b>
<b>Operating Revenues</b>				
Charges for sales and services, net	\$ 2,657,000	\$ 2,657,000	\$ 2,506,558	\$
Other	32,000	32,000	45,115	
<b>Total Operating Revenues</b>	<b>2,689,000</b>	<b>2,689,000</b>	<b>2,551,673</b>	
<b>Operating Expenses</b>				
Personnel services	1,237,539	1,295,469	1,035,265	
Materials and supplies	98,833	94,193	73,084	
Contractual services	407,481	389,856	344,111	
Other charges	101,038	101,038	100,197	
Administrative service charge	43,223	43,223	43,223	
Depreciation			181,227	(181,227)
<b>Total Operating Expenses</b>	<b>1,888,114</b>	<b>1,923,779</b>	<b>1,777,107</b>	<b>(181,227)</b>
Operating income (loss)	800,886	765,221	774,566	181,227
<b>Non-Operating Revenues (Expenses)</b>				
Interest earned	7,000	7,000	8,397	(5,583)
Capital outlay - vehicles, etc.		(459,845)		(428,700)
Gain (loss) on retirement of capital asset	2,000	2,000		
<b>Total Non-Operating Revenues (Expenses)</b>	<b>9,000</b>	<b>(450,845)</b>	<b>8,397</b>	<b>(434,283)</b>
Income (loss) before capital contributions	809,886	314,376	782,963	(253,056)
Capital contributions			34,562	(34,562)
Operating transfer in (out)	(2,200,000)	(1,704,490)	(8,871)	(1,695,627)
Changes in net assets	(1,390,114)	(1,390,114)	808,654	(1,983,245)
<b>Net assets, beginning of year</b>	<b>8,063,406</b>	<b>8,063,406</b>	<b>8,063,406</b>	
<b>Net assets, end of year</b>	<b>\$ 6,673,292</b>	<b>\$ 6,673,292</b>	<b>\$ 8,872,060</b>	<b>\$ (1,983,245)</b>

*Exhibit C-7*

<b>Actual (Budgetary Basis) Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
\$ 2,506,558	\$ (150,442)
45,115	13,115
2,551,673	(137,327)
1,035,265	260,204
73,084	21,109
344,111	45,745
100,197	841
43,223	
1,595,880	327,899
955,793	190,572
2,814	(4,186)
(428,700)	31,145
(425,886)	(2,000)
529,907	24,959
(1,704,498)	215,531
(1,174,591)	(8)
8,063,406	215,523
\$ 6,888,815	\$ 215,523

**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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual (GAAP) Basis</u>	<u>Reconciling Items</u>
<b>Operating Revenues</b>				
Charges for sales and services:				
Building rental	\$ 74,390	\$ 74,390	\$ 58,389	\$
Hangar rental	70,624	70,624	9,444	
Terminal space rental	47,520	47,520	25,159	
Land lease rental	688,707	688,707	676,327	
Oil company receipts	50,193	50,193	34,197	
Other	48,813	48,813	76	
<b>Total Operating Revenues</b>	<u>980,247</u>	<u>980,247</u>	<u>803,592</u>	
<b>Operating Expenses</b>				
Personnel services	382,256	382,256	368,652	
Materials and supplies	85,165	125,034	121,780	
Contractual services	79,175	175,826	166,978	
Other charges & bad debt expense	210,424	194,667	180,716	
Administrative service charge	49,227	49,227	49,227	
Depreciation			620,161	(620,161)
<b>Total Operating Expenses</b>	<u>806,247</u>	<u>927,010</u>	<u>1,507,514</u>	<u>(620,161)</u>
Operating income (loss)	<u>174,000</u>	<u>53,237</u>	<u>(703,922)</u>	<u>620,161</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest earned	1,000	1,000	2,269	
Capital outlay - improvements	(675,000)	(554,237)		(226,972)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(674,000)</u>	<u>(553,237)</u>	<u>2,269</u>	<u>(226,972)</u>
Income (loss) before capital contributions	(500,000)	(500,000)	(701,653)	393,189
Capital contributions			2,699,561	(2,699,561)
Changes in net assets	(500,000)	(500,000)	1,997,908	(2,306,372)
<b>Net assets, beginning of year</b>	<u>15,134,806</u>	<u>15,134,806</u>	<u>15,134,806</u>	
<b>Net assets, end of year</b>	<u>\$ 14,634,806</u>	<u>\$ 14,634,806</u>	<u>\$ 17,132,714</u>	<u>\$ (2,306,372)</u>

*Exhibit C-8*

<u>Actual (Budgetary Basis) Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 58,389	\$ (16,001)
9,444	(61,180)
25,159	(22,361)
676,327	(12,380)
34,197	(15,996)
76	(48,737)
<u>803,592</u>	<u>(176,655)</u>
368,652	13,604
121,780	3,254
166,978	8,848
180,716	13,951
49,227	
<u>887,353</u>	<u>39,657</u>
<u>(83,761)</u>	<u>(136,998)</u>
2,269	1,269
<u>(226,972)</u>	<u>327,265</u>
<u>(224,703)</u>	<u>328,534</u>
(308,464)	191,536
<u>(308,464)</u>	<u>191,536</u>
15,134,806	
<u>\$ 14,826,342</u>	<u>\$ 191,536</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, 2011*

	<b>Central Garage</b>	<b>Casualty &amp; Liability Insurance</b>	<b>Central Service</b>
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and temporary investments	\$ 867,921	\$ 254,061	\$ 542,037
Accounts receivable, net of allowance for doubtful accounts	132,761	4,171	109,304
Due from other funds	184,495		
Inventories	197,442		1,561
Prepaid expenses		333,467	
Restricted assets:			
Cash and investments			471,092
<b>Total current assets</b>	<u>1,382,619</u>	<u>591,699</u>	<u>1,123,994</u>
<b>Non-current Assets:</b>			
Deferred charges			41,299
Capital assets (net of depreciation)	156,785		5,733,871
<b>Total non-current assets</b>	<u>156,785</u>		<u>5,775,170</u>
<b>Total assets</b>	<u>1,539,404</u>	<u>591,699</u>	<u>6,899,164</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	172,282	111,581	243,779
Accrued interest payable			67,188
Long-term debt, current portion:			
Claims and judgments			
Notes payable			89,253
Bonds and certificates of obligation payable			89,100
<b>Total current liabilities</b>	<u>172,282</u>	<u>111,581</u>	<u>489,320</u>
<b>Non-current Liabilities:</b>			
Long-term debt, noncurrent portion			
Compensated absences	136,760	12,104	181,848
Claims and judgments			
Contracts payable			
Notes payable			1,126,417
Bonds and certificates of obligation payable			3,173,903
<b>Total non-current liabilities</b>	<u>136,760</u>	<u>12,104</u>	<u>4,482,168</u>
<b>Total liabilities</b>	<u>309,042</u>	<u>123,685</u>	<u>4,971,488</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	156,785		1,385,750
Restricted for debt service			189,069
Unrestricted	1,073,577	468,014	352,857
<b>Total net assets</b>	<u>\$ 1,230,362</u>	<u>\$ 468,014</u>	<u>\$ 1,927,676</u>



