

**CITY OF GALVESTON, TEXAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED  
SEPTEMBER 30, 2012**

**Prepared by:**

**Finance Department**

**CITY OF GALVESTON, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 YEAR ENDED SEPTEMBER 30, 2012**

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## **INTRODUCTORY SECTION**

# City of Galveston



P. O. Box 779 / Galveston, Texas 77553

March 18, 2013

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, 2012.

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 Weaver, LLP, 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, 2012, 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, 2012, 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 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

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 24 and 93 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.

### **Economic Climate**

U.S. GDP slowed to 1.3% and job creation stagnated. The federal unemployment rate was 8% while Texas' unemployment rate was at 7.8%. Current economic growth in the U.S. showed uncertainty with the November 2012 presidential election and the "fiscal cliff".

### **Galveston Island Economic Climate Overview:**

Galveston Island Historic Pleasure Pier, at 25th Street, by Landry's Inc., opened May 31, 2012. The \$60 million redevelopment includes a paid parking lot with 500 spaces, full service restaurants, an entertainment stage, retail center, and amusement rides, all on a 1,130 foot long pier. The pier has the capacity of about 6,500 to 7,000 people, employs 650, and is estimated to draw 3 million people annually.

The Gulf of Mexico Foundation plans to move its headquarters from Corpus Christi to the island, where it will build a \$7.1 million center for education, training and conservation programs related to the Gulf that will lure hundreds here each year. The move will bring to the island up to 26 professional jobs and is expected to put Galveston in a national spotlight as researchers work to restore and educate the public about the Gulf of Mexico, upon which millions of jobs depend.

Texas A&M University at Galveston has under construction three new buildings with plans to open late in 2012. The buildings will further complement the \$50 million Ocean and Coastal Studies Building, which opened in 2011.

Moody Gardens Development: This tourist attraction includes 418 room hotel, over 100,000 square feet of meeting and convention space, a spa, and other attractions such as a rainforest pyramid, an aquarium pyramid, white sand beaches and IMAX theater. The number of visits annually is 2,000,000. The rainforest enhancement opened in June 2011 after a \$25 million enhancement project.

Pelican Rest Marina completed Phase I – 33 slip marina in 2011. Phase II of the marina, which will add 79 slips along with the restaurant and a remodel of the on-site bait/supply store. The completion of the condos – 18 units at 3,500 square-feet each is project for 2013. Total projected project -\$40 million.

The Galveston Island State Park was recently named one of the top 5 "Best Gulf Coast Beaches" by the Travel Channel – the only Texas beach to make the list. The list is published on the Travel Channel's website. The article describes Galveston as feeling like "a major resort destination" able to attract visitors from across the country to its beaches and downtown historic district. It dubs the Galveston Island State Park a "quiet oasis" where visitors can break from the masses to enjoy outdoor activities like bird-watching, biking, picnicking, fishing and beach camping with access to both the Gulf of Mexico and Galveston Bay. The recognition from the Travel Channel comes just weeks after another media leader in the tourism industry – *Family Vacation Critic* – named Galveston one of the 'Top 10 Family Vacations in 2013.'

### **Long-term financial planning**

For the next several years the City will receive funding in the form of Community Block Development Grant Recovery (CDBG-R) funding as well as FEMA for assistance with housing and infrastructure needs. These federal funds are necessarily administered by the State and subject to both federal and supplemental State



regulation. Various State agencies will be involved in the administration of millions of federal dollars dedicated to assist in Galveston's recovery.

The City Council has established a 90-day target balance for General Fund unrestricted cash and cash equivalents. The General Fund ended the year with an operating cash balance of \$11.6 million, representing approximately 109 days of maintenance and operation.

As it builds for the future, the City of Galveston is also taking important steps to ensure continued financial stability. The City has secured renewal of its \$20 million emergency bridge loan in the event of a major catastrophic emergency. The loan will cover the City for an entire year, not just hurricane season.

### **Relevant financial policies**

The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investment. With a positive economic outlook, conservative budgeting and substantial reserves for debt service, the City received rating of "A+" from Standard & Poor with a stable outlook for the City's series 2012 *Waterworks and Sewer System Revenue Refunding Bonds, dated: September 1, 2012.*

### **Major initiatives**

The next three to five years will be a continuance of recovery initiatives. The 2013 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 some bonded debt and realized tremendous savings.

### **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, 2011. 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.

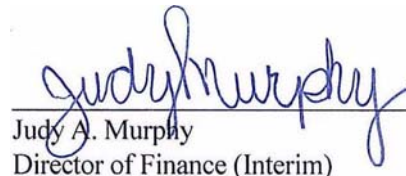
The award is valid for a period of one year only. We believe that the current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

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

Respectfully submitted,



Michael W. Kovacs  
City Manager



Judy A. Murphy  
Director of Finance (Interim)

# City of Galveston, Texas

Incorporated March 1939  
Charter Adopted April 19, 1960

## Council – Manager Form of Government

### City Council

Mayor	Lewis Rosen
Mayor Pro Tem	Rusty Legg
Council Member	Cornelia Harris Banks
Council Member	Elizabeth Beeton
Council Member	Norman Pappous
Council Member	Terrilyn Tarlton
Council Member	Marie Robb

### City Council Appointees

City Manager	Michael Kovacs
City Secretary	Douglas Godinich
City Attorney	Dorothy Palumbo
Court Judge	Jim Schweitzer
City Auditor	Glenn Bulgherini

### Departmental Directors (City Manager Appointees)

Airport	Hud N. Hopkins
Assistant City Manager	Brian Maxwell
Assistant City Manager	Eric Wilson
City Engineer	Justin Bowling
Emergency Management	Charlie Kelly
Finance	Judy Murphy (Interim)
Fire	Jeff Smith
Grants	Sterling W. Patrick
Island Transit	Michael Worthy
Municipal Court	Anita Brown (Interim)
Municipal Garage	David A. Smith
Parks and Recreation	Barbara E. Sanderson
Planning and Housing	Lori Schwartz (Interim)
Police	Henry Porretto
Public Information Officer	Liz Rogers
Public Works	Angelo Grasso
Sanitation	Cindy DeWitt
Technology	Ryan Young
Utilities	David VanRiper

# 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, 2011

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.



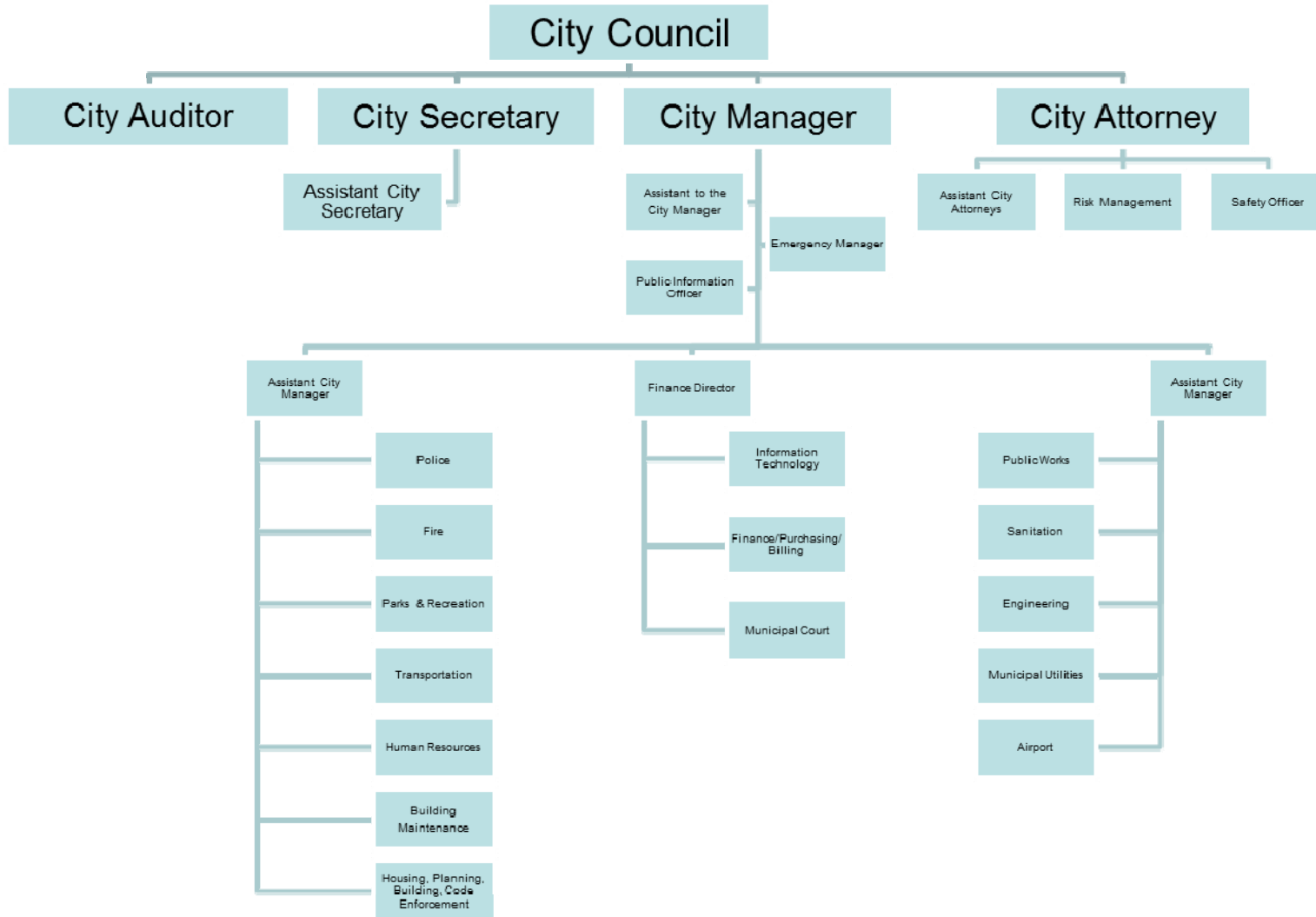
*Christopher P. Moirrell*

President

*Jeffrey R. Egan*

Executive Director

# CITY OF GALVESTON ORGANIZATIONAL CHART



## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor,  
City Council and City Manager  
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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following discretely presented component units and fiduciary funds of the City: the Park Board of Trustees of the City of Galveston, Texas, the Galveston Island Redevelopment Authority, the Board of Trustees of the Galveston Wharves, the City of Galveston Property Finance Authority, the Galveston Housing Finance Corporation, the City of Galveston Employees' Retirement Plan for Police, the City of Galveston Employees' Retirement Plan for Employees and the Galveston Firefighters' Pension Fund which represents approximately 100% of total assets, net assets or fund balances, as applicable, and total revenues of the discretely presented component units and pension trust funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for those discretely presented component units and pension trust funds, are 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. The financial statements of the Galveston Island Redevelopment Authority, the City of Galveston Property Finance Authority, the Galveston Housing Finance Corporation, the City of Galveston Employees' Retirement Plan for Police, the City of Galveston Employees' Retirement Plan for Employees and the Galveston Firefighters' Pension Fund were not audited in accordance with *Government Auditing Standards*. 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 and the reports of the other auditors provide a reasonable basis for our opinions.

To the Honorable Mayor,  
City Council and City Manager  
City of Galveston, Texas

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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 18, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 17), and Schedule of Funding Progress for Participation in Pension Plans (pages 91 through 92) 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 and the other auditors 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, budgetary comparison information 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 by us and other auditors in the audit of the financial statements and certain additional



To the Honorable Mayor,  
City Council and City Manager  
City of Galveston, Texas

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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, based on our audit and the report of other auditors, 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 by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Houston, Texas  
March 18, 2013

## Management's Discussion and Analysis (Unaudited)

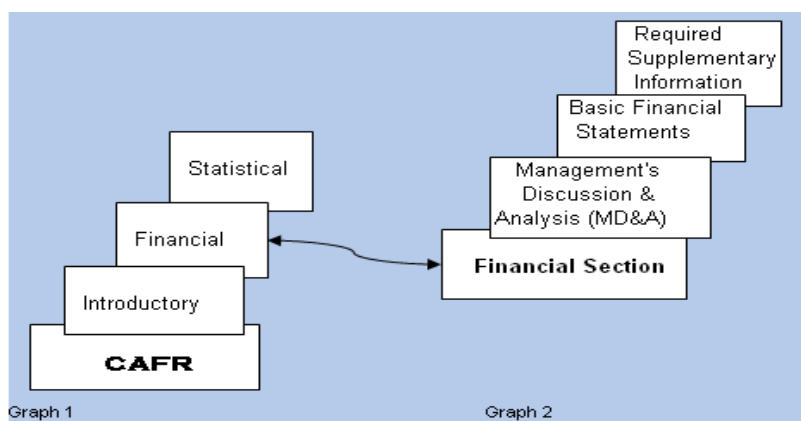
As management of the City of Galveston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2011. 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 \$311 million (net assets). Of these assets, capital assets increased \$27 million, or 8.00%, from the prior year.
- The ratio of total assets to total liabilities for governmental activities was 2.13 times; for business type activities the ratio was 2.61 times.
- General Fund cash and equivalents increased \$8 million from the prior year.
- The fund balance of the General Fund increased from \$10.4 million to \$16.8 million, a 60% increase. The ending balance represents \$1.5 million from Municipal Utility District 29 abolishment, \$1.99 million from the sale of fixed assets and savings of \$1.2 million in expenditures.
- Business-type assets increased \$28 million over the last fiscal year. Of these, capital assets increased \$22.2 million, an increase of 12.6% from the prior year.

### Overview of the Financial Statements

This discussion and analysis is 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. As shown in Graph 1, the comprehensive annual financial report (CAFR) is organized into four main sections. The Financial Section is the main section of the CAFR and is organized into three sub-sections, as outlined in Graph 2.



**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 (sewer) collection and treatment, solid waste management, drainage management and improvement and an airport facility.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Park Board, Tax Increment Reinvestment Zones, an 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 18-19 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-nine 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, 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-five 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 20-24 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 (sewer) collection and treatment, solid waste management (sanitation), drainage management and improvement, and airport operations.

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 25-28 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 29-30 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 31-90 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 91. 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 \$311 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (55.0%) 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.