*Exhibit D-1*

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 71,755	\$ 995,362	\$ 2,680,305	\$ 5,411,441
		33,841	280,077
			184,495
			199,003
			333,467
			471,092
<u>71,755</u>	<u>995,362</u>	<u>2,714,146</u>	<u>6,879,575</u>
			41,299
			5,890,656
			5,931,955
<u>71,755</u>	<u>995,362</u>	<u>2,714,146</u>	<u>12,811,530</u>
899	45,383	130,996	704,920
			67,188
	395,156		395,156
			89,253
			89,100
<u>899</u>	<u>440,539</u>	<u>130,996</u>	<u>1,345,617</u>
73,266			403,978
	1,071,919	379,350	1,451,269
		424,539	424,539
			1,126,417
			3,173,903
<u>73,266</u>	<u>1,071,919</u>	<u>803,889</u>	<u>6,580,106</u>
<u>74,165</u>	<u>1,512,458</u>	<u>934,885</u>	<u>7,925,723</u>
			1,542,535
			189,069
(2,410)	(517,096)	1,779,261	3,154,203
<u>\$ (2,410)</u>	<u>\$ (517,096)</u>	<u>\$ 1,779,261</u>	<u>\$ 4,885,807</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, 2011*

	<b>Central Garage</b>	<b>Casualty &amp; Liability Insurance</b>	<b>Central Service</b>
<b>Operating Revenues</b>			
Charges for services	\$ 4,426,089	\$ 1,891,940	\$ 2,232,814
Miscellaneous	9,000		
<b>Total Operating Revenues</b>	<u>4,435,089</u>	<u>1,891,940</u>	<u>2,232,814</u>
<b>Operating Expenses</b>			
Personnel services	992,800	124,896	933,336
Contractual services	289,834	26,791	523,600
Supplies and materials	2,798,107	810	281,283
Insurance claims and premiums		1,734,040	
Other expenses	327,696		106,699
Depreciation	23,836		259,471
<b>Total Operating Expenses</b>	<u>4,432,273</u>	<u>1,886,537</u>	<u>2,104,389</u>
Operating income (loss)	<u>2,816</u>	<u>5,403</u>	<u>128,425</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest and investment revenue	1,374	297	2,360
Insurance proceeds	20,209		
Gain (loss) on disposal of capital assets	17,956		670
Interest expense			(216,593)
Amortization of bond issuance costs			(2,723)
<b>Total Non-Operating Revenues (Expenses)</b>	<u>39,539</u>	<u>297</u>	<u>(216,286)</u>
Income (loss) before contributions and transfers	42,355	5,700	(87,861)
Transfers in	132,052		
Transfers out	(4,208)		
Change in net assets	170,199	5,700	(87,861)
<b>Total net assets - beginning</b>	<u>1,060,163</u>	<u>462,314</u>	<u>2,015,537</u>
<b>Total net assets - ending</b>	<u>\$ 1,230,362</u>	<u>\$ 468,014</u>	<u>\$ 1,927,676</u>

*Exhibit D-2*

<b>Construction Management</b>	<b>Workers Compensation Insurance</b>	<b>Health and Life Insurance</b>	<b>Total</b>
\$ 106,298	\$ 696,358	\$ 5,477,666	\$ 14,831,165
			9,000
<u>106,298</u>	<u>696,358</u>	<u>5,477,666</u>	<u>14,840,165</u>
53,420			2,104,452
29,508	145,218	795,735	1,810,686
			3,080,200
	559,325	3,461,133	5,754,498
28,954	(12,545)	400,365	851,169
			283,307
<u>111,882</u>	<u>691,998</u>	<u>4,657,233</u>	<u>13,884,312</u>
<u>(5,584)</u>	<u>4,360</u>	<u>820,433</u>	<u>955,853</u>
2	2,313	4,686	11,032
			20,209
			18,626
			(216,593)
			(2,723)
<u>2</u>	<u>2,313</u>	<u>4,686</u>	<u>(169,449)</u>
(5,582)	6,673	825,119	786,404
			132,052
			(4,208)
<u>(5,582)</u>	<u>6,673</u>	<u>825,119</u>	<u>914,248</u>
<u>3,172</u>	<u>(523,769)</u>	<u>954,142</u>	<u>3,971,559</u>
<u>\$ (2,410)</u>	<u>\$ (517,096)</u>	<u>\$ 1,779,261</u>	<u>\$ 4,885,807</u>

**CITY OF GALVESTON, TEXAS, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
*For the Year Ended September 30, 2011*

	<u>Central Garage</u>	<u>Casualty &amp; Liability Insurance</u>	<u>Central Service</u>
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and users	\$ 4,428,991	\$ 1,919,484	\$ 2,232,814
Disbursed for personnel services	(1,004,322)	(122,720)	(950,279)
Disbursed for goods and services	(3,339,222)	(1,717,650)	(712,720)
<b>Net cash provided (used) by operating activities</b>	<u>85,447</u>	<u>79,114</u>	<u>569,815</u>
<b>Cash Flows from Non-Capital Financing Activities</b>			
Interfund transfers in	132,052		
Interfund transfers out	(4,208)		
Proceeds from insurance	20,209		
<b>Net cash provided (used) by noncapital financing activities</b>	<u>148,053</u>		
<b>Cash Flows from Capital and Related Financing Activities</b>			
Payments for capital acquisitions (net of sales)	(16,975)		(270,087)
Proceeds from sale of capital assets	17,956		
Principal payments on debt			(171,162)
Interest payments on capital leases			(216,593)
Interest payments on revenue bonds			(1,603)
<b>Net cash used by capital and related financing activities</b>	<u>981</u>		<u>(659,445)</u>
<b>Cash Flows from Investing Activities</b>			
Interest received	1,374	297	2,360
<b>Net cash provided (used) by investing activities</b>	<u>1,374</u>	<u>297</u>	<u>2,360</u>
Net increase (decrease) in cash and equivalents	235,855	79,411	(87,270)
<b>Cash and equivalents, beginning of year</b>	<u>632,066</u>	<u>174,650</u>	<u>1,100,399</u>
<b>Cash and equivalents, at end of year</b>	<u>\$ 867,921</u>	<u>\$ 254,061</u>	<u>\$ 1,013,129</u>
Unrestricted cash and equivalents	\$ 867,921	\$ 254,061	\$ 542,037
Restricted cash and equivalents			471,092
	<u>\$ 867,921</u>	<u>\$ 254,061</u>	<u>\$ 1,013,129</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income (loss)	\$ 2,816	\$ 5,403	\$ 128,425
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	23,836		259,471
(Increase) decrease in accounts receivable	(6,098)	27,544	
(Increase) decrease in inventory	28,164		1,384
(Increase) decrease in prepaid expenses		64,574	
Increase (decrease) in accounts payable	48,251	(20,583)	197,478
Increase (decrease) in salaries payable	(25,297)	(2,345)	(25,094)
Increase (decrease) in compensated absences payable	13,775	4,521	8,151
<b>Net cash provided (used) by operating activities</b>	<u>\$ 85,447</u>	<u>\$ 79,114</u>	<u>\$ 569,815</u>

Exhibit D-3

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 106,301	\$ 696,358	\$ 5,463,404	\$ 14,847,352
(52,773)			(2,130,094)
(58,657)	(633,888)	(4,582,503)	(11,044,640)
(5,129)	62,470	880,901	1,672,618
			132,052
			(4,208)
			20,209
			148,053
			(287,062)
			17,956
			(171,162)
			(216,593)
			(1,603)
			(658,464)
2	2,313	4,686	11,032
2	2,313	4,686	11,032
(5,127)	64,783	885,587	1,173,239
76,882	930,579	1,794,718	4,709,294
\$ 71,755	\$ 995,362	\$ 2,680,305	\$ 5,882,533
\$ 71,755	\$ 995,362	\$ 2,680,305	\$ 5,411,441
			471,092
\$ 71,755	\$ 995,362	\$ 2,680,305	\$ 5,882,533
\$ (5,584)	\$ 4,360	\$ 820,433	\$ 955,853
			283,307
		(14,262)	7,184
			29,548
			64,574
(191)	58,110	74,730	357,795
(10,555)			(63,291)
11,201			37,648
\$ (5,129)	\$ 62,470	\$ 880,901	\$ 1,672,618

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## **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, 2010.

***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, 2010**

*Exhibit E-1*

	<b>City of Galveston Employee's Retirement Plan for Police</b>	<b>City of Galveston Employee's Retirement Plan for Employees</b>	<b>Galveston Firefighters' Pension Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,197,699	\$ 1,601,511	\$ 2,543,414	\$ 5,342,624
Receivables:				
Interest and dividends	93,453	11,426	28,729	133,608
Loans to participants	76,348			76,348
<b>Total receivables</b>	<u>169,801</u>	<u>11,426</u>	<u>28,729</u>	<u>209,956</u>
Investments:				
U.S. Government agencies				
Common stocks	7,760,787	17,549,164	16,090,692	41,400,643
Mutual funds (Equity funds)	5,622,513	3,032,912	6,295,881	14,951,306
Corporate and foreign bonds		14,834,288		14,834,288
Fixed income funds	7,809,103		10,295,353	18,104,456
<b>Total investments</b>	<u>21,192,403</u>	<u>35,416,364</u>	<u>32,681,926</u>	<u>89,290,693</u>
Prepaid benefits	292,116			292,116
<b>Total assets</b>	<u>22,852,019</u>	<u>37,029,301</u>	<u>35,254,069</u>	<u>95,135,389</u>
<b>Liabilities</b>				
Accounts payable	36,673	175,627	31,410	243,710
<b>Net Assets</b>				
Held in trust for benefits and other purposes	<u>\$ 22,815,346</u>	<u>\$ 36,853,674</u>	<u>\$ 35,222,659</u>	<u>\$ 94,891,679</u>



**CITY OF GALVESTON, TEXAS**

*Exhibit E-2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

**FIDUCIARY FUNDS**

*For the Year Ended December 31, 2010*

	<b>City of Galveston Employee's Retirement Plan for Police</b>	<b>City of Galveston Employee's Retirement Plan for Employees</b>	<b>Galveston Firefighters' Pension Fund</b>	<b>Total</b>
<b>Additions</b>				
Contributions:				
Employer	\$ 1,229,688	\$ 1,713,543	\$ 972,131	\$ 3,915,362
Plan members	1,229,688	1,142,362	833,255	3,205,305
<b>Total contributions</b>	<b>2,459,376</b>	<b>2,855,905</b>	<b>1,805,386</b>	<b>7,120,667</b>
Investment earnings:				
Net increase in fair value of investments	1,851,341	3,335,360	2,953,078	8,139,779
Interest	470,621	8,784		479,405
Dividends	228,745	1,167,012	629,967	2,025,724
Investment activity expense	(162,707)	(249,697)	(101,868)	(514,272)
<b>Total net investment earnings</b>	<b>2,388,000</b>	<b>4,261,459</b>	<b>3,481,177</b>	<b>10,130,636</b>
Other income		12,734	14,408	27,142
<b>Total additions</b>	<b>4,847,376</b>	<b>7,130,098</b>	<b>5,300,971</b>	<b>17,278,445</b>
<b>Deductions</b>				
Benefits	3,536,123	3,349,725	2,913,660	9,799,508
Administrative	102,774	112,438	99,641	314,853
<b>Total deductions</b>	<b>3,638,897</b>	<b>3,462,163</b>	<b>3,013,301</b>	<b>10,114,361</b>
Change in net assets	1,208,479	3,667,935	2,287,670	7,164,084
<b>Net assets - beginning</b>	<b>21,606,867</b>	<b>33,185,739</b>	<b>32,934,989</b>	<b>87,727,595</b>
<b>Net assets - ending</b>	<b>\$ 22,815,346</b>	<b>\$ 36,853,674</b>	<b>\$ 35,222,659</b>	<b>\$ 94,891,679</b>

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
*For the Year Ended September 30, 2011*

*Exhibit E-3*

	<b>September 30,</b> <b>2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>September 30,</b> <b>2011</b>
<b>Assets</b>				
Cash and temporary investments	\$ 752,690	\$ 189,554	\$ (239,355)	\$ 702,889
<b>Total assets</b>	<u>\$ 752,690</u>	<u>\$ 189,554</u>	<u>\$ (239,355)</u>	<u>\$ 702,889</u>
 <b>Liabilities</b>				
Accounts payable and other current liabilities	\$ 126	\$ 471	\$	\$ 597
Refunds payable and others	752,564		(50,272)	702,292
<b>Total liabilities</b>	<u>\$ 752,690</u>	<u>\$ 471</u>	<u>\$ (50,272)</u>	<u>\$ 702,889</u>