**Table A-1**  
**(In Thousands)**

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$127,525	\$112,746	\$ 66,224	\$ 65,856	\$193,749	\$178,602
Capital assets	152,303	146,901	197,618	175,455	349,921	322,356
<b>Total assets</b>	<b>279,828</b>	<b>259,647</b>	<b>263,842</b>	<b>241,311</b>	<b>543,670</b>	<b>500,958</b>
Current Liabilities	39,880	40,027	6,766	12,720	46,646	52,747
Long-term liabilities	91,685	84,118	94,495	94,136	186,180	178,254
<b>Total liabilities</b>	<b>131,565</b>	<b>124,145</b>	<b>101,261</b>	<b>106,856</b>	<b>232,826</b>	<b>231,001</b>
<b>Net assets</b>						
Invested in capital assets, net						
of related debt	90,855	98,510	80,158	99,989	171,013	198,499
Restricted	25,670	25,326	11,920	11,887	37,590	37,213
Unrestricted	31,737	11,666	70,504	22,579	102,241	34,245
<b>Total net assets</b>	<b>\$148,262</b>	<b>\$135,502</b>	<b>\$162,582</b>	<b>\$134,455</b>	<b>\$310,844</b>	<b>\$269,957</b>

An additional portion of the City's net assets (12.1%) 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.

While the City is still in a recovery mode as a consequence of damage incurred from Hurricane Ike, property tax values have increased resulting in higher ad valorem tax and sales tax revenue has also increased. In the current fiscal year, the general fund increased fund balance by \$6.336 million, the result of selling a parking garage, savings in budgeted expenditures and the abolishment of Municipal Utility District 29. The general fund has exceeded the 90 day targeted operating cash reserve benchmark and has adequate cash outlays for 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 \$227.2 million, comprising 86.7% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$61.4 million and \$66.5 million, respectively, which is 79.5% of total net assets compared to 76.8% for 2011. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 93% 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 75% and 25% respectively. Expenses were divided between governmental activities and business-type activities 73% and 27% respectively. Net assets increased \$13.6 million, or 10% from the prior period for governmental activities and \$28.5 million or 21% for business-type activities. Overall, net assets increased 16%.

**CITY OF GALVESTON, TEXAS**

Table A-2

*Changes in Net Assets (in thousands)*

*For the Fiscal Year Ended September 30, 2012*

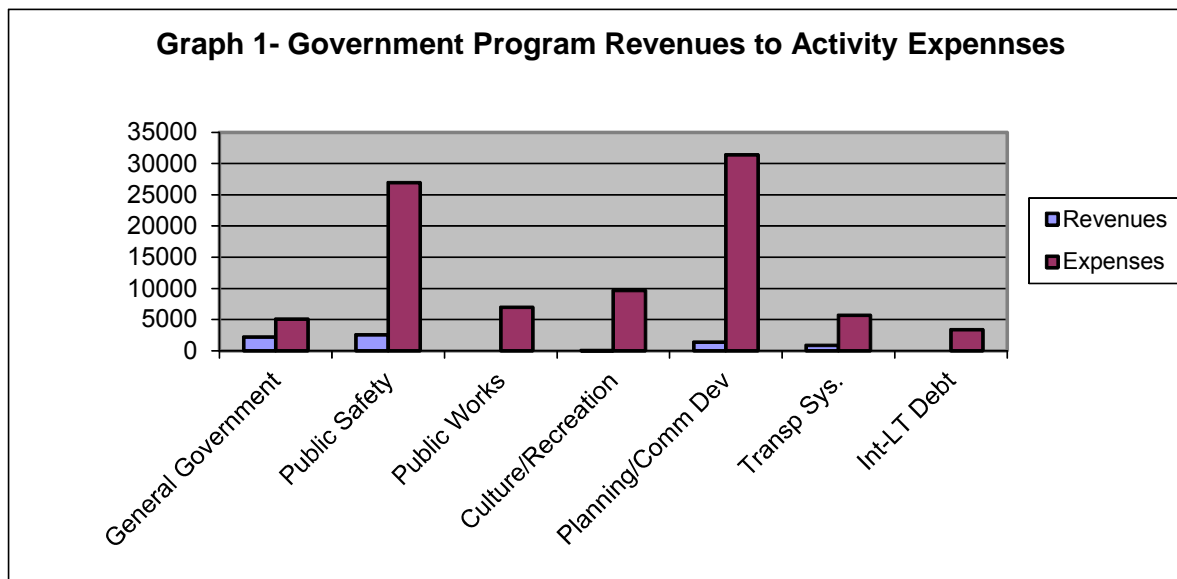
*With comparative totals for fiscal year ended September 30, 2011*

	Business - type					
	Governmental activities		activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 6,934	\$ 7,282	\$ 37,393	\$ 35,798	\$ 44,327	\$ 43,080
Operating grants & contributions	34,074	30,449			34,074	30,449
Capital grants and contributions	28,628	24,040	4,554	2,700	33,162	26,740
<b>General revenues:</b>						
Property taxes	21,489	20,087			21,489	20,087
Sales taxes	17,712	16,589			17,712	16,589
Hotel occupancy taxes	5,507	4,722			5,507	4,722
Franchise fees	5,073	5,009			5,073	5,009
Payments in lieu of taxes	119	120			119	120
Other	3,540	1,202	360	312	3,900	1,514
<b>Total revenues</b>	<b>123,076</b>	<b>109,500</b>	<b>42,287</b>	<b>38,810</b>	<b>165,363</b>	<b>148,310</b>
<b>Expenses</b>						
General government	5,164	7,413			5,164	7,413
Public safety	26,919	27,056			26,919	27,056
Public works	6,925	23,631			6,925	23,631
Culture and recreation	9,672	8,820			9,672	8,820
Planning /community development	12,942	31,723			12,942	31,723
Transportation system	24,150	4,649			24,150	4,649
Interest on long-term debt	4,909	2,556			4,909	2,556
Waterworks system			14,001	15,519	14,001	15,519
Sewer system			10,991	11,058	10,991	11,058
Sanitation services			4,175	4,108	4,175	4,108
Drainage utility			1,959	1,750	1,959	1,750
Airport			1,468	1,496	1,468	1,496
<b>Total Expenses</b>	<b>90,681</b>	<b>105,848</b>	<b>32,594</b>	<b>33,931</b>	<b>123,275</b>	<b>139,779</b>
<b>Increase (decrease) in net assets</b>						
before transfers	32,395	3,652	9,693	4,879	42,088	8,531
Transfer in (out)	(18,830)	(18,863)	18,830	18,863		
<b>Change in net assets</b>	<b>13,565</b>	<b>(15,211)</b>	<b>28,523</b>	<b>23,742</b>	<b>42,088</b>	<b>8,531</b>
Net assets at beginning of year, as originally	135,502	150,713	134,455	110,713	269,957	261,426
Prior period adjustment	(805)		(397)		(1,202)	
<b>Net assets at beginning of year, as restated</b>	<b>134,697</b>		<b>134,058</b>		<b>268,755</b>	
<b>Net assets at end of year</b>	<b>\$148,262</b>	<b>\$135,502</b>	<b>\$162,581</b>	<b>\$134,455</b>	<b>\$312,843</b>	<b>\$269,957</b>

Table A-2 above reflects that:

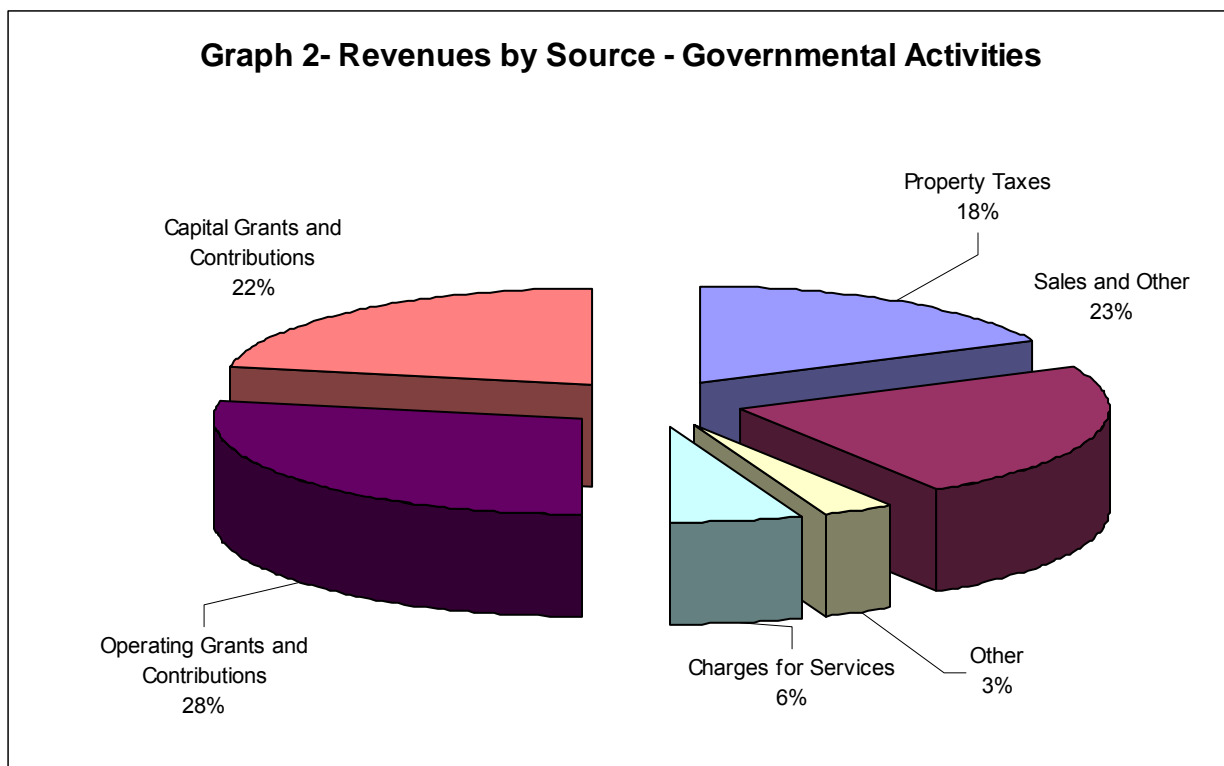
- Spending for governmental activities for the fiscal year was \$ 90.68 million, a decrease of \$15.2 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 29.7% of governmental activities compared to 25.6% in 2011. The authorized force increased from 133 to 142 with the hiring of additional personnel through funding from the COPS (Community Oriented Policing Service) Grant. Public safety operating expenses decreased \$1.37 million or 4.8% compared to the prior year.
- The single largest source of revenue is from operating grants and contributions, representing 28% of the \$123 million governmental activity revenue stream.
- Capital grants and contributions represented another 23% 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 approximately 17.5% of governmental activity revenue. City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes were \$49.9 million, an increase of \$3.4 from the previous year. Taxes and franchise fees contributed to 40.5% of governmental activities revenue compared to 42.5% in fiscal year 2011.
- Charges for services account for 5.6% of governmental activities, and decreased \$348,000 in fiscal 2012 to \$6.9 million.

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 \$88.9 million. Program revenues provided \$69.6 million, for a net expense of \$19.3 million for the fiscal year 2011-2012.





Graph 2 below presents the sources of revenue for governmental activities. Federal assistance, most notably from the ARRA and CDBG recovery assistance program provided 50% of the 2012 year funding. A combination of sales taxes (14.63%), hotel taxes (4.55%), franchise fees (4.19%), and payments in lieu of taxes received from business-type activities (0.1%) comprise the total revenues. The City's property taxes contributed an additional 18% of total revenues.



**Business-type Activities.** Business-type activities increased the City's net assets by \$28.5 million, or 21%. Business-type net assets accounted for 51.9% of the City's total net assets. Revenues derived from charges for services account for 89.4% 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, 2012  
With comparative totals for fiscal year ended September 30, 2011*

<b>Program</b>	<b>Program Expenses</b>	<b>Revenues</b>	<b>2012 Net Revenue (Cost) of Services</b>	<b>2011 Net Revenue (Cost) of Services</b>
Waterworks system	\$14,001	\$17,334	\$ 3,333	\$ 615
Sewer system	10,991	13,492	2,501	1,050
Sanitation services	4,175	4,655	480	139
Drainage utility	1,959	2,846	888	757
Airport	<u>1,468</u>	<u>3,599</u>	<u>2,131</u>	<u>2,007</u>
<b>Totals</b>	<b>\$32,594</b>	<b>\$41,926</b>	<b>\$ 9,333</b>	<b>\$ 4,568</b>

As indicated in Table A-3, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$ 31.1 million, or 95.5% of all the expenses of business-type activities.

Related revenues of those funds totaled \$38.3 million, or 91.4% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$38.5 million and expenses were \$33.9 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 \$7.2 million compared to \$4.6 million in 2011. Capital contributions under a series of American Recovery and Reinvestment (ARRA) water and sewer grants amounted to \$4.5 million. In total, business type activity excess revenues over expenses were \$9.3 million in 2012 compared to \$4.6 million in 2011.