**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>
<b>Financial Trends</b>	146-155
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.	
<b>Revenue Capacity</b>	156-163
These schedules contain information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.	
<b>Debt Capacity</b>	164-167
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.	
<b>Demographic and Economic Information</b>	168-171
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.	
<b>Operating Information</b>	172-175
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 Nine Fiscal Years\***(Accrual Basis of Accounting)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Governmental activities</b>				
Invested in capital assets, net of related debt	\$ 14,956	\$ 23,872	\$ 29,356	\$ 25,631
Restricted	4,943	4,921	4,894	10,791
Unrestricted	9,168	7,845	8,012	11,081
<b>Total governmental activities net assets</b>	<u>\$ 29,067</u>	<u>\$ 36,638</u>	<u>\$ 42,262</u>	<u>\$ 47,503</u>
<b>Business-type activities</b>				
Invested in capital assets, net of related debt	\$ 40,480	\$ 64,284	\$ 70,442	\$ 71,492
Restricted	20,835	6,367	3,301	9,502
Unrestricted	5,233	2,123	3,069	5,817
<b>Total business-type activities net assets</b>	<u>\$ 66,548</u>	<u>\$ 72,774</u>	<u>\$ 76,812</u>	<u>\$ 86,811</u>
<b>Primary government</b>				
Invested in capital assets, net of related debt	\$ 55,436	\$ 88,156	\$ 99,798	\$ 97,123
Restricted	25,778	11,288	8,195	20,293
Unrestricted	14,401	9,968	11,081	16,898
<b>Total primary government net assets</b>	<u>\$ 95,615</u>	<u>\$ 109,412</u>	<u>\$ 119,074</u>	<u>\$ 134,314</u>

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

*Exhibit I*

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300	\$ 98,510
18,757	19,950	25,689	26,256	25,326
5,912	6,113	18,853	26,157	11,783
<u>\$ 61,996</u>	<u>\$ 75,336</u>	<u>\$ 94,149</u>	<u>\$ 150,713</u>	<u>\$ 135,619</u>
\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051	\$ 99,989
10,327	11,053	7,173	10,949	11,887
13,967	12,364	24,354	20,713	22,579
<u>\$ 98,285</u>	<u>\$ 87,765</u>	<u>\$ 96,566</u>	<u>\$ 110,713</u>	<u>\$ 134,455</u>
\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351	\$ 198,499
29,084	31,003	32,862	37,205	37,213
19,879	18,477	43,207	46,870	34,362
<u>\$ 160,281</u>	<u>\$ 163,101</u>	<u>\$ 190,715</u>	<u>\$ 261,426</u>	<u>\$ 270,074</u>

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Expenses</b>				
Governmental activities:				
General government	\$ 3,961	\$ 3,626	\$ 4,662	\$ 4,924
Public safety	20,712	20,638	24,110	24,876
Public works	7,113	4,997	4,332	5,113
Culture and recreation	3,800	1,419	5,211	7,025
Planning and community dev.	4,203	4,225	2,375	4,202
Transportation system	6,052	6,580	4,032	4,269
Interest on long-term debt	3,236	3,208	2,866	3,649
<b>Total governmental activities expenses</b>	<b>49,077</b>	<b>44,693</b>	<b>47,588</b>	<b>54,058</b>
Business-type activities:				
Waterworks	9,654	10,012	10,956	11,850
Sewer system	7,445	7,249	7,921	9,229
Sanitation	2,988	3,077	3,376	3,541
Drainage	761	637	1,085	1,342
Airport	843	934	933	1,128
Golf course	1,130	1,092	1,010	1,028
<b>Total business-type activities expenses</b>	<b>22,821</b>	<b>23,001</b>	<b>25,281</b>	<b>28,118</b>
<b>Total primary government expenses</b>	<b>\$ 71,898</b>	<b>\$ 67,694</b>	<b>\$ 72,869</b>	<b>\$ 82,176</b>
<b>Program Revenue</b>				
Governmental activities:				
Charges for services:				
General government	\$ 1,255	\$ 1,056	\$ 1,254	\$ 1,322
Public safety	2,548	3,034	2,451	2,739
Public works	44	39	26	20
Culture and recreation	5	83	40	6
Planning and community dev.	1,147	2,208	2,273	2,231
Transportation system	630	643	522	698
Operating grants and contributions:				
General government				
Public safety	589	408	1,090	956
Public works				
Culture and recreation	38	19	95	83
Planning and community dev.	2,984	2,086	1,559	2,199
Transportation system	2,684	2,485	2,295	2,396
Capital grants and contributions:				
General government				
Public safety				
Public works				
Culture and recreation			116	
Planning and Community Dev.				
Transportation system	1,928	3,426	2,440	1,575
<b>Total governmental activities program revenues</b>	<b>13,852</b>	<b>15,487</b>	<b>14,161</b>	<b>14,225</b>
Business-type activities:				
Charges for services:				
Waterworks	9,692	10,105	11,230	14,173
Sewer system	7,447	8,018	9,409	11,395
Sanitation	3,552	3,606	3,932	4,240
Drainage	749	780	1,816	2,710
Airport	832	853	875	937
Golf course	946	928	912	827
Capital grants and contributions	1,362	5,482	1,178	2,680
<b>Total business-type activities program revenues</b>	<b>24,580</b>	<b>29,772</b>	<b>29,352</b>	<b>36,962</b>
<b>Total primary government program revenues</b>	<b>\$ 38,432</b>	<b>\$ 45,259</b>	<b>\$ 43,513</b>	<b>\$ 51,187</b>



**Exhibit II**  
**Page 1 of 2**

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 5,166	\$ 5,307	\$ 5,742	\$ 8,484	\$ 7,413
27,040	32,145	29,390	29,180	27,056
5,990	12,735	69,234	25,590	23,631
8,258	9,020	10,764	8,289	8,820
4,483	4,936	4,237	7,902	31,723
5,552	4,548	5,120	5,347	4,649
3,096	2,839	2,757	2,868	2,555
<u>59,585</u>	<u>71,530</u>	<u>127,244</u>	<u>87,660</u>	<u>105,847</u>
12,999	13,350	13,060	14,165	15,519
11,536	10,806	9,900	11,202	11,058
3,781	3,808	3,907	3,999	4,108
1,312	1,651	1,700	1,737	1,750
1,201	1,185	1,073	1,127	1,496
333				
<u>31,162</u>	<u>30,800</u>	<u>29,640</u>	<u>32,230</u>	<u>33,931</u>
<u>\$ 90,747</u>	<u>\$ 102,330</u>	<u>\$ 156,884</u>	<u>\$ 119,890</u>	<u>\$ 139,778</u>
\$ 1,400	\$ 1,552	\$ 1,628	\$ 1,717	\$ 1,841
3,133	3,338	2,595	2,310	3,030
21	37	30	50	318
407	166	8	2	1
1,620	1,119	1,890	1,282	1,441
939	697	461	508	650
		489	3,336	176
487	312	1,646	5,234	537
		76,730	37,424	281
767	936	980	963	734
2,021	2,244	1,653	5,069	25,706
2,455	3,136	3,034	6,749	3,015
		316		
	5,086			
	10,752		25,298	10,247
9,557	8,656	2	23	3
				12,398
<u>1,735</u>	<u>1,501</u>	<u>448</u>	<u>2,934</u>	<u>1,392</u>
<u>24,542</u>	<u>39,532</u>	<u>91,910</u>	<u>92,899</u>	<u>61,770</u>
14,309	14,640	14,168	14,988	16,132
12,799	12,259	11,082	11,523	12,108
4,587	4,360	3,888	4,257	4,247
2,800	2,691	2,418	2,567	2,507
1,071	960	783	1,312	804
189				
6,065	1,925	2,253	11,964	2,700
<u>41,820</u>	<u>36,835</u>	<u>34,592</u>	<u>46,611</u>	<u>38,498</u>
<u>\$ 66,362</u>	<u>\$ 76,367</u>	<u>\$ 126,502</u>	<u>\$ 139,510</u>	<u>\$ 100,268</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	\$ (35,225)	\$ (29,206)	\$ (33,427)	\$ (39,833)
Business-type activities	<u>1,759</u>	<u>6,771</u>	<u>4,071</u>	<u>8,844</u>
Total primary government net expense	<u>\$ (33,466)</u>	<u>\$ (22,435)</u>	<u>\$ (29,356)</u>	<u>\$ (30,989)</u>
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes:				
Property taxes, levied for general purposes	\$ 12,061	\$ 13,215	\$ 13,838	\$ 15,480
Sales and use taxes	13,340	13,689	14,425	16,850
Hotel occupancy taxes	4,980	2,966	3,418	4,122
Franchise taxes	4,824	4,841	4,880	5,149
Payments in lieu of taxes	1,155	568	596	655
Net loss on sale of asset		(72)		
Unrestricted investment earnings	733		753	1,650
Miscellaneous	1,196	420	641	669
Capital contributions		550		
Loss of assets due to Hurricane Ike				
Impairment of capital assets due to Hurricane Ike				
Insurance proceeds				
Transfers	(150)	600	500	500
<b>Total governmental activities</b>	<u>38,139</u>	<u>36,777</u>	<u>39,051</u>	<u>45,075</u>
Business-type activities:				
Net (loss) gain on sale of asset		(125)	20	(271)
Unrestricted investment earnings	350	179	447	1,755
Miscellaneous	(57)	2		170
Impairment of capital assets due to Hurricane Ike				
Insurance proceeds				
Transfers	150	(600)	(500)	(500)
<b>Total business-type activities</b>	<u>443</u>	<u>(544)</u>	<u>(33)</u>	<u>1,154</u>
<b>Total primary government</b>	<u>\$ 38,582</u>	<u>\$ 36,233</u>	<u>\$ 39,018</u>	<u>\$ 46,229</u>
<b>Change in Net Assets</b>				
Governmental activities	\$ 2,914	\$ 7,571	\$ 5,624	\$ 5,242
Business-type activities	<u>2,202</u>	<u>6,227</u>	<u>4,038</u>	<u>9,998</u>
<b>Total primary government</b>	<u>\$ 5,116</u>	<u>\$ 13,798</u>	<u>\$ 9,662</u>	<u>\$ 15,240</u>

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

*Exhibit II*  
*Page 2 of 2*

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ (35,043)	\$ (31,998)	\$ (35,334)	\$ 5,239	\$ (44,077)
<u>10,658</u>	<u>6,035</u>	<u>4,952</u>	<u>14,381</u>	<u>4,567</u>
<u>\$ (24,385)</u>	<u>\$ (25,963)</u>	<u>\$ (30,382)</u>	<u>\$ 19,619</u>	<u>\$ (39,510)</u>

\$ 16,333	\$ 18,640	\$ 19,718	\$ 18,270	\$ 20,087
17,498	17,747	18,588	15,705	16,589
4,619	4,958	3,742	4,058	4,722
5,375	5,450	4,807	4,756	5,009
737	126	120	120	120
2,439	1,483	219	115	89
844	224	418	438	1,113
	(2,022)			
	(1,867)	1,112		
		4,863	7,170	
1,690	600	562	695	(18,863)
<u>49,535</u>	<u>45,339</u>	<u>54,149</u>	<u>51,326</u>	<u>28,866</u>

2,454	1,805	877	169	155
52	136	28	106	158
	(17,897)		(34)	
		3,509	220	
(1,690)	(600)	(562)	(695)	18,863
<u>816</u>	<u>(16,556)</u>	<u>3,852</u>	<u>(234)</u>	<u>19,176</u>
<u>\$ 50,351</u>	<u>\$ 28,783</u>	<u>\$ 58,001</u>	<u>\$ 51,091</u>	<u>\$ 48,042</u>

\$ 14,492	\$ 13,341	\$ 18,815	\$ 56,564	\$ (15,211)
<u>11,474</u>	<u>(10,521)</u>	<u>8,804</u>	<u>14,147</u>	<u>23,742</u>
<u>\$ 25,966</u>	<u>\$ 2,820</u>	<u>\$ 27,619</u>	<u>\$ 70,711</u>	<u>\$ 8,531</u>

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>General fund</b>				
Non-spendable				
Inventory	\$	\$	\$	\$
Prepaid Items	8,952	53,929	92,751	200,997
Restricted				
Debt Service				
Capital Projects				
Other	43,914	43,914		
Committed				
Other	1,181,856	494,680	387,810	1,917,994
Assigned				
Unassigned	4,683,830	6,064,743	7,293,827	7,252,569
<b>Total General Fund</b>	<u>\$ 5,918,552</u>	<u>\$ 6,657,266</u>	<u>\$ 7,774,388</u>	<u>\$ 9,371,560</u>
<b>All other governmental funds</b>				
Non-spendable				
Inventory	\$ 133,983	\$ 190,854	\$ 133,983	\$ 216,159
Restricted				
Debt Service	4,418,642	4,825,767	4,921,212	5,663,207
Capital Projects	43,709,689	29,878,465	7,992,863	7,359,277
Other	288,447	266,608	405,404	90,848
Committed				
Other	1,026,488	1,022,177	879,063	1,618,405
Assigned	1,015,896	1,318,678	1,355,023	442,606
Unassigned				
<b>Total other governmental funds</b>	<u>\$ 50,593,145</u>	<u>\$ 37,502,549</u>	<u>\$ 15,687,548</u>	<u>\$ 15,390,502</u>