Table A-4 shows business-type activities revenues by source. Charges for services provided 90.5% of the total, capital grants and contributions provided 9.5%

**CITY OF GALVESTON, TEXAS**

*Table A-4*

*Revenues by Source- Business Type Activities  
(in thousands)  
For the Fiscal Year Ended September 30, 2012  
With comparative totals for fiscal year ended September 30, 2011*

	<b>2012</b>		<b>2011</b>	
	<b>Dollars</b>	<b>Percentage</b>	<b>Dollars</b>	<b>Percentage</b>
Charges for services	\$37,393	90.5%	\$35,798	92.3%
Capital grants and contributions	4,533	9.5%	2,700	7.0%
Other	<u>          </u>	<u>0%</u>	<u>312</u>	<u>0.7%</u>
<b>Totals</b>	<b><u>\$41,926</u></b>	<b><u>100.0%</u></b>	<b><u>\$38,810</u></b>	<b><u>100.0%</u></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 increased from \$14.7 million in fiscal 2011 to \$20.9 million in fiscal year 2012. Cash and temporary investments amount to \$11.6 million or 55% of total assets and net receivables are reported at \$9 million, or 44.5% of the total.
- General Fund liabilities decreased by \$189,989. Liabilities were \$4.1 million in 2012. Deferred revenue from property taxes amounted to 63% of General Fund liabilities compared to 61.2% for fiscal year 2011.
- General Fund actual revenues were more than budget by \$1.9 million. Expenditures were favorable to budget by \$947,486. In total, revenues exceeded expenditures by \$2.8 million as a result of organizational efficiencies.
- The General fund's fund balance increased \$6.3 million in 2012 to \$16.8 million.
- One fund that was recognized last year, the Texas Water Development Grant, was not recognized this year.
- Other governmental non-major funds (24 separate funds) have cash and investments totaling \$34.88 million, comprising 84.16% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund decreased by \$845,126 to \$3.77 million at the end of 2012.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$60 million. Of this amount, \$12.75 million constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted amounts for capital projects amounted to \$15.6 million. Committed amounts are reported for operations, \$3.4 million and capital construction \$1.8 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 \$227 million, which comprises 86.7% of the total assets of all proprietary funds. Unrestricted net assets of those two funds are \$7.7 million and \$56.3 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 2012 departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2012 set General Fund revenue and expenditures at \$41.3 million (inclusive of other financing sources), which amounted to a \$487,657 increase over the prior year. The property tax rate remained the same as the prior year, at \$0.554 mills. While the 2012 budget contemplated no change in fund balance, the actual increase was \$6.3 million of revenues over expenditures. Sales tax revenue exceeded budgeted amounts by \$1 million, precipitated by the opening of the Galveston Island Historical Pleasure Pier in May 2012 which is anticipated to draw 3 million people a year to the island. Property taxes realized were favorable to budget by \$559,000 arising primarily from the abolishment of Municipal Utility District 29 and property taxes in that District becoming revenue for the City. Fines and forfeitures were under budgeted revenues by \$545,000. Several unanticipated revenues generated \$3.4 million for the City. Among these sources were sale of a parking garage and other assets for nearly \$2 million and abolishment of MUD 29 which yielded \$1.5 million to the general fund.

General Fund budgeted expenditures were \$40.8 million. Departments reported a favorable variance to budgets in all areas, including general government, \$240,000; public safety, \$243,000; public works, \$88,000; culture and recreation, \$191,000; planning and community development, \$143,000. Conservative spending policies contributed to the favorable year-end results.

Island Transit total revenues were equal to expenditures. Savings in budgeted expenditures of \$205,000, especially in salaries and benefits, due to not hiring additional staff to cover a proposed reduced head time on each bus route, were enough to offset some federal grant revenue which was under projected budgeted amounts.

## Capital Asset and Debt Administration

CITY OF GALVESTON, TEXAS

Table A-5

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

September 30, 2012

With comparative totals for September 30, 2011

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 19,712	\$ 19,884	\$ 2,487	\$ 2,485	\$ 22,199	\$ 22,369
Infrastructure	65,924	68,222	86,179	71,358	152,103	139,580
Buildings	38,689	41,962	47,114	46,637	85,803	86,397
Equipment and furniture	18,801	11,837	6,459	6,380	25,260	20,419
Contractual water rights			15,043	17,012	15,043	17,012
Construction in progress	9,177	4,996	40,336	31,583	49,513	36,579
	<u>\$152,303</u>	<u>\$146,901</u>	<u>\$197,618</u>	<u>\$175,455</u>	<u>\$349,921</u>	<u>\$322,356</u>

As shown in Table A-5, at the end of 2012, the City's investment in capital assets has a carrying value of \$349.9 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 \$152.3 million in capital assets, while business-type activities have invested in \$197.6 million of capital assets.

Governmental capital assets subject to depreciation decreased \$5.4 million. Construction in progress increased \$4.3 million. Depreciation expense accounted for a decrease in carrying value of \$7.3 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 \$22.1 million. Construction in progress increased \$8.7 million. Depreciation expense accounted for a decrease in carrying value of \$7.8 million. Construction of the Main Wastewater treatment plant increased by \$11 million, this is an \$85 million project. Airport construction for drainage projects, near the taxiway, increased by \$2.8 million.

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

**Long-term Debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$158.9 million. Of this amount, \$21.7 million was comprised of debt backed by the full faith and credit of the government, and \$30.3 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 (\$107 million) primarily represents bonds secured solely by specified revenue sources, \$69.9 million and certificates of obligation, \$37.2 million.

**CITY OF GALVESTON, TEXAS**  
**Outstanding Debt (in thousands)**  
**September 30, 2012**  
**With comparative totals for September 30, 2011**

*Table A-6*

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$21,702	\$18,478	\$	\$	\$ 21,702	\$ 18,478
Special obligation bonds	30,290	31,595			30,290	31,595
Contracts payable			31,862	34,719	31,862	34,719
Revenue bonds			37,955	39,800	37,955	39,800
Certificates of obligation	22,516	22,605	14,658	15,174	37,174	37,779
Notes payable	2,426	2,516	7,822	8,873	10,248	11,389
Capital lease obligation	1,654	124	135	397	1,789	521
	<u>\$78,588</u>	<u>\$75,318</u>	<u>\$92,432</u>	<u>\$98,963</u>	<u>\$171,020</u>	<u>\$174,281</u>

The City's total debt overall decreased \$3.2 million during the current fiscal year. On January 12, 2012 Council took action to abolish Galveston County Municipal Utility District No. 29, an inter-city MUD. As of such date, the City assumed all assets and outstanding obligations. The assumed obligations included Series 1998, Series 2005 and Series 2007 Bonds which were all Unlimited Tax and Waterworks and Sewer Bonds. These bonds are now included in the City's general obligation bonded debt. See Note 8 in the note disclosures.

On October 2, 2012, Fitch Ratings upgraded the City's general obligation bond rating from "A" to 'AA-' with a stable outlook. Standard & Poor's Ratings Services raised its underlying rating to "A+" from "A" on Galveston's existing GO Debt, also with a stable outlook, citing the improved financial position after Hurricane Ike as well as measures undertaken by officials to put the city in a better position to withstand likely future uncertainties arising from potential natural disasters. It was further stated that this rating was reflected by the City's moderate overall debt burden as well as diverse economy and very strong wealth levels. 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**

For the 2011 tax year appraised values increased to \$36.89 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 8.9% over the prior year. Appraised values increased by \$146 million, bringing net taxable roll values to \$3.5 billion. Sales tax revenue was budgeted to increase 4.5% based on recommendations from the City Finance and Fiscal Affairs Committee and after consideration of regional economic data.

The property tax rate was \$0.554 per \$100 valuation for fiscal year 2013. 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.

The 2013 budget did not include use of fund balance to assist in meeting its obligations for the general fund. In the General Fund, the City budgeted the cost of service levels within a sustainable revenue stream. Additionally, funds have been provided for vehicle replacement of \$1,000,000 and emergency reserve of \$200,000.

For fiscal year 2013, a 1.5% rate increase was approved for the Waterworks, and Sewer System and a 7% rate increase for 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.

U.S. GDP slowed to 1.3% and job creation stagnated. The federal unemployment rate was 8% while Texas' unemployment rate was at 7.8%. Current economic growth in the U.S. showed uncertainty in anticipation of the November 2012 presidential election and the "fiscal cliff."

All of these factors were considered in preparing the City's budget for the 2013 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, P.O. Box 779, Galveston, TX 77553, or physically located at 823 Rosenberg, Suite 300, Galveston, TX 77550.

## **BASIC FINANCIAL STATEMENTS**



**CITY OF GALVESTON, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
<b>ASSETS</b>					
Cash and investments	\$ 75,470,560	\$ 11,421,243	\$ 86,891,803	\$ 9,441,954	\$ 9,406,601
Investments	-	-	-	4,746,864	-
Receivables, net of allowance for uncollectibles	5,640,725	9,354,122	14,994,847	2,502,627	5,696,289
Internal balances	(4,395,835)	4,395,835	-	-	-
Due from other governments	30,219,266	-	30,219,266	31,930	-
Note receivable from component units	19,323,672	-	19,323,672	-	-
Restricted assets	472,285	39,153,754	39,626,039	-	22,687,962
Inventories	362,574	85,088	447,662	5,607	-
Prepaid items	391,902	16,019	407,921	211,471	612,450
Deferred charges	39,415	1,798,531	1,837,946	46,753	-
Other assets	-	-	-	-	886,550
Net investments in direct financing lease	-	-	-	-	3,029,403
Capital assets not being depreciated	28,889,749	42,823,020	71,712,769	2,117,321	33,907,729
Capital assets net of depreciation	123,413,430	154,794,936	278,208,366	335,889,513	85,018,537
Total assets	279,827,743	263,842,548	543,670,291	354,994,040	161,245,521
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	21,842,178	1,803,379	23,645,557	3,004,118	3,490,238
Accrued interest	724,474	1,091,308	1,815,782	5,459	1,771,104
Due to other governments	241,669	284,456	526,125	-	-
Due to primary government	-	-	-	-	182,000
Unearned revenue	17,072,120	1,260,851	18,332,971	-	-
Customer deposits	-	2,325,794	2,325,794	-	-
Long-term liabilities					
Due within one year	6,660,125	7,013,852	13,673,977	1,756,544	4,720,954
Due in more than one year	85,025,137	87,481,262	172,506,399	22,013,592	57,201,744
Total liabilities	131,565,703	101,260,902	232,826,605	26,779,713	67,366,040
<b>NET ASSETS (DEFICIT)</b>					
Invested in capital assets, net of related debt	90,855,598	80,157,311	171,012,909	335,012,441	85,136,679
Restricted for:					
Capital projects	-	-	-	159,735	-
Grants	8,782,571	-	8,782,571	-	-
Beach preservation	4,921,580	-	4,921,580	-	-
Debt service	11,965,778	11,920,271	23,886,049	1,330,095	2,324,964
Unrestricted	31,736,513	70,504,064	102,240,577	(8,287,944)	6,417,838
Total net assets	\$ 148,262,040	\$ 162,581,646	\$ 310,843,686	\$ 328,214,327	\$ 93,879,481

The Notes to the Basic Financial Statements  
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2012**

Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating	Capital	Primary Government			Component Units	
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
<b>Primary government</b>									
Governmental activities									
General government	\$ 5,164,104	\$ 2,159,124	\$ -	\$ -	\$ (3,004,980)	\$ -	\$ (3,004,980)	\$ -	\$ -
Public safety	26,918,715	2,553,678	181,331	-	(24,183,706)	-	(24,183,706)	-	-
Public works	6,924,845	-	-	1,717,960	(5,206,885)	-	(5,206,885)	-	-
Culture and recreation	9,672,133	1,500	116,313	-	(9,554,320)	-	(9,554,320)	-	-
Planning and community development	12,942,294	1,379,278	31,006,376	23,385,001	42,828,361	-	42,828,361	-	-
Transportation system	24,150,240	839,742	2,770,928	3,525,099	(17,014,471)	-	(17,014,471)	-	-
Interest on long-term debt	4,908,559	-	-	-	(4,908,559)	-	(4,908,559)	-	-
Total governmental activities	<u>90,680,890</u>	<u>6,933,322</u>	<u>34,074,948</u>	<u>28,628,060</u>	<u>(21,044,560)</u>	<u>-</u>	<u>(21,044,560)</u>	<u>-</u>	<u>-</u>
Business-type activities									
Waterworks	14,001,378	16,833,590	-	500,800	-	3,333,012	3,333,012	-	-
Sewer system	10,990,778	12,365,131	-	1,127,091	-	2,501,444	2,501,444	-	-
Sanitation	4,175,501	4,654,887	-	-	-	479,386	479,386	-	-
Drainage	1,958,749	2,516,814	-	329,621	-	887,686	887,686	-	-
Airport	1,467,784	1,186,487	-	2,412,676	-	2,131,379	2,131,379	-	-
Total business-type activities	<u>32,594,190</u>	<u>37,556,909</u>	<u>-</u>	<u>4,370,188</u>	<u>-</u>	<u>9,332,907</u>	<u>9,332,907</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 123,275,080</u>	<u>\$ 44,490,231</u>	<u>\$ 34,074,948</u>	<u>\$ 32,998,248</u>	<u>(21,044,560)</u>	<u>9,332,907</u>	<u>(11,711,653)</u>	<u>-</u>	<u>-</u>
<b>Component unit</b>									
Governmental activities	26,817,483	4,485,333	-	1,812,261	-	-	-	(20,519,889)	-
Business-type activities	26,053,691	24,911,592	1,962,345	716,170	-	-	-	-	1,536,416
Total component units	<u>\$ 52,871,174</u>	<u>\$ 29,396,925</u>	<u>\$ 1,962,345</u>	<u>\$ 2,528,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,519,889)</u>	<u>1,536,416</u>
<b>GENERAL REVENUES</b>									
Taxes:									
Property taxes					21,488,742	-	21,488,742	3,653,798	-
Sales and use taxes					17,711,804	-	17,711,804	-	-
Hotel occupancy taxes					5,506,630	-	5,506,630	7,654,936	-
Franchise fees					5,073,022	-	5,073,022	-	-
Payments in lieu of taxes					119,375	-	119,375	-	-
Unrestricted investment earnings					122,106	132,056	254,162	111,995	83,485
Miscellaneous					3,418,118	228,166	3,646,284	-	(77,611)
Capital asset contributions, net					-	-	-	4,454,822	-
Transfers					(18,830,424)	18,830,424	-	-	-
Total general revenues, extraordinary items and transfers					<u>34,609,373</u>	<u>19,190,646</u>	<u>53,800,019</u>	<u>15,875,551</u>	<u>5,874</u>
Change in net assets					13,564,813	28,523,553	42,088,366	(4,644,338)	1,542,290
<b>NET ASSETS, beginning of year, as originally reported</b>					<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>
<b>Prior Period Adjustment</b>					<u>(804,994)</u>	<u>(396,489)</u>	<u>(1,201,483)</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS, beginning of year as restated</b>					<u>134,697,227</u>	<u>134,058,093</u>	<u>268,755,320</u>	<u>332,858,665</u>	<u>92,337,191</u>
<b>NET ASSETS, end of year</b>					<u>\$ 148,262,040</u>	<u>\$ 162,581,646</u>	<u>\$ 310,843,686</u>	<u>\$ 328,214,327</u>	<u>\$ 93,879,481</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>General Fund</b>	<b>Hurricane Ike</b>	<b>CDBG Disaster Fund Housing</b>	<b>CDBG Disaster Fund Non-housing</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 11,582,059	\$ 21,474,976	\$ -	\$ 23,153	\$ 34,881,692	\$ 67,961,880
Receivables, net of allowance for uncollectibles	3,537,460	-	-	-	1,879,739	5,417,199
Due from other governments	2,721,145	4,666,816	12,579,464	5,715,498	4,536,343	30,219,266
Due from other funds	2,986,548	-	-	-	-	2,986,548
Inventories	-	-	-	-	148,976	148,976
Prepaid items	49,626	-	-	-	-	49,626
Total assets	<u>\$ 20,876,838</u>	<u>\$ 26,141,792</u>	<u>\$ 12,579,464</u>	<u>\$ 5,738,651</u>	<u>\$ 41,446,750</u>	<u>\$ 106,783,495</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 689,987	\$ 193,834	\$ 10,954,266	\$ 5,066,516	\$ 3,676,559	\$ 20,581,162
Accrued liabilities	580,187	-	14,716	5,421	89,581	689,905
Due to other funds	-	2,855,367	1,610,482	659,110	716,956	5,841,915
Payable to other governments	241,669	-	-	-	-	241,669
Deferred revenue	2,586,946	14,310,020	-	7,604	2,454,201	19,358,771
Total liabilities	<u>4,098,789</u>	<u>17,359,221</u>	<u>12,579,464</u>	<u>5,738,651</u>	<u>6,937,297</u>	<u>46,713,422</u>
<b>Fund Balances</b>						
<b>Nonspendable</b>						
Inventories	-	-	-	-	148,976	148,976
Prepaid items	49,626	-	-	-	-	49,626
<b>Restricted for</b>						
Debt service	-	-	-	-	12,515,705	12,515,705
Beach preservation	-	-	-	-	4,921,580	4,921,580
Capital projects	363,296	-	-	-	15,276,707	15,640,003
Grants	-	8,782,571	-	-	-	8,782,571
<b>Committed</b>						
Emergency reserves	3,425,226	-	-	-	-	3,425,226
Other	-	-	-	-	1,834,852	1,834,852
Unassigned	12,939,901	-	-	-	(188,367)	12,751,534
Total fund balances	<u>16,778,049</u>	<u>8,782,571</u>	<u>-</u>	<u>-</u>	<u>34,509,453</u>	<u>60,070,073</u>
Total liabilities and fund balances	<u>\$ 20,876,838</u>	<u>\$ 26,141,792</u>	<u>\$ 12,579,464</u>	<u>\$ 5,738,651</u>	<u>\$ 41,446,750</u>	<u>\$ 106,783,495</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012**

Total fund balances - governmental funds \$ 60,070,073

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 the fund financial statements, but are reported in the governmental activities of the statement of net assets. The balance of capital assets, net of accumulated depreciation of \$92,354,409 was: 146,648,429

Certain other assets are not available to pay current period expenditures and therefore deferred in the fund financial statements, but are reported in the governmental activities of the statement of net assets.

Property taxes receivable	1,403,793
Adjudicated municipal court fines	882,858
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 statements, but are included in the governmental activities of the statement of net assets. 3,791,751

Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bond payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net assets.

Bonds payable	(71,333,207)
Notes payable	(1,300,000)
Capital lease obligation	(1,654,482)
Compensated absences	(7,660,931)
Accrued interest	(658,957)
Net pension obligation	(823,395)
Deferred bond issuance premium / discount	(427,564)

Net assets of governmental activities \$ 148,262,040

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2012**

	General Fund	Hurricane Ike	CDBG Disaster Fund Housing	CDBG Disaster Fund Non-housing	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 17,621,159	\$ -	\$ -	\$ -	\$ 3,960,805	\$ 21,581,964
Sales and use taxes	13,402,966	-	-	-	9,815,468	23,218,434
Franchise fees	5,073,022	-	-	-	-	5,073,022
Licenses and permits	1,260,920	-	-	-	-	1,260,920
Fines and forfeitures	2,372,763	-	-	-	93,329	2,466,092
Charges for services	1,576,176	-	-	-	1,127,553	2,703,729
Investment earnings	30,985	-	-	-	73,003	103,988
Intergovernmental	138,060	2,894,756	25,766,188	22,602,826	10,993,207	62,395,037
Other	1,131,314	54,615	-	-	1,447,925	2,633,854
Total revenues	42,607,365	2,949,371	25,766,188	22,602,826	27,511,290	121,437,040
<b>Expenditures</b>						
Current						
General government	5,353,066	111,417	-	-	398,222	5,862,705
Public safety	26,073,922	60,443	-	-	178,051	26,312,416
Highways and roads	2,863,210	1,513,432	-	-	-	4,376,642
Culture and recreation	1,941,663	73,077	-	-	5,887,972	7,902,712
Planning and community development	1,920,318	256,071	25,766,188	4,130,614	1,838,056	33,911,247
Transportation	750,049	10,093	-	-	4,297,541	5,057,683
Debt service						
Principal	34,394	-	-	-	3,426,391	3,460,785
Interest and fiscal charges	4,764	-	-	-	3,381,204	3,385,968
Capital outlay	2,632,987	1,074,763	-	18,472,212	6,031,963	28,211,925
Total expenditures	41,574,373	3,099,296	25,766,188	22,602,826	25,439,400	118,482,083
Excess (deficiency) of revenues over expenditures	1,032,992	(149,925)	-	-	2,071,890	2,954,957
Other financing sources (uses)						
Other funding sources - MUD 29 abolishment	1,457,662	-	-	-	1,175,176	2,632,838
Proceeds from capital leases	1,564,791	-	-	-	-	1,564,791
Sales of assets	1,987,137	-	-	-	2,903	1,990,040
Transfers in	600,681	149,946	-	-	2,065,499	2,816,126
Transfers (out)	(307,346)	-	-	-	(1,828,017)	(2,135,363)
Total other financing sources (uses)	5,302,925	149,946	-	-	1,415,561	6,868,432
Net change in fund balances	6,335,917	21	-	-	3,487,451	9,823,389
<b>Fund balances, beginning of year</b>	10,442,132	8,782,550	-	-	31,022,002	50,246,684
<b>Fund balances, end of year</b>	\$ 16,778,049	\$ 8,782,571	\$ -	\$ -	\$ 34,509,453	\$ 60,070,073

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds \$ 9,823,389

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 (\$12,838,486) exceeds depreciation (\$6,845,036) in the current period. 5,993,450

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. (355,802)

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.

Assumption of general obligation bonds from MUD 29	(4,010,000)
Repayment of bonds	3,426,391
Accretion on capital appreciation bonds	(1,334,881)
Net proceeds from capital lease	(1,530,397)
Amortization of bond discount/premium	24,720

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	(618)
Compensated absences	(2,500)
Net pension obligation	216,641

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. 1,377,609

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. (63,189)

Change in net assets of governmental activities \$ 13,564,813

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Revenues</b>						
Property taxes	\$ 17,062,138	\$ 17,062,138	\$ 17,621,159	\$ -	\$ 17,621,159	\$ 559,021
Sales and use taxes	12,385,379	12,385,379	13,402,966	-	13,402,966	1,017,587
Franchise taxes	5,056,342	5,056,342	5,073,022	-	5,073,022	16,680
Licenses and permits	917,849	917,849	1,260,920	-	1,260,920	343,071
Intergovernmental	119,376	119,376	138,060	-	138,060	18,684
Charge for services	1,527,045	1,527,045	1,576,176	-	1,576,176	49,131
Fines and forfeitures	2,918,171	2,918,171	2,372,763	-	2,372,763	(545,408)
Investment earnings	23,845	23,845	30,985	(35)	30,950	7,105
Other	708,730	708,730	1,131,314	-	1,131,314	422,584
<b>Total revenues</b>	<b>40,718,875</b>	<b>40,718,875</b>	<b>42,607,365</b>	<b>(35)</b>	<b>42,607,330</b>	<b>1,888,455</b>
<b>Expenditures</b>						
Current						
General government	5,488,275	5,629,275	5,388,569	-	5,388,569	240,706
Public safety	26,396,351	26,339,691	27,661,051	(1,564,792)	26,096,259	243,432
Public works	2,924,838	2,921,738	2,899,466	(66,062)	2,833,404	88,334
Culture and recreation	2,135,150	2,132,507	1,941,663	-	1,941,663	190,844
Planning and community development	2,062,976	2,062,976	1,920,367	-	1,920,367	142,609
Transportation	850,000	850,000	850,000	-	850,000	-
Vehicle capital outlay	1,000,000	915,660	874,099	-	874,099	41,561
Special projects	-	-	39,158	(39,158)	-	-
<b>Total expenditures</b>	<b>40,857,590</b>	<b>40,851,847</b>	<b>41,574,373</b>	<b>(1,670,012)</b>	<b>39,904,361</b>	<b>947,486</b>
Excess (deficiency) of revenues over expenditures	(138,715)	(132,972)	1,032,992	1,669,977	2,702,969	2,835,941
<b>Other financing sources</b>						
Transfer to emergency reserves	(194,257)	(200,000)	-	(200,000)	(200,000)	-
Proceeds from capital leases	-	-	1,564,791	(1,564,791)	-	-
Other funding sources - MUD 29 abolishment	-	-	1,457,662	(1,457,662)	-	-
Sale of assets	-	-	1,987,137	(1,987,137)	-	-
Transfers in (out), net	332,972	332,972	293,335	-	293,335	(39,637)
<b>Total other financing sources</b>	<b>138,715</b>	<b>132,972</b>	<b>5,302,925</b>	<b>(5,209,590)</b>	<b>93,335</b>	<b>(39,637)</b>
Net change in fund balances	-	-	6,335,917	(3,539,613)	2,796,304	2,796,304
<b>Fund balance, beginning of year</b>	<b>10,431,077</b>	<b>10,431,077</b>	<b>10,442,132</b>	<b>(11,055)</b>	<b>10,431,077</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 10,431,077</b>	<b>\$ 10,431,077</b>	<b>\$ 16,778,049</b>	<b>\$ (3,550,668)</b>	<b>\$ 13,227,381</b>	<b>\$ 2,796,304</b>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>Business Type Activities - Enterprise Fund</b>				<b>Governmental Activities</b>
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
Current assets					
Cash and temporary investments	\$ 6,372,642	\$ 2,745,618	\$ 2,302,983	\$ 11,421,243	\$ 7,508,680
Accounts receivable, net of allowance for doubtful accounts	3,348,559	3,088,501	2,917,062	9,354,122	223,526
Due from other funds	370,499	1,043,410	1,256,963	2,670,872	184,495
Inventories	42,544	42,544	-	85,088	213,598
Prepaid expenses	5,861	5,861	4,297	16,019	342,276
Restricted assets					
Cash and investments	11,760,769	20,260,789	2,881,017	34,902,575	472,285
Investments with trustee	4,251,179	-	-	4,251,179	-
Total current assets	<u>26,152,053</u>	<u>27,186,723</u>	<u>9,362,322</u>	<u>62,701,098</u>	<u>8,944,860</u>
Noncurrent assets					
Deferred charges	960,120	836,915	1,496	1,798,531	39,415
Capital assets not being depreciated	12,264,047	24,126,805	6,432,168	42,823,020	-
Capital assets (net of depreciation)	87,698,306	47,993,768	19,102,862	154,794,936	5,654,750
Total noncurrent assets	<u>100,922,473</u>	<u>72,957,488</u>	<u>25,536,526</u>	<u>199,416,487</u>	<u>5,694,165</u>
Total assets	<u>127,074,526</u>	<u>100,144,211</u>	<u>34,898,848</u>	<u>262,117,585</u>	<u>14,639,025</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and accrued expenses	1,205,721	341,004	256,654	1,803,379	571,111
Accrued interest payable	648,612	430,851	11,845	1,091,308	65,517
Due to other governments	5,730	300	278,426	284,456	-
Customer deposits	1,162,900	1,162,894	-	2,325,794	-
Unearned revenue	776,585	325	483,941	1,260,851	-
Long-term debt, current portion					
Compensated absences	6,006	33,435	38,695	78,136	-
Capital lease obligation	-	-	134,697	134,697	-
Claims and judgments	-	-	-	-	90,664
Contracts payable	2,976,629	-	-	2,976,629	-
Notes payable	541,500	541,490	-	1,082,990	92,993
Bonds and certificates of obligation payable	1,040,348	1,586,052	115,000	2,741,400	93,600
Total current liabilities	<u>8,364,031</u>	<u>4,096,351</u>	<u>1,319,258</u>	<u>13,779,640</u>	<u>913,885</u>
Noncurrent liabilities					
Long-term debt, noncurrent portion:					
Compensated absences	204,319	382,993	431,400	1,018,712	396,192
Claims and judgments	-	-	-	-	1,572,138
Contracts payable	30,167,424	-	-	30,167,424	2,125,529
Notes payable	5,019,656	1,519,656	200,000	6,739,312	1,033,424
Bonds and other long-term debt payable	21,936,251	27,619,563	-	49,555,814	3,081,143
Total noncurrent liabilities	<u>57,327,650</u>	<u>29,522,212</u>	<u>631,400</u>	<u>87,481,262</u>	<u>8,208,426</u>
Total liabilities	<u>65,691,681</u>	<u>33,618,563</u>	<u>1,950,658</u>	<u>101,260,902</u>	<u>9,122,311</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	46,533,074	5,575,574	28,048,663	80,157,311	1,810,337
Restricted for debt service	7,129,301	4,673,129	117,841	11,920,271	23,713
Unrestricted	7,720,470	56,276,945	4,781,686	68,779,101	3,682,664
Total net assets	<u>\$ 61,382,845</u>	<u>\$ 66,525,648</u>	<u>\$ 32,948,190</u>	<u>160,856,683</u>	<u>\$ 5,516,714</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.

	1,724,963
Total net assets per government-wide financial statements	\$ 162,581,646

The Notes to the Basic Financial Statements are an integral part of this statement.