*Exhibit III*

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
\$ 206,920	\$ 8,255 190,081	\$ 86,688	\$ 100,407	\$ 101,738	\$ 88,521
2,053,226	2,425,226	2,625,226	2,825,226	3,025,226	3,588,522
9,840,129	11,227,881	11,421,882	13,751,737	8,580,214	176,999
<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>	<u>\$ 6,588,090</u>
\$ 255,735	\$ 311,042	\$ 363,026	\$ 363,212	\$ 193,611	\$ 151,858
6,663,217	6,819,760	7,044,374	7,603,944	7,643,345	8,447,339
14,555,199	16,204,348	14,130,090	14,662,428	16,854,667	29,207,678
166,257	175,307	69,031	176,765	287,163	
1,447,555	1,512,171	1,492,648	1,552,638	2,680,920	2,145,641
849,133	465,327	(127,495)	33,210,416	30,831,813	
<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>	<u>\$ 22,971,674</u>	<u>\$ 57,569,403</u>	<u>\$ 58,491,519</u>	<u>\$ (147,964)</u>
					<u>\$ 39,804,552</u>

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 11,660,813	\$ 12,147,194	\$ 13,186,960	\$ 13,883,642
Sales and use taxes	12,757,466	13,339,761	13,689,462	14,424,663
Franchise taxes	4,680,348	4,824,484	4,841,443	4,879,699
Hotel occupancy				
Fines and forfeitures	1,919,173	1,835,900	1,764,861	2,330,349
Licenses and permits	970,459	882,048	1,179,514	1,313,886
Intergovernmental	6,700,295	8,212,693	8,421,167	7,295,013
Charges for services	2,615,041	2,692,018	2,841,201	3,432,738
Investment earnings	654,674	716,787	395,202	682,679
Miscellaneous	1,696,143	7,433,637	4,841,764	4,737,887
Payments in lieu of taxes				
<b>Total Revenues</b>	<u>43,654,412</u>	<u>52,084,522</u>	<u>51,161,574</u>	<u>52,980,556</u>
<b>Expenditures</b>				
General government	4,116,076	3,988,181	4,213,164	4,624,844
Public safety	20,249,092	19,784,935	20,297,811	22,197,995
Public works	2,725,219	2,807,218	2,777,669	2,732,340
Culture and recreation	2,498,976	3,102,454	3,363,044	3,566,928
Planning and community development	4,259,306	4,353,386	4,394,758	3,766,931
Transportation	3,780,732	3,870,762	3,703,654	4,102,026
Other	776,488			
Capital outlay	4,457,737	21,006,276	28,812,375	6,489,761
Debt service:				
Principal	1,415,252	2,334,328	2,403,386	2,336,783
Interest and other charges	1,158,490	3,234,649	3,145,796	2,977,186
<b>Total Expenditures</b>	<u>45,437,368</u>	<u>64,482,189</u>	<u>73,111,657</u>	<u>52,794,794</u>
Excess of revenues over (under) expenditures	(1,782,956)	(12,397,667)	(21,950,083)	185,762
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,043,951		533,036	600,000
Transfers out	(5,043,951)	(150,000)		(100,000)
Bonds issued	42,340,085			
Payments to refunded bond escrow agent	(9,610,618)			
Cost of issuance				
Proceeds from capital leases		195,785	95,720	349,786
Proceeds from loan				
Sale of capital assets			623,447	264,629
Capital contributions				
<b>Total Other Financing Sources (Uses)</b>	<u>32,729,467</u>	<u>45,785</u>	<u>1,252,203</u>	<u>1,114,415</u>
Extraordinary item - insurance proceeds related to hurricane Ike				
<b>Net change in fund balances</b>	<u>\$ 30,946,511</u>	<u>\$ (12,351,882)</u>	<u>\$ (20,697,880)</u>	<u>\$ 1,300,177</u>
Debt service as a percentage of non-capital expenditures	6.7%	14.7%	14.3%	13.0%

*Exhibit IV*

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$	15,570,356	\$ 16,200,093	\$ 18,647,994	\$ 19,530,352	\$ 18,284,008	\$ 20,133,281
	16,849,450	22,116,284	22,704,813	22,329,682	19,762,544	21,310,423
	5,148,416	5,374,681	5,450,345	4,806,846	4,756,164	5,009,456
	4,122,104					
	1,828,036	2,466,285	2,601,586	2,326,075	2,040,355	2,833,357
	1,577,415	1,334,749	1,000,361	1,784,222	1,161,760	1,143,096
	7,185,304	6,893,575	16,654,859	83,977,409	68,424,863	54,464,276
	3,533,981	3,686,864	2,838,980	2,075,934	2,285,567	2,647,526
	1,523,724	2,234,647	1,378,287	414,544	103,811	77,639
	791,144	1,407,875	1,567,770	1,427,391	2,388,035	2,235,767
	655,190	736,824	125,880	119,753	120,117	
	<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>	<u>109,854,821</u>
	5,005,095	5,044,120	5,482,693	5,934,113	7,642,352	6,565,344
	23,518,717	25,262,076	31,028,485	28,674,367	28,881,042	27,751,162
	3,152,531	3,356,179	9,479,789	66,170,885	17,007,107	20,947,719
	6,071,320	6,826,276	7,816,000	8,800,651	6,697,503	7,933,345
	3,762,075	4,330,446	3,531,916	3,293,090	6,420,644	30,051,147
	4,355,966	4,892,519	5,022,723	4,418,959	4,941,417	5,115,134
						217,405
	3,473,537	5,437,402	8,027,872	7,223,020	33,770,019	26,190,548
	2,638,390	2,376,618	1,976,368	2,048,866	22,393,732	2,474,843
	3,321,250	3,225,640	3,501,027	3,451,105	3,479,515	3,440,468
	<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>	<u>130,687,115</u>
	3,486,239	1,700,601	(2,895,998)	8,777,152	(11,906,107)	(20,832,294)
	4,023,293	4,490,769	4,264,684	4,696,451	6,295,984	4,281,316
	(3,523,293)	(3,914,885)	(3,663,853)	(4,080,005)	(5,601,169)	(3,369,005)
	9,840,254					7,520,000
	(2,669,235)					509,904
		767,043				150,000
				22,500,000		
	118,052	258,495	61,239	21,898	(3,808)	150,489
				316,072		
	<u>7,789,071</u>	<u>1,601,422</u>	<u>662,070</u>	<u>23,454,416</u>	<u>691,007</u>	<u>9,242,704</u>
				4,909,735	7,170,024	
\$	<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>	<u>\$ (11,589,590)</u>
	13.0%	11.3%	8.8%	4.7%	36.1%	6.0%

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

<b>Fiscal Year</b>	<b>Tax Year</b>	<b>Real Property</b>		<b>Agriculture, Minerals and Unimproved Land</b>	<b>Less Tax Exempt Real Property</b>
		<b>Residential Property</b>	<b>Commercial Property</b>		
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
2011	2010	2,326,513,779	3,180,929,673	448,096,912	1,653,285,702

\* 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*

<b>Total Direct Tax Rate</b>	<b>Estimated Actual Taxable Value</b>	<b>Assessed Value as a Percentage of Actual Value</b>
*	*	*
*	*	*
0.54170	\$ 3,724,887,715	65.41%
0.54170	3,937,872,354	65.56%
0.54170	4,870,900,236	59.71%
0.49400	5,001,976,471	66.54%
0.49400	6,138,802,150	67.44%
0.49400	6,518,843,089	67.96%
0.55400	5,602,592,850	67.43%
0.55400	6,273,760,599	68.58%

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

<b>City of Galveston</b>						
<b>Fiscal Year</b>	<b>Tax Year</b>	<b>General Fund</b>	<b>Library Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>	<b>Galveston I.S.D.</b>
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
2011	2010	0.45120	0.05000	0.05280	0.55400	1.16500

Source: Galveston Central Appraisal District, 2010 Taxing Entities and Tax Rates

*Exhibit VI*

<b>Galveston College</b>	<b>Navigation District 1</b>	<b>Galveston County</b>	<b>Total Millage</b>
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
0.18950	0.04880	0.61980	2.57710

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**CITY OF GALVESTON, TEXAS**  
**PRINCIPAL PROPERTY TAXPAYERS**  
*Current Year and Nine Years Ago*

*Exhibit VII*

<b>Taxpayer</b>	<b>2011</b>			<b>2002</b>		
	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>% of Total Assessed Valuation</b>	<b>Taxable Assessed Value</b>	<b>Rank</b>	<b>% of Total Assessed Valuation</b>
Centerpoint Energy / Reliant HL & P	\$ 40,361,290	1	0.94%	\$ 41,418,660	1	1.92%
Fertitta Hospitality, Incorporated	27,474,890	2	0.64%	18,407,120	4	0.85%
Halliburton Energy Services Inc	17,971,659	3	0.42%			
Galveston Island Water Park LP	16,430,160	4	0.38%			
East Beach Project Phase 1LTD	16,045,710	5	0.37%			
Diamond Beach VP, LP	15,761,100	6	0.37%			
Silverleaf Resorts Inc	15,112,230	7	0.35%			
Walmart Realty	13,015,320	8	0.30%	18,682,260	3	0.87%
MP Island	13,014,941	9	0.30%			
M-I LLC	12,451,370	10	0.29%			
Southwestern Bell				20,964,540	2	0.97%
NewPark Shipbuilding				13,324,280	5	0.62%
American National Insurance Co				13,101,540	6	0.61%
MBP Corporation				11,340,710	7	0.53%
Sealy Smith Foundation				10,826,190	8	0.50%
Dawn on the Seawall Partnership				8,700,000	9	0.40%
Eighteen Seventy Strand Corp				8,413,100	10	0.39%
<b>Total Assessed Valuation for Principal Property Taxpayers</b>	<b>\$ 187,638,670</b>		<b>4.36%</b>	<b>\$ 165,178,400</b>		<b>7.67%</b>

Source: Galveston County Tax Office.

Total Taxable Assessed Value                      \$4,302,254,662                      \$ 2,152,893,394

**CITY OF GALVESTON, TEXAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
*Last Ten Fiscal Years*

<b>Fiscal Year</b>	<b>Tax Year</b>	<b>Tax Rate (A)</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected Within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>
				<b>Amount</b>	<b>Percentage of Levy</b>	<b>Amount</b>
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
2011	2010	0.55400	20,259,666	19,157,461	94.6%	628,686

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**

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<b>Amount</b>	<b>Percentage of Levy</b>
\$ 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%
19,786,147	97.7%

**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**
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
2011	18,478	31,595	212	22,605	16,453	71,285	1,643	15,174	60,924

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*

<b>Total Primary Government</b>	<b>Percentage of Personal Income *</b>	<b>Per Capita *</b>
\$ 129,810	1.27%	2,254
138,424	1.35%	2,391
153,008	1.49%	2,642
154,556	1.50%	2,669
189,132	1.86%	3,304
185,914	1.79%	3,187
201,577	1.92%	3,406
214,273	2.40%	4,259
185,689	1.85%	3,293
174,281	1.55%	3,650

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

*Exhibit X*

<b>Fiscal Year</b>	<b>Gross Bonded Debt<sup>1,2</sup></b>	<b>Less Amounts Available in Debt Service Fund and Debt Payable from Enterprise Revenues</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
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%	327
2010	19,833,738	4,557,189	15,276,549	0.27%	271
2011	18,478,488	4,610,860	13,867,628	0.22%	290

1. Includes all long term general obligation debt

2. FY 2011 Includes \$1,334,991 accretion

**CITY OF GALVESTON, TEXAS**  
**DIRECT AND OVERLAPPING GOVERNMENTAL**  
**ACTIVITIES DEBT**  
*As of September 30, 2011*

*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 \$ 72,600,000	88.78%	\$ 64,452,828
Galveston County	2 297,854,000	18.31%	54,535,280
Galveston County MUD No. 29	3 4,010,000	100.00%	<u>4,010,000</u>
<b>Total Net Overlapping Debt</b>			122,998,108
<b>Total Direct Debt</b>			<u>18,478,488</u>
<b>Total Direct and Overlapping Net Debt</b>			<u><u>\$ 141,476,596</u></u>
Ratio of total direct and overlapping net debt to 2011 assessed valuation			<u><u>3.29%</u></u>
Direct and overlapping net debt per capita			<u><u>\$ 2,963</u></u>

- (1) Per GISD audited financial statements as of 8/31/11.
- (2) Galveston County Auditors Office
- (3) MUD 29 Debt Schedule-City Finance Department

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Galveston. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for paying the debt of each overlapping government.

\* Applicable percentage were estimated by determining the portion of another governmental unit taxable assessed value that is within the city's boundaries and dividing it by each units total taxable assessed value.