**CITY OF GALVESTON, TEXAS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	Business Type Activities - Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
<b>Operating revenues</b>					
Charges for services	\$ 16,801,988	\$ 12,365,131	\$ 8,358,188	\$ 37,525,307	\$ 15,820,412
Miscellaneous	52,523	33,173	120,602	206,298	13,886
Total operating revenues	16,854,511	12,398,304	8,478,790	37,731,605	15,834,298
<b>Operating expenses</b>					
Personnel services	1,561,696	3,348,494	3,558,706	8,468,896	2,152,382
Contractual services	943,402	1,669,232	2,023,158	4,635,792	2,093,240
Supplies and materials	941,207	1,439,344	223,633	2,604,184	3,378,246
Surface water contract	4,485,455	-	-	4,485,455	-
Insurance claims and premiums	-	-	-	-	5,386,368
Other expenses	407,327	484,759	455,635	1,347,721	764,848
Administration charge	616,015	375,976	290,234	1,282,225	-
Depreciation	4,043,038	2,512,262	1,241,029	7,796,329	285,013
Total operating expenses	12,998,140	9,830,067	7,792,395	30,620,602	14,060,097
Operating income	3,856,371	2,568,237	686,395	7,111,003	1,774,201
<b>Nonoperating revenues (expenses)</b>					
Interest and investment revenue	54,810	60,837	16,409	132,056	18,118
Insurance proceeds	-	-	-	-	49,920
Gain (loss) on disposal of capital assets	20,531	18,679	10,926	50,136	-
Interest expense	(1,180,341)	(1,292,827)	(22,530)	(2,495,698)	(209,088)
Amortization of bond issuance costs/defeasement	49,374	(43,797)	(2,243)	3,334	(2,724)
Total nonoperating revenues (expenses)	(1,055,626)	(1,257,108)	2,562	(2,310,172)	(143,774)
Income before contributions and transfers	2,800,745	1,311,129	688,957	4,800,831	1,630,427
Capital contributions	6,409,604	14,933,855	2,739,879	24,083,338	-
Transfers in	-	-	85,577	85,577	264,104
Transfers out	(439,454)	(327,173)	(201,676)	(968,303)	(62,141)
Change in net assets	8,770,895	15,917,811	3,312,737	28,001,443	1,832,390
<b>Net assets, beginning of year, as originally reported</b>	52,611,950	50,607,837	29,635,453	132,855,240	4,885,807
<b>Prior Period Adjustment</b>	-	-	-	-	(1,201,483)
<b>Net assets, beginning of year, as restated</b>	52,611,950	50,607,837	29,635,453	132,855,240	3,684,324
<b>Net assets, end of year</b>	\$ 61,382,845	\$ 66,525,648	\$ 32,948,190	160,856,683	\$ 5,516,714

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.

	522,110
Change in business-type activities in net assets per government-wide financial statements	<u>\$ 28,523,553</u>

**CITY OF GALVESTON, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service
<b>OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$ 16,679,217	\$ 12,621,557	\$ 8,521,342	\$ 37,822,116	\$ 15,890,849
Disbursed for personnel services	(1,545,088)	(3,360,457)	(3,555,162)	(8,460,707)	(2,041,699)
Disbursed for goods and services	(6,264,518)	(3,419,527)	(2,674,638)	(12,358,683)	(11,582,500)
Administrative service charge	(616,015)	(375,976)	(290,234)	(1,282,225)	-
Other operating revenues	52,523	33,173	-	85,696	-
<b>Net cash provided by operating activities</b>	<b>8,306,119</b>	<b>5,498,770</b>	<b>2,001,308</b>	<b>15,806,197</b>	<b>2,266,650</b>
<b>NONCAPITAL FINANCING ACTIVITIES</b>					
Interfund transfers in	-	-	85,577	85,577	264,104
Interfund transfers out	(439,454)	(327,173)	(201,676)	(968,303)	(62,141)
Insurance proceeds	-	-	-	-	49,920
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(439,454)</b>	<b>(327,173)</b>	<b>(116,099)</b>	<b>(882,726)</b>	<b>251,883</b>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Payments for capital acquisitions (net of sales)	(3,943,087)	(878,755)	(1,589,395)	(6,411,237)	(49,107)
Proceeds from issuance of bonds	-	6,403,135	-	6,403,135	-
Principal payments on debt - bonds	(3,861,489)	(1,436,813)	(110,000)	(5,408,302)	(248,680)
Principal payments on debt - long term contracts	(525,546)	(525,546)	-	(1,051,092)	-
Principal payments on debt - capital leases	-	-	(261,963)	(261,963)	(89,253)
Interest paid on revenue bonds and long term contracts	(1,001,493)	(1,311,469)	(7,764)	(2,320,726)	(1,671)
Interest paid on capital leases and notes payable	(133,031)	(71,725)	(12,509)	(217,265)	(49,508)
Transfers (to) from other funds	-	14,497	-	14,497	-
Refunded principal of revenue bonds	-	(5,990,000)	-	(5,990,000)	-
Bond issuance costs/gain on refunding	-	(419,314)	-	(419,314)	-
Proceeds from sale of equipment	-	-	-	-	-
Contributed capital	282,850	302,268	-	585,118	-
<b>Net cash used in capital and related financing activities</b>	<b>(9,181,796)</b>	<b>(3,913,722)</b>	<b>(1,981,631)</b>	<b>(15,077,149)</b>	<b>(438,219)</b>
<b>INVESTING ACTIVITIES</b>					
Investment with trustee	448,729	-	-	448,729	-
Interest on investments	54,810	60,837	16,409	132,056	18,118
<b>Net cash provided by investing activities</b>	<b>503,539</b>	<b>60,837</b>	<b>16,409</b>	<b>580,785</b>	<b>18,118</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(811,592)</b>	<b>1,318,712</b>	<b>(80,013)</b>	<b>427,107</b>	<b>2,098,432</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>18,945,003</b>	<b>21,687,695</b>	<b>5,264,013</b>	<b>45,896,711</b>	<b>5,882,533</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 18,133,411</b>	<b>\$ 23,006,407</b>	<b>\$ 5,184,000</b>	<b>\$ 46,323,818</b>	<b>\$ 7,980,965</b>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

	Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income	\$ 3,856,371	\$ 2,568,237	\$ 686,395	\$ 7,111,003	\$ 1,774,201
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	4,043,038	2,512,262	1,241,029	7,796,329	285,013
(Increase) decrease in accounts receivable	(150,859)	234,833	(29,120)	54,854	56,551
(Increase) decrease in inventory and prepaid expenses	(19,231)	(19,231)	6,975	(31,487)	(23,404)
Increase (decrease) in deferred revenue	61	75	71,672	71,808	-
Increase (decrease) in accounts payable	532,105	193,039	20,813	745,957	63,606
Increase (decrease) in salaries payable	4,078	10,050	(537)	13,591	118,469
Increase (decrease) in customer deposits	28,027	21,519	-	49,546	-
Increase (decrease) in compensated absences payable	12,529	(22,014)	4,081	(5,404)	(7,786)
<b>Net cash provided by operating activities</b>	<b>\$ 8,306,119</b>	<b>\$ 5,498,770</b>	<b>\$ 2,001,308</b>	<b>\$ 15,806,197</b>	<b>\$ 2,266,650</b>
<b>Noncash Investing, Capital and Financing Activities</b>					
Bond issuance cost/defeasement	\$ (148,413)	\$ -	\$ -	\$ (148,413)	\$ -
Contributed capital	6,126,754	14,631,586	2,739,879	23,498,219	-
<b>Net noncash transactions</b>	<b>\$ 5,978,341</b>	<b>\$ 14,631,586</b>	<b>\$ 2,739,879</b>	<b>\$ 23,349,806</b>	<b>\$ -</b>
Reconciliation of cash to statement of net assets					
Unrestricted cash and equivalents	\$ 6,372,642	\$ 2,745,618	\$ 2,302,983	\$ 11,421,243	\$ 7,508,680
Restricted cash and equivalents	11,760,769	20,260,789	2,881,017	34,902,575	472,285
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 18,133,411</b>	<b>\$ 23,006,407</b>	<b>\$ 5,184,000</b>	<b>\$ 46,323,818</b>	<b>\$ 7,980,965</b>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2012**

	<b>Pension Trust Fund</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,161,036	\$ 701,534
Receivables		
Interest and dividends	103,775	-
Loans to participants	160,763	-
Total receivables	264,538	-
Investments		
U.S. government securities	2,125,026	
Common stock	41,191,327	-
Equity funds	12,826,194	-
Corporate and foreign bonds	14,017,840	-
Fixed income funds	20,398,843	-
Total investments	90,559,230	-
Prepaid benefits	293,151	-
<b>TOTAL ASSETS</b>	93,277,955	\$ 701,534
<b>LIABILITIES</b>		
Accounts payable	28,730	4,324
Refunds payable and others	-	697,210
<b>TOTAL LIABILITIES</b>	28,730	\$ 701,534
<b>NET ASSETS</b>		
Held in trust for benefits and other purposes	\$ 93,249,225	

The Notes to the Basic Financial Statements  
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<b>Pension Trust Fund</b>
<b>ADDITIONS</b>	
Contributions	
Employer	\$ 3,630,210
Plan members	3,071,761
Total contributions	6,701,971
Investment earnings	
Net increase (decrease) in fair value of investments	(134,125)
Interest	1,154,825
Dividends	1,577,340
Investment activity expense	(519,796)
Total net investment earnings	2,078,244
Other Additions	
Miscellaneous	6,879
Total additions - investments and contributions	8,787,094
<b>DEDUCTIONS</b>	
Benefits	10,160,457
Administrative	269,091
Total deductions	10,429,548
Change in net assets	(1,642,454)
<b>Net assets, beginning of year</b>	<b>94,891,679</b>
<b>Net assets, end of year</b>	<b>\$ 93,249,225</b>

The Notes to the Basic Financial Statements  
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC 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. Financial 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. The aggregate governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are 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 the 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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**A. Financial Reporting Entity – Continued**

**Blended Component Units Reported with the Primary Government – Continued**

**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, 2011.

**Discretely Presented 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 component units:

**The Park Board of Trustees of the City of Galveston, Texas**

The Park Board of Trustees of the City of Galveston, Texas, (the Park Board), was created by 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, Texas  
2504 Church  
Galveston, Texas 77550

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**A. Financial Reporting Entity – Continued**

**Discretely Presented Component Units – Continued**

**Galveston Island Redevelopment Authority**

Galveston Island Redevelopment Authority (GIRA) 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 GIRA 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 GIRA) and separate audited reports are available. Complete financial statements for the GIRA may be obtained at the following address:

Galveston Island Redevelopment Authority  
1011 Tremont Street  
Galveston, Texas 77550

**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 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 not available.



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**A. Financial Reporting Entity – Continued**

**Discretely Presented Component Units – Continued**

**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 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 not available.

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

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**A. Financial Reporting Entity – Continued**

**Discretely Presented Component Units – Continued**

**The Board of Trustees of the Galveston Wharves**

The Board of Trustees of the Galveston Wharves (Galveston Wharves) was created by the City Charter on October 17, 1940 to manage, control, and maintain the 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 wharves. The Galveston Wharves financial records are the board's responsibility.

Complete financial statements for 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 Activities) 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.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Government-Wide and Fund Financial Statements – Continued**

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. Non-major funds are aggregated and presented in a single column in the appropriate governmental fund and proprietary fund statements.

In September 1993, the Governmental Accounting Standards Board issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. 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/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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Measurement Focus/Basis of Accounting – Continued**

The government reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues for the General Fund are property taxes, sales and use taxes, franchise taxes, permit fees, fines and forfeitures. Expenditures are for general government, finance, public safety, public works, culture and recreation, planning and community development and transit operations.

The **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.

**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 the City, 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 the City, including but not limited to administration, operations, maintenance, financing and related debt services, and billing and collections.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Measurement Focus/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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**D. Cash and Investments**

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

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

**E. 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 38.0% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 27.0% of total outstanding charges as of year-end.

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

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**F. 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, 2012, are recorded as prepaid items.

**G. Capital Assets**

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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:

<b>Property, Equipment or Intangible Type</b>	<b>Estimated Useful Lives</b>
Buildings	20 - 75 years
Improvements	5 - 50 years
Equipment	2 - 40 years
Sewer plants	50 - 75 years
Sewer lines	40 - 75 years
Water plants, 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

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**H. 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.

**I. Long-Term Obligations**

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

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

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



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**J. Fund Balances and Net Assets**

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 (ordinance or resolution) of the City Council, which has the highest level of decision making authority. 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 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 City 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, pursuant to the City's policy. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. At September 30, 2012, the City had no assigned fund balance amounts.

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.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications are available.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**K. 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. 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 September 30, 2012:

	<b>Business Type Activities - Enterprise Funds</b>			<b>Total</b>
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>	
Restricted for:				
Capital projects	\$ 7,292,409	\$ 13,993,916	\$ 2,761,834	\$ 24,048,159
Debt service	3,305,466	5,103,980	119,183	8,528,629
Investments with Trustee - debt service	2,629,687	-	-	2,629,687
Investments with Trustee - Capital projects	1,621,492	-	-	1,621,492
Meter deposits	1,162,894	1,162,893	-	2,325,787
	<u>\$ 16,011,948</u>	<u>\$ 20,260,789</u>	<u>\$ 2,881,017</u>	<u>\$ 39,153,754</u>

**L. 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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**M. Legal Compliance – Budgets**

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

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

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

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, the Island Transit, Rosenberg Library and Parks and Recreation Improvement Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, debt service funds 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 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 was one budget amendment during FY 2012. 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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**M. Legal Compliance – Budgets – Continued**

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 City 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.