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

*Exhibit XII*

<b>Fiscal Year</b>	<b>Population<sup>2</sup></b>	<b>Personal Income</b>	<b>Per Capita Personal Income<sup>1</sup></b>	<b>Median Age<sup>1</sup></b>	<b>Education Level in Years of Formal Schooling<sup>2</sup></b>	<b>School Enrollment<sup>2</sup></b>	<b>Unemployment Rate<sup>3</sup></b>
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%
2011	47,743	1,125,827,683	23,581	35.5	12.0	6,400	8.9%

Data Sources:

- 1 - United States Census Bureau, 2010 Census
- 2 - Galveston Chamber of Commerce
- 3 - Texas Workforce Commission (Data for Galveston County)

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**

**PRINCIPAL EMPLOYERS**

*Current Year and Nine Years Ago*

*Exhibit XIII*

<b>Employer</b>	<b>2011</b>			<b>2002</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
University of Texas Medical Branch	11,568	1	48.38%	13,321	1	46.06%
Landry's	1,045	2	4.37%	732	7	2.53%
Galveston Independent School District	1,012	3	4.23%	1,450	3	5.01%
Galveston County (on Island only)	969	4	4.05%	1,376	4	4.76%
American National Insurance Company	800	5	3.35%	1,601	2	5.54%
City of Galveston	728	6	3.04%	793	6	2.74%
Moody Gardens	655	7	2.74%	1,024	5	3.54%
Fertitta's Hospitality	582	8	2.43%	512	8	1.77%
Texas A&M University at Galveston	400	9	1.67%	400	9	1.38%
Walmart	350	10	1.46%			
U.S. Army Corp of Engineers				388	10	1.34%
<b>Total</b>	<b>18,109</b>		<b>75.72%</b>	<b>21,597</b>		<b>74.67%</b>

Source: Galveston Chamber of Commerce and GEDP Survey

**CITY OF GALVESTON, TEXAS**

**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION**

*Last Ten Fiscal Years*

<b>Function</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>General Government</b>				
City Secretary	3	3	3	3
Municipal Court	13	12	12	12
City Manager	4	4	4	4
City Auditor				
Finance	17	16	17	17
Legal	3	4	4	5
Human Resources	3	3	4	4
Police	208	211	218	216
Fire	103	106	113	123
Emergency Management	1	1	1	2
Streets & Traffic	31	40	49	50
Parks	29	30	34	36
Planning & Community Development	19	22	25	25
<b>Total General Government</b>	<b>433</b>	<b>452</b>	<b>484</b>	<b>497</b>
<b>Pensions</b>				
Waterworks	69	49	45	43
Sewer System	76	84	86	80
Drainage Utility	13	22	25	25
Municipal Golf Course	18	18	18	12
Sanitation	44	37	46	57
Municipal Airport	9	9	9	9
Central Service	13	12	11	11
Central Garage	24	23	22	22
Municipal Insurance	3	3	3	2
Construction Management				6
Island Transit	65	56	52	64
<b>Total Other Funds</b>	<b>332</b>	<b>313</b>	<b>317</b>	<b>331</b>
<b>Total Full Time Equivalent Personnel</b>	<b>765</b>	<b>765</b>	<b>801</b>	<b>828</b>

Source: City Budget Office

*Exhibit XIV*

**Full-time Equivalent Employees as of September 30,**

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
3	3	3	4	3	3
13	13	13	9	9	10
4	4	4	4	3	5
		1	1		1
16	17	16	20	18	13
6	5	5	5	5	5
4	3	4	4	5	4
219	220	205	192	197	131
127	131	131	119	124	115
2	1	1	2	1	1
50	50	51	44	45	31
51	34	38	44	39	34
33	23	35	42	54	23
<u>528</u>	<u>504</u>	<u>507</u>	<u>490</u>	<u>503</u>	<u>375</u>
39	38	34	36	39	32
73	74	69	55	65	69
23	22	16	16	7	23
12	12				
55	55	43	39	39	45
9	9	9	8	8	8
11	10	12	9	10	12
22	23	22	20	19	22
2	2	2	2		2
6	6	7	7	6	5
65	65	59	48	52	52
<u>317</u>	<u>316</u>	<u>273</u>	<u>240</u>	<u>245</u>	<u>269</u>
<u>845</u>	<u>820</u>	<u>780</u>	<u>730</u>	<u>748</u>	<u>644</u>

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

<b>Function</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Police				
Physical arrests	10,316	9,069	9,094	9,094
Parking violations	60,600	57,431	47,116	47,116
Traffic violations	42,930	45,450	43,435	43,435
Fire				
Number of calls	7,034	7,276	7,657	7,657
Number of inspections	614	531	1,154	1,154
Water				
Number of service connections	22,000	22,000	22,000	22,000
Daily average consumption (gallons)	17,192,000	17,192,000	13,648,765	13,648,765
Sewer				
Average daily flow (gallons)	10,000,000	10,000,000	10,215,000	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.



<b>Fiscal Year</b>					
<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
17,845	14,245	10,889	7,154	7,043	6,593
38,822	38,822	18,600	5,733	4,391	11,951
21,084	21,084	32,804	31,072	25,499	40,676
7,299	7,751	7,852	7,024	6,382	8,645
1,654	2,276	2,099	1,913	2,123	735
22,000	25,747	22,688	25,083	26,305	23,966
13,648,765	16,696,885	16,458,298	15,399,203	16,013,795	16,143,437
10,215,000	10,877,000	8,161,875	8,175,912	8,529,000	6,694,692
14,500,000	14,500,000	14,580,000	14,580,000	14,580,000	14,580,000

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

<b>Function</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Public safety				
Police				
Stations	3	3	3	3
Patrol units	61	63	58	58
Police Officers	164	164	170	170
Fire				
Fire stations	6	6	6	6
Firefighters	103	105	109	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	277	277	277	277
Parks	16	16	16	16
Tennis courts	15	15	15	15
Community centers	2	2	1	1
Cemeteries	7	7	7	7
Athletic fields	28	28	28	28
Municipal Golf Course	1	1	1	1
Water				
Water mains (miles)	240	240	317	317
Fire hydrants	1,800	1,800	1,931	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	182	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.

<b>Fiscal Year</b>					
<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
2	3	1	1	3	4
58	63	60	63	51	67
154	162	158	152	158	131
6	6	6	6	6	6
117	131	120	120	112	115
288	321	321	321	321	321
3,812	4,199	4,212	4,236	4,257	4,444
277	277	128	50	50	50
16	16	10	14	14	14
15	15	19	15	15	16
1	1	2	2	2	2
7	7	6	5	5	2
28	28	20	22	22	11
1	1				
317	333	380	385	386	388
1,931	2,350	2,368	2,410	2,414	2,422
33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
4	4	5	4	4	4
220	182	238	238	243	243
75	75	75	75	75	75
14,500,000	14,500,000	14,580,000	14,580,000	8,529,000	14,580,000

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