**N. Revenue and Expenditure/Expenses Analysis in Comparison to Budget**

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

	General Fund				
	Budgetary Basis	Unbudgeted Funds	Sub-Funds	Budgeted Transfer to Reserves	GAAP Basis
Revenues	\$ 42,607,330	\$ -	\$ 35	\$ -	\$ 42,607,365
Expenditures	39,904,361	1,670,012	-	-	41,574,373
Revenues over (under) expenditures	2,702,969	(1,670,012)	35	-	1,032,992
Other financing sources (uses)	93,335	5,009,590	-	200,000	5,302,925
Net change in fund balance	2,796,304	3,339,578	35	200,000	6,335,917
<b>Fund balance at beginning of year</b>	<u>10,431,077</u>	<u>-</u>	<u>11,055</u>	<u>-</u>	<u>10,442,132</u>
<b>Fund balance at end of year</b>	<u>\$ 13,227,381</u>	<u>\$ 3,339,578</u>	<u>\$ 11,090</u>	<u>\$ 200,000</u>	<u>\$ 16,778,049</u>

**O. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**P. New Accounting Pronouncements**

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB 61). This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. The City will adopt GASB 61 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements* (GASB 62). This statement incorporates into GASB authoritative literature certain accounting and financial reporting guidance issued by the FASB and AICPA on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City will adopt GASB 62 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, (GASB 63). This statement amends GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual balance and renaming it net position rather than net assets. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City will adopt GASB 63 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City will adopt GASB 63 in the fiscal year ending September 30, 2014 and is currently evaluating the impact of this standard on its financial statements.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS AND INVESTMENTS**

*Credit Risk.* The primary stated objective of the City of Galveston's adopted Investment Policy (the 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 U.S. Securities and Exchange Commission (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 U.S. Government, its agencies or instrumentalities. State law and the Investment Policy restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories.

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 U.S. 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 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.

The City invests in TexPool, which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED**

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, 2012,

- Investment in the State Treasurer's AAA-rated local government investment pool represented 60.6% of the total portfolio, and
- Holdings in a rated money market mutual fund represented 11.2% of the total portfolio.
- Holdings in US Government securities rated AAA represented 28.2% of the total portfolio.

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:

U.S. Treasury Obligations	100%
U.S. Agency / Instrumentality Obligations	80%
SEC Registered Money Market Funds	50%
Repurchase Agreements	100%
Flex Repurchase (Bond Funds)	100%
Municipal Securities	20%
Local Government Investment Pools	100%
Participation per pool	10% of pool
Commercial Paper	35%
Limit per issuer	10%
Collateralized or FDIC Insured Certificates of Deposit	50%
NOW Accounts	100%

*Interest Rate Risk.* In order to limit interest and market rate risk from changes in interest rates, the City'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 investment policy establishes a maximum weighted average maturity of 15 months for operating funds and two years for reserve funds.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED**

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

Investment Type	Investment Maturities in Years	Investment Maturities in Years
	Less than 1 year	1 - 5 years
U.S. Treasury Notes and Bills	\$ 6,000,000	\$ 9,115,000
U.S. Agency Securities:		
Federal Home Loan Bank	3,000,000	10,000,000
Freddie Mac	3,000,000	-
2A-7 like Local Government Pools	66,906,923	-
SEC Registered Money Market Fund	12,418,913	-
Total	<u>\$ 91,325,836</u>	<u>\$ 19,115,000</u>

As of September 30, 2012, the portfolio contained:

- No holding in the portfolio had a stated maturity date beyond 29 months, and
- the dollar weighted average of the total combined portfolios was 102 days.

As of September 30, 2012, the portfolio contained U.S. Treasury and Agency securities as shown below.

**Listing of Structured Notes with Interest Rate Risk**

Security	Par	Purchase Date	Maturity Date	Cusip	Book Value	Market Value
<b>Discretely callable securities:</b>						
U.S. Treasury Notes	\$ 6,000,000	10/31/2010	10/31/2012	912828PD6	\$ 6,000,000	\$ 6,001,170
U.S. Treasury Notes	6,030,000	3/5/2012	1/31/2014	912828SB7	6,030,000	6,032,828
U.S. Treasury Notes	3,085,000	3/5/2012	2/15/2015	912828SE1	3,085,000	3,083,072
FHLB Notes	5,000,000	3/5/2012	1/29/2014	313376UF0	5,000,000	5,009,150
FHLB Notes	5,000,000	3/5/2012	12/27/2013	313371UC8	5,000,000	5,039,895
FHLB Notes	3,000,000	11/22/2002	11/15/2012	3133MTZL5	3,000,000	3,015,525
FNMC Notes	3,000,000	9/7/2007	10/25/2012	3137EAAZ2	3,000,000	3,008,985
	<u>\$ 31,115,000</u>				<u>\$ 31,115,000</u>	<u>\$ 31,190,625</u>



**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED**

*Custodial Credit Risk.* To control custody and safekeeping risk, the City's investment policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held in the City's name by an independent party. 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 (U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989). The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of September 30, 2012:

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

**NOTE 3. PROPERTY TAX**

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

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

In conjunction with limits placed on taxes, the annual increase in total budgeted expenditures for all purposes was limited to 7.0% 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, 2012, was \$0.55400. The tax rate to finance general governmental services was set at \$0.5012 and the tax rate for all other purposes, including debt service, was set at \$0.0528 per \$100 of assessed valuation.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 4. SALES TAX**

The City's sales tax rate is 2.0% for the year ended September 30, 2012. 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 by an amount equal to 25.0% of the 2.0% 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 2012. The total maximum allowable tax rate of \$ 0.70 was thus limited to \$0.59 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 sales tax collections, 75.0% is allocated to the General Fund and 25.0% to the IDC fund. On November 4, 2008, the voters extended the offset amount for the IDC fund for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC fund collections are allocated as follows: 20.0% for beach re-nourishment, 20.0% for streets, sewer and drainage improvement projects, 20.0% for economic development, and 20.0% delegated to park improvements.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. ACCOUNTS RECEIVABLE**

Receivables, as of September 30, 2012, for the City's individual major and non-major funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds					Total
	General	Hurricane Ike	CDBG Disaster Fund Housing	CDBG Disaster Fund Non-Housing	Non-major Governmental Funds	
Receivables:						
Property taxes	\$ 1,962,749	\$ -	\$ -	\$ -	\$ 301,806	\$ 2,264,555
Sales taxes	2,564,058	-	-	-	854,686	3,418,744
Franchise taxes	571,616	-	-	-	-	571,616
Hotel taxes	-	-	-	-	1,110,118	1,110,118
Court fines	3,847,099	-	-	-	-	3,847,099
Customer accounts	314,406	-	-	-	1,256,999	1,571,405
Intergovernmental	157,087	4,666,816	12,579,464	5,715,498	2,791,788	25,910,653
Other	300,725	-	-	-	195,403	496,128
Gross receivables	9,717,740	4,666,816	12,579,464	5,715,498	6,510,800	39,190,318
Less: allowance for uncollectibles	(3,459,135)	-	-	-	(94,718)	(3,553,853)
Net total receivables	<u>\$ 6,258,605</u>	<u>\$ 4,666,816</u>	<u>\$ 12,579,464</u>	<u>\$ 5,715,498</u>	<u>\$ 6,416,082</u>	<u>\$ 35,636,465</u>
	Business Type Activities - Enterprise Funds					
	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total	Total All Funds
Receivables:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,264,555
Sales taxes	-	-	-	-	-	3,418,744
Franchise taxes	-	-	-	-	-	571,616
Hotel taxes	-	-	-	-	-	1,110,118
Court fines	-	-	-	-	-	3,847,099
Customer accounts	3,912,713	4,407,565	4,134,038	-	12,454,316	14,025,721
Intergovernmental	-	-	-	-	-	25,910,653
Other	-	-	-	223,526	223,526	719,654
Gross receivables	3,912,713	4,407,565	4,134,038	223,526	12,677,842	51,868,160
Less: allowance for uncollectibles	(564,154)	(1,319,064)	(1,216,976)	-	(3,100,194)	(6,654,047)
Net total receivables	<u>\$ 3,348,559</u>	<u>\$ 3,088,501</u>	<u>\$ 2,917,062</u>	<u>\$ 223,526</u>	<u>\$ 9,577,648</u>	<u>\$ 45,214,113</u>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. INTERFUND BALANCES AND ACTIVITIES**

Interfund transfers for the primary government are as follows for the year ended September 30, 2012:

Transfer Out Fund	Transfer In Fund					Totals
	General Fund	Hurricane Ike Fund	Non-Major Governmental Funds	Internal Service Funds	Non-Major Enterprise Funds	
General fund	\$ -	\$ 2,643	\$ 2,163	\$ 264,104	\$ 38,436	\$ 307,346
Non-major governmental funds	-	-	1,828,017	-	-	1,828,017
Waterworks system	200,000	5,740	233,714	-	-	439,454
Sewer system	199,999	125,569	1,605	-	-	327,173
Non-major enterprise funds	200,682	994	-	-	-	201,676
Internal service funds	-	15,000	-	-	47,141	62,141
<b>Totals</b>	<b>\$ 600,681</b>	<b>\$ 149,946</b>	<b>\$ 2,065,499</b>	<b>\$ 264,104</b>	<b>\$ 85,577</b>	<b>\$ 3,165,807</b>

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	Hurricane Ike Fund	Local match for public assistance
General Fund	ARRA Asphalt Project	To transfer for paving project
General Fund	Central Garage Fund	To transfer for rolling stock
General Fund	Drainage Fund	To transfer asset funded by General Fund
Convention Center Funds	Project Specific Programs	Close out one of Convention Center Funds and transfer to new fund
Waterworks System	General Fund	To transfer payment in lieu of taxes
Waterworks System	Hurricane Ike Fund	Local match for public assistance
Waterworks System	Texas Water Development Board Grant	To transfer for construction monitor and local share for water projects
Sewer System	General Fund	To transfer payment in lieu of taxes
Sewer System	Hurricane Ike Fund	Local match for public assistance
Sewer System	Texas Water Development Board Grant	To transfer construction monitor
Sanitation Fund	General Fund	To transfer payment in lieu of taxes
Drainage Fund	Hurricane Ike Fund	Local match for public assistance
Drainage Fund	General Fund	Transfer capitalized cost to governmental funds
Central Service Fund	Hurricane Ike Fund	Local match for public assistance

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. INTERFUND BALANCES AND ACTIVITIES – CONTINUED**

The following is a detail of inter-fund receivables / payables for the primary government as of September 30, 2012:

<u>Payable Funds: Due From</u>	<u>Receivable Funds: Due To</u>					<u>Totals</u>
	<u>General Fund</u>	<u>Waterworks Fund</u>	<u>Sewer Fund</u>	<u>Non-Major Enterprise Funds</u>	<u>Internal Service Funds</u>	
Governmentals:						
Hurricane Ike fund	\$ -	\$ 370,499	\$ 1,043,410	\$ 1,256,963	\$ 184,495	\$ 2,855,367
CDBG Disaster Fund Housing	1,610,482	-	-	-	-	1,610,482
CDBG Disaster Fund Non-housing	659,110	-	-	-	-	659,110
Non-Major Governmental Funds	716,956	-	-	-	-	716,956
	<u>\$ 2,986,548</u>	<u>\$ 370,499</u>	<u>\$ 1,043,410</u>	<u>\$ 1,256,963</u>	<u>\$ 184,495</u>	<u>\$ 5,841,915</u>

The following is a detail of inter-fund receivables / payables:

<u>Due from</u>	<u>Due to</u>	<u>Purpose</u>
Hurricane Ike Fund	Waterworks Fund	To fund capital projects
Hurricane Ike Fund	Sewer Fund	To fund capital projects
Hurricane Ike Fund	Non-major Enterprise Fund	To fund capital projects
Hurricane Ike Fund	Internal Service Fund	To fund capital projects
CDBG Disaster Fund Housing	General Fund	Reclassification of deficit pooled cash
CDBG Disaster Fund Non-housing	General Fund	Reclassification of deficit pooled cash
Non-major Governmental Funds	General Fund	Reclassification of deficit pooled cash

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. CAPITAL ASSETS**

The following is a detail of capital asset activity for the year ended September 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 19,883,832	\$ -	\$ (171,810)	\$ 19,712,022
Construction in progress	4,996,387	4,914,295	(732,955)	9,177,727
Total capital assets not being depreciated	<u>24,880,219</u>	<u>4,914,295</u>	<u>(904,765)</u>	<u>28,889,749</u>
Capital assets being depreciated				
Buildings and improvements	48,730,295	14,486	-	48,744,781
Improvements other than buildings	6,132,204	12,654	-	6,144,858
Machinery and equipment	12,057,193	2,460,975	(169,467)	14,348,701
Licensed vehicles	14,161,059	4,819,316	(1,113,143)	17,867,232
Infrastructure	129,704,916	1,398,822	-	131,103,738
Total capital assets being depreciated	<u>210,785,667</u>	<u>8,706,253</u>	<u>(1,282,610)</u>	<u>218,209,310</u>
Less accumulated depreciation				
Buildings and improvements	(8,969,962)	(1,085,563)	-	(10,055,525)
Improvements other than buildings	(3,930,336)	(211,153)	-	(4,141,489)
Machinery and equipment	(7,358,434)	(815,827)	164,740	(8,009,521)
Licensed vehicles	(7,022,974)	(1,320,591)	933,878	(7,409,687)
Infrastructure	(61,482,743)	(3,696,915)	-	(65,179,658)
Total accumulated depreciation	<u>(88,764,449)</u>	<u>(7,130,049)</u>	<u>1,098,618</u>	<u>(94,795,880)</u>
Total capital assets being depreciated, net	<u>122,021,218</u>	<u>1,576,204</u>	<u>(183,992)</u>	<u>123,413,430</u>
Governmental activities capital assets, net	<u>\$ 146,901,437</u>	<u>\$ 6,490,499</u>	<u>\$ (1,088,757)</u>	<u>\$ 152,303,179</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. CAPITAL ASSETS – CONTINUED**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 2,485,394	\$ 1,767	\$ -	\$ 2,487,161
Construction in progress	31,583,414	26,597,798	(17,845,353)	40,335,859
Total capital assets not being depreciated	34,068,808	26,599,565	(17,845,353)	42,823,020
Capital assets being depreciated				
Buildings and system	64,774,791	1,981,903	-	66,756,694
Improvements other than buildings	117,074,797	18,017,924	-	135,092,721
Machinery and equipment	18,741,908	1,214,096	(610,500)	19,345,504
Contractual water rights	27,701,138	-	-	27,701,138
Total capital assets being depreciated	228,292,634	21,213,923	(610,500)	248,896,057
Less accumulated depreciation:				
Buildings and system	(18,138,538)	(1,503,902)	-	(19,642,440)
Improvements other than buildings	(45,717,187)	(3,196,559)	-	(48,913,746)
Machinery and equipment	(12,361,745)	(1,126,912)	601,958	(12,886,699)
Contractual water rights	(10,689,280)	(1,968,956)	-	(12,658,236)
Total accumulated depreciation	(86,906,750)	(7,796,329)	601,958	(94,101,121)
Total capital assets being depreciated, net	141,385,884	13,417,594	(8,542)	154,794,936
Business-type activities capital assets, net	<u>\$ 175,454,692</u>	<u>\$ 40,017,159</u>	<u>\$ (17,853,895)</u>	<u>\$ 197,617,956</u>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. CAPITAL ASSETS – CONTINUED**

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

Governmental activities	
General government	\$ 19,764
Public safety	1,095,846
Public works	2,642,449
Community and recreation	2,164,696
Planning and community development	176,457
Transportation system	745,824
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>285,013</u>
Total depreciation expense - governmental activities	<u><u>\$ 7,130,049</u></u>
Business-Type activities	
Waterworks	\$ 4,043,038
Sewer system	2,512,262
Sanitation	327,030
Drainage	224,155
Airport	<u>689,844</u>
Total depreciation expense - business-type activities	<u><u>\$ 7,796,329</u></u>

Construction in progress and remaining commitment, as of September 30, 2012, 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	\$ 1,080,896	\$ 6,335,104
Seawall Beautification	2,017,255	387,900	1,629,355
Island Transit Maintenance Facility - Design	4,623,225	1,846,454	2,776,771
Trolley	776,549	617,362	159,187
Garten Verein HVAC	67,290	52,568	14,722
Various Other Projects	7,864,999	5,038,225	2,826,774
Broadway Beautification	<u>1,543,220</u>	<u>154,322</u>	<u>1,388,898</u>
	<u><u>\$ 24,308,538</u></u>	<u><u>\$ 9,177,727</u></u>	<u><u>\$ 15,130,811</u></u>



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**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>
<b>Waterworks System Fund Projects</b>			
GCWA Galveston Railroad Causeway widening, Jamaica Beach Pump Station and Improvement, etc. (2002 bond)	\$ 1,621,017	\$ 1,456,232	\$ 164,785
30th Street to 59th Street Waterline	6,730,158	1,834,374	4,895,784
20 Inch Waterline along Pelican Island	5,194,649	4,731,869	462,780
Construction of 30th Street Storage Tank	1,330,124	888,737	441,387
Airport Pump Station Generator	1,137,487	628,798	508,689
Construction of 20" Waterline by Right of Way Lucas	952,418	952,418	-
Fire Hydrant Replacement Program	231,568	228,354	3,214
Utility Billing System	109,550	63,616	45,934
Various Water Projects	1,054,196	795,789	258,407
<b>Sewer System Fund Projects</b>			
Construction of Main Waste Water Treatment Plant	85,373,716	17,640,606	67,733,110
Sanitation Sewer Lift Station I	2,404,190	1,572,285	831,905
Design of Near West End Unserved Areas	730,041	649,598	80,443
Design of Far West End Unserved Areas	612,119	612,119	-
Repair of Various Lift Stations	646,624	481,670	164,954
Design of Upgrade and Expansion of Main Wastewater Treatment Plant	655,682	655,679	3
Utility Billing System	109,550	63,616	45,934
Various Sewer Projects	2,431,249	1,878,696	552,553
<b>Sanitation Fund Project</b>			
Repair of Sanitation Barn	21,002	21,002	-
<b>Drainage Fund Projects</b>			
Engineering Report for the Area from English Bayou to 34th Street Drainage Master Plan	762,020	706,096	55,924
Utility Billing System	109,550	63,616	45,934
Various Drainage Projects	1,228,878	1,175,992	52,886
<b>Airport Fund Projects</b>			
Design of North and South Hangar Access Taxiways	533,328	371,298	162,030
Construction for Drainage Phase II Near Taxiway Storm Lines	2,906,743	2,761,964	144,779
Various Airport Projects	101,435	101,435	-
<b>Totals</b>	<b>\$ 116,987,294</b>	<b>\$ 40,335,859</b>	<b>\$ 76,651,435</b>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT**

**Governmental Activities**

Long-term liability activity for the year ended September 30, 2012, is as follows:

	<b>Balance Beginning of Year</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance End of Year</b>	<b>Current Portion</b>
<b>Primary Government</b>					
General obligation bonds	\$ 17,143,497	\$ 4,010,000	\$ (2,121,391)	\$ 19,032,106	\$ 1,278,351
Accretion on capital interest bonds	1,334,991	1,558,923	(224,042)	2,669,872	-
Special obligation bonds	31,595,000	-	(1,305,000)	30,290,000	1,380,000
Certificates of obligation	22,605,072	-	(89,100)	22,515,972	2,518,600
Capital leases	124,085	1,564,791	(34,394)	1,654,482	370,219
Notes payable	2,515,670	-	(89,253)	2,426,417	92,993
Accrued compensated absences	8,064,909	715,753	(723,539)	8,057,123	9,302
Claims payable-unemployment tax	-	117,985	(117,985)	-	-
Claims payable-workers comp	1,467,075	433,221	(624,077)	1,276,219	624,077
Claims payable-health insurance	379,350	2,624,668	(2,617,435)	386,583	386,583
Deferred bond issuance discount/premium	452,284	-	(24,720)	427,564	-
Other post employment benefit liability	1,623,522	502,007	-	2,125,529	-
Net pension obligation	1,042,627	3,117,331	(3,336,563)	823,395	-
<b>Total primary government</b>	<b>88,348,082</b>	<b>14,644,679</b>	<b>(11,307,499)</b>	<b>91,685,262</b>	<b>6,660,125</b>
<b>Discretely presented component units</b>					
Special obligation bonds	660,000	-	(95,000)	565,000	100,000
Capital leases	87,796	-	(87,796)	-	-
Notes payable	13,277,634	176,275	(723,066)	12,730,843	1,656,544
Accrued interest	218,291	73,494	(11,360)	280,425	5,459
Accrued compensated absences	190,851	129,435	(143,010)	177,276	-
Due to developer	10,583,795	-	(561,744)	10,022,051	-
<b>Total discretely presented component units</b>	<b>25,018,367</b>	<b>379,204</b>	<b>(1,621,976)</b>	<b>23,775,595</b>	<b>1,762,003</b>
<b>Total reporting entity</b>	<b>\$ 113,366,449</b>	<b>\$ 15,023,883</b>	<b>\$ (12,929,475)</b>	<b>\$ 115,460,857</b>	<b>\$ 8,422,128</b>

Compensated absences, other post-employment benefits and pension obligations 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: the Employees Retirement Plan for Police, the Retirement Plan for City Employees and the Firefighters' Pension Plan. The City recognizes annual pension cost equal to the annual required contribution, net of employee contributions.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Governmental Activities – Continued**

If actual City funding is less than (or greater than) the annual pension cost, the City recognizes a liability (or asset) on its balance sheet referred to as the net pension obligation. 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 annual required contribution.

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

**Primary Government:**

**General Obligation Bonds**

\$13,275,102 - Series 2001 Obligation and Refunding bonds, due in annual installments of \$503,351 to \$441,927 May 2013 through May 2015; interest at 5.17% to 5.38%. A portion of the bonds were capital appreciation bonds. The original principal amount on the bonds are \$2,506,109. Accreted interest of \$1,110,949 is included in the long-term debt.	\$ 2,528,055
\$9,462,818 - Series 2005 Obligation and Refunding bonds, due in annual installments of \$485,000 to \$1,235,000 May 2013 through May 2023; interest at 3.75% to 4.10%.	7,200,000
\$3,050,000 - Series 2005 Unlimited Tax and Water and Sewer bonds, formerly issued by Municipal Utility District 29, abolished by the City, due in annual installments of \$215,000 to \$280,000 March 2013 to March 2024; interest at 3.5% to 4.3%	2,065,000
\$1,160,000 - Series 2007 Unlimited Tax and Water and Sewer bonds, formerly issued by Municipal Utility District 29, abolished by the City, due in annual installments of \$55,000 to \$105,000 March 2013 to March 2024; interest at 4.0% to 4.5%	920,000
\$7,520,000 - Series 2011 obligation refunding bonds, due in annual installments of \$20,000 to \$1,175,000 May 2013 through May 2023; interest at 2.0% to 4.0%.	7,430,000
<b>Total general obligation bonds</b>	<b>\$ 20,143,055</b>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Governmental Activities – Continued**

**Primary Government – Continued:**

**Special Obligation Bonds**

\$7,455,000 - Series 2001B Industrial Development Corporation Refunding bonds, due in annual installments of \$785,000 to \$865,000 September 2013 through September 2015; interest at 5.0% (this debt is being serviced, principal and interest, by Industrial Development Corporation). \$ 2,470,000

\$16,150,000 - Series 2002A Hotel Occupancy Tax bonds, due in annual installments of \$275,000 to \$1,165,000 September 2013 through September 2034; interest at 4.0% to 5.5%. 14,305,000

\$15,700,000 - Series 2002B Hotel Occupancy Tax bonds, due in annual installments of \$320,000 to \$1,165,000 September 2013 through September 2032; interest at 4.0% to 5.5%. 13,515,000

**Total special obligations bonds** \$ 30,290,000

**Certificates of Obligation Bonds**

\$19,323,672 - Series 2004 Wharves and Terminal Revenue bonds, due in annual installments of \$2,425,000 to \$1,390,621 February 2013 through February 2020; interest at 4.3% to 5.2%. A portion of the bonds are capital appreciation bonds. The original principal on the bonds is \$2,873,672. Accreted interest of \$1,558,923 is included in the long-term debt. \$ 20,882,595

\$3,581,000 - Series 2008 Combination Tax and Revenue Certificates of Obligation bonds, due in annual installments of \$93,600 to \$237,600 May 2013 through May 2033; interest at 4.5% to 5.30%. 3,192,300

**Total certificates of obligation** \$ 24,074,895

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Governmental Activities – Continued**

**Primary Government – Continued:**

**Capital Leases**

\$150,000 - 2011 Capital lease purchase due in monthly installments of \$3,147 through March 2015, interest at 4.0% \$ 89,691

\$1,564,791 - 2012 Capital lease purchase due in annual payments of \$335,415 through January 2017; interest at 3.6% 1,564,791

**Total capital leases** \$ 1,654,482

**Notes Payable**

\$1,531,488 - 2007 note payable due in semi-annual installments of \$69,380 through July 2022; interest 4.1% \$ 1,126,417

\$1,300,000 - note payable to Federal Emergency Management Agency; balance due in February 2014, with an additional five year extension available; interest of 1.8% 1,300,000

**Total notes payable** \$ 2,426,417

**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 12; principal due in annual installments; interest due in semi-annual installments through 2017; variable interest rate of 4.7% 30-day LIBOR plus 1.3% \$ 565,000

**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, 2012 are related to TIRZ 13. \$ 10,022,051

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Governmental Activities – Continued**

**Discretely Presented Component Units – Continued:**

**Notes Payable**

Park Board of Trustees - \$540,000 line of credit with Moody National Bank, secured by a certificate of deposit, interest due monthly at 4.3%, principle due on demand or on November 30, 2013.	\$ 321,114
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 maturity date of February 2013.	719,564
Park Board of Trustees - \$2,290,726 loan with the Federal Emergency Management Agency, interest due monthly at 1.8% 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 2.4% 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; remaining principal due on maturity date of December 15, 2024.	1,953,713
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 4.7%; matures October 1, 2022.	<u>5,155,000</u>
<b>Total notes payable</b>	<u><u>\$ 12,730,843</u></u>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**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	
	Principal	Interest	Principal	Interest
2013	\$ 1,278,351	\$ 1,083,310	\$ 1,380,000	\$ 1,506,069
2014	1,281,829	1,085,511	1,465,000	1,443,019
2015	1,276,926	1,084,616	1,550,000	1,375,413
2016	1,790,000	579,521	740,000	1,303,050
2017	1,850,000	518,268	795,000	1,270,675
2018-2022	9,355,000	1,532,564	5,040,000	2,961,375
2023-2027	2,200,000	89,928	7,160,000	4,162,000
2028-2032	-	-	9,885,000	2,109,750
2033-2037	-	-	2,275,000	172,000
<b>Total</b>	<b>\$ 19,032,106</b>	<b>\$ 5,973,718</b>	<b>\$ 30,290,000</b>	<b>\$ 16,303,351</b>

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 2,518,600	\$ 878,791	\$ 92,993	\$ 45,768
2014	2,637,200	761,567	1,396,890	131,956
2015	2,761,700	638,548	100,951	37,810
2016	2,901,200	497,851	105,182	33,579
2017	3,050,700	349,962	109,590	29,171
2018-2022	6,593,672	4,136,521	620,811	72,991
2023-2027	794,700	456,771	-	-
2028-2032	1,020,600	230,499	-	-
2033-2037	237,600	12,593	-	-
<b>Total</b>	<b>\$ 22,515,972</b>	<b>\$ 7,963,103</b>	<b>\$ 2,426,417</b>	<b>\$ 351,275</b>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Governmental Activities – Continued**

The future minimum lease obligations and the net present value of minimum lease payments on capital leases, as of September 30, 2012, are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Governmental Activities</u>
2013	\$ 373,174
2014	373,174
2015	354,296
2016	335,415
2017	<u>335,415</u>
Total minimum payments	1,771,474
Less: interest	<u>(116,992)</u>
Present value of minimum lease payments	1,654,482
Current portion	<u>370,219</u>
Long-term portion	<u><u>\$ 1,284,263</u></u>



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities**

Long-term liability activity for the year ended September 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
<b>Primary Government</b>					
Contracts (Gulf Coast West Authority)	\$ 34,719,395	\$ -	\$ (2,857,402)	\$ 31,861,993	\$ 2,976,629
Revenue Bonds-Water Fund	16,784,869	-	(801,137)	15,983,732	827,148
Revenue Bonds-Sewer Fund	23,015,131	6,180,000	(7,223,863)	21,971,268	1,372,852
Certificates of obligation	15,173,600	-	(515,900)	14,657,700	541,400
Notes payable	8,873,394	-	(1,051,092)	7,822,302	1,082,990
Capital Lease	396,660	-	(261,963)	134,697	134,697
Accrued compensated absences	1,102,252	46,874	(52,278)	1,096,848	78,136
Deferred bond issuance discount/premium	863,889	223,135	(120,450)	966,574	-
<b>Total primary government</b>	<b>100,929,190</b>	<b>6,450,009</b>	<b>(12,884,085)</b>	<b>94,495,114</b>	<b>7,013,852</b>
<b>Discretely presented component units</b>					
Special obligation bonds	8,500,000	-	(8,500,000)	-	-
Revenue bonds	31,485,000	25,925,000	(31,485,000)	25,925,000	1,355,000
Notes payable	8,831,619	-	(2,205,565)	6,626,054	2,886,655
Contracts payable	19,323,672	-	-	19,323,672	-
Capital lease	1,246,569	3,500,000	(1,430,190)	3,316,379	228,565
Accrued compensated absences	851,332	571,733	(474,657)	948,408	250,734
Unearned revenues and rents	5,648,989	-	(806,365)	4,842,624	-
Deferred bond issuance premium	245,696	723,488	(28,623)	940,561	-
<b>Total discretely presented component units</b>	<b>76,132,877</b>	<b>30,720,221</b>	<b>(44,930,400)</b>	<b>61,922,698</b>	<b>4,720,954</b>
<b>Total reporting entity</b>	<b>\$ 177,062,067</b>	<b>\$ 37,170,230</b>	<b>\$ (57,814,485)</b>	<b>\$ 156,417,812</b>	<b>\$ 11,734,806</b>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities – Continued**

**Primary Government**

**Contracts (Gulf Coast Water Authority)**

\$11,315,000 - Series 2002 Gulf Coast Water Authority Contract Revenue bonds, due in annual installments of \$595,000 to \$910,000 August 2013 through August 2022; interest at 4.5% to 5.1%.	\$ 7,390,000
\$6,970,000 - Series 2006 Gulf Coast Water Authority Chocolate Bayou Contract Note Payable, due in annual installments of \$847,724 to \$1,015,175 December 2012 through December 2017; interest at 4.0%.	4,646,781
\$4,320,000 - Series 2011E Gulf Coast Water Authority Water System Contract Revenue Refunding bonds, due in annual installments of \$680,000 to \$795,000 August 2013 through August 2017; interest at 2.5% to 5.0%.	3,655,000
\$17,730,000 - Series 2011A Gulf Coast Water Authority Contract Refunding Revenue bonds, due in annual installments of \$870,000 to \$2,370,000 August 2013 through August 2022; interest at 3.0% to 5.0% (Liability represents the City's 98.2% share of the remaining balance).	<u>16,170,212</u>

<b>Total contracts payable</b>	<u><u>\$ 31,861,993</u></u>
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**Revenue bonds**

\$11,000,000 - Series 2003 Waterworks and Sewer Revenue bonds, due in annual installments of \$515,000 to \$535,000 May 2013 through May 2014; interest at 3.5% to 3.6%.	\$ 1,050,000
\$38,310,000 - Series 2006 Waterworks and Sewer System Revenue and Refunding bonds, due in annual installments of \$1,325,000 to \$2,075,000 May 2013 through May 2030; interest at 3.6% to 4.7%.	30,725,000
\$6,180,000 - Series 2012 Waterworks and Sewer System Revenue and Refunding bonds, due in annual installments of \$45,000 to \$760,000 May 2013 through May 2023; interest at 2.0% to 3.0%.	<u>6,180,000</u>

<b>Total revenue bonds</b>	<u><u>\$ 37,955,000</u></u>
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**Capital lease**

\$1,240,182 - Capital lease purchase, due in semi-annual installments of \$134,697 through December 2012; interest at 3.8%.	<u><u>\$ 134,697</u></u>
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**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities – Continued**

**Certificates of obligation**

\$1,000,000 - Series 2003 Sanitation Certificates of Obligation bonds, due in annual installments of \$115,000 through May 2013; interest at 3.5%.	\$ 115,000
\$16,313,900 - Series 2008 Combination Tax and Revenue Certificates of Obligation bonds, due in annual installments of \$426,400 to \$1,082,400 May 2013 through May 2033; interest at 4.3% to 5.3%.	14,542,700

<b>Total certificate of obligation</b>	<b>\$ 14,657,700</b>
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**Notes payable**

\$9,962,462 - Line of credit extended to Waterworks and Sewer Funds, due in annual installments for 10 years, interest at 3.0%; due in quarterly installments of \$185,930 to \$298,028 through May 2016.	\$ 4,122,302
\$3,700,000 - Note payable to Federal Emergency Management Agency; balance due in February 2014, with an additional five year extension available; interest rate of 1.8%.	3,700,000

<b>Total notes payable</b>	<b>\$ 7,822,302</b>
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**Long-Term Contracts – Waterworks System**

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

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

On 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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities – Continued**

**Long-Term Contracts – Waterworks System – Continued**

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.

**Discretely Presented Component Units**

**Revenue Bonds**

Board of Trustees of the Galveston Wharves - \$25,925,000 Series 2011 Wharves and Terminal Revenue Refunding bonds, due in annual installments of \$1,355,000 to \$2,485,000 February 2013 through February 2026; interest at 4.0% to 5.0%.	<u>\$ 25,925,000</u>
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**Capital lease**

Board of Trustees of the Galveston Wharves - \$3,500,000 - 2011 capital lease purchase, due in 83 monthly installments of \$29,755, with a final payment of \$1,779,634 due in January 2018; adjustable interest rate initially at 4.0%.	<u>\$ 3,316,379</u>
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**Contracts payable**

Board of Trustees of the Galveston Wharves - Payable to the City of Galveston to service principal and interest on Series 2004 Wharves and Terminal Revenue bonds, due in annual installments of \$2,425,000 to \$1,390,621 February 2013 through February 2020; interest at 4.3% to 5.2%.	<u>\$ 19,323,672</u>
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**Notes payable**

Board of Trustees of the Galveston Wharves - \$8,500,000 - Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5%.	\$ 2,886,655
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Board of Trustees of the Galveston Wharves - \$3,700,000 - 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 at 2.5% and principal and interest due at maturity in 2014.	<u>3,739,399</u>
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<b>Total notes payable</b>	<u>\$ 6,626,054</u>
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**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities – Continued**

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

**Primary Government**

Fiscal Year Ending September 30,	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2013	\$ 2,200,000	\$ 1,421,901	\$ 2,976,628	\$ 1,347,146
2014	2,230,000	1,395,121	3,083,843	1,239,948
2015	2,310,000	1,313,086	3,210,151	1,120,668
2016	2,400,000	1,236,106	3,358,274	977,487
2017	2,480,000	1,155,176	4,463,544	838,189
2018-2022	12,125,000	4,412,738	14,769,553	2,222,308
2023-2027	8,610,000	2,359,707	-	-
2028-2032	5,600,000	511,424	-	-
<b>Total</b>	<b>\$ 37,955,000</b>	<b>\$ 13,805,259</b>	<b>\$ 31,861,993</b>	<b>\$ 7,745,746</b>

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 541,400	\$ 720,345	\$ 1,082,981	\$ 155,312
2014	442,800	697,132	4,815,847	294,829
2015	463,300	678,312	1,149,688	44,850
2016	483,800	658,622	773,786	10,806
2017	504,300	638,060	-	-
2018-2022	2,870,000	2,833,530	-	-
2023-2027	3,620,300	2,080,846	-	-
2028-2032	4,649,400	1,050,050	-	-
2033-2037	1,082,400	57,368	-	-
<b>Total</b>	<b>\$ 14,657,700</b>	<b>\$ 9,414,265</b>	<b>\$ 7,822,302</b>	<b>\$ 505,797</b>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Business Type Activities – Continued**

**Discretely Presented Component Units  
The Board of Trustees of The Galveston Wharves**

Year Ending December 31,	Revenue Bonds		Contracts Payable	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 812,929	\$ -	\$ 782,175
2013	1,355,000	1,192,294	2,425,000	721,550
2014	1,410,000	1,136,994	2,540,000	608,538
2015	1,470,000	1,079,394	2,660,000	489,650
2016	1,530,000	1,019,394	2,795,000	353,275
2017-2021	8,850,000	3,881,470	8,903,672	3,724,429
2022-2026	11,310,000	1,430,232	-	-
<b>Total</b>	<b>\$ 25,925,000</b>	<b>\$ 10,552,707</b>	<b>\$ 19,323,672</b>	<b>\$ 6,679,617</b>

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

Fiscal Year Ending September 30,	Business-type Activities
2013	\$ 137,236
Less: interest	<u>(2,539)</u>
Present value of minimum lease payments	<u><u>\$ 134,697</u></u>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**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 component unit activities for the Galveston Wharves as of December 31, 2011 are as follows:

<b>Year Ending December 31,</b>	<b>Future Minimum Lease Payments</b>
2012	\$ 357,060
2013	357,060
2014	357,060
2015	357,060
2016	357,060
2017-2021	2,166,449
	3,951,749
Less interest portion	(635,370)
Capital lease payable	\$ 3,316,379

**Waterworks and Sewer System Unlimited Tax Bonds**

On January 12, 2012, City Council took action to abolish Galveston County Municipal Utility District No. 29. As of such date, the City assumed all assets and outstanding obligations. The assumed obligations are:

- Galveston County Municipal Utility District No. 29 Waterworks and Sewer Unlimited Tax Bonds (Series 1998), dated December 1, 1998, in the original amount of \$1,000,000. The Bonds were callable at the time of abolishment; therefore, the City redeemed all outstanding principal plus the accrued interest.
- Galveston County Municipal Utility District No. 29 Waterworks and Sewer System Unlimited Tax Bonds (series 2005), dated October 1, 2005, in the original amount of \$3,050,000. The Bonds are payable from the surplus of net revenues of the City's combined Waterworks and Sewer System. In case of default, the Bonds will be paid from the proceeds of continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable properties within the City.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM DEBT – CONTINUED**

**Waterworks and Sewer System Unlimited Tax Bonds – Continued**

- Galveston County Municipal Utility District No. 29 Waterworks and Sewer System Unlimited Tax Bonds (series 2007), dated June 1, 2007, in the original amount of \$1,160,000. The Bonds are payable from the surplus of net revenues of the City's combined Waterworks and Sewer System. In case of default, the Bonds will be paid from the proceeds of continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable properties within the City.

The assumed obligations are recorded as general obligation bonds and long-term debt of the City's governmental activities.

**Refunding of Debt**

On August 7, 2012, the City issued \$6,180,000 in Waterworks and Sewer System Revenue Refunding Bonds (series 2012) with interest rates between 2.0% and 3.0% to advance refund \$5,990,000 of series 2003 bonds with original maturities between 2015 and 2023. The refunding was undertaken to reduce the City's total debt service over the life of the bonds by approximately \$539,498 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$475,802. As a result, the 2003 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.

In previous years, the City defeased certain outstanding bonds issued in 1995, 1997, 1998, 2000, 2003 and 2011 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. The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2012 is \$45,837,288.



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. FUND EQUITY**

**Deficit Fund Balance**

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

		Deficit Balance
Non-major governmental funds:		
Special revenue funds:		
Grants and government contracts	\$	(75,212)
Capital project funds:		
Island transit capital projects	\$	(56,069)
Internal service funds:		
Workers compensation insurance	\$	(241,395)
Construction management	\$	(2,410)

Deficit fund balances reported for Government Contracts and Grants and Island Transit Capital Projects are the result of 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 grants. The deficit will be satisfied either by a grant program or through subsequent year charge back.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

**Grants**

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

**Litigation**

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

**Environmental Liability**

The City is aware of various sites contaminated by hazardous materials. There are no significant liabilities related to these sites of which the City is aware. The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**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 is TML, 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 September 30, 2012, and is based on requirements of GASB 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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 11. RISK MANAGEMENT**

**Workers Compensation – Continued**

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2011	\$ 1,452,712	\$ 648,251	\$ (633,888)	\$ 1,467,075
2012	\$ 1,467,075	\$ 433,221	\$ (624,077)	\$ 1,276,219

**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 per individual and \$6,439,000 in aggregate claims on an annual basis from Majestic Insurance Co.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2011	\$ 398,521	\$ 3,516,366	\$ (3,535,537)	\$ 379,350
2012	\$ 379,350	\$ 2,624,668	\$ (2,617,435)	\$ 386,583

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**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 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.

**Discretely Presented Component Units**

***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, 2011 are as follows:

Year Ended December 31,	Minimum Payments
2012	\$ 405,000
2013	405,000
2014	118,125
	\$ 928,125

**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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED**

**Discretely Presented Component Units – 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 Galveston Wharves have no obligation for the special revenue bonds beyond the resources provided by the direct financing lease. The special revenue bonds were retired in December 2011.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2011:

Minimum lease rental payments receivable		
Due within one year	\$	489,106
Due after one year		<u>8,622,880</u>
		9,111,986
Unearned income, direct financing lease		
Due within one year		364,586
Due after one year		<u>5,717,997</u>
		<u>6,082,583</u>
Net investment in direct financing lease	\$	<u><u>3,029,403</u></u>

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

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED**

**Discretely Presented Component Units – Continued**

***Board of Trustees of the Galveston Wharves – Continued***

**Combination Lease – Sales-Type/Operating Railroad Facilities**

**Railroad Facilities**

Following the favorable settlement in 2006 of a lawsuit filed by the Galveston Wharves over the interpretation of certain language in the lease covering rail facilities owned by the Galveston Wharves, they 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 equally between the Galveston 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, the lessee spends less than the annual \$240,000 accrual, the balance remaining is to be split equally between the lessee and the Galveston Wharves.

**Advance Facility Rental**

In 1977, the Galveston Wharves received approximately \$10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2011, the amount deferred to future years was approximately \$3.5 million. This amount is included in long-term liabilities due in more than one year on the face of the financial statements.

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

Year Ending December 31,	Future Minimum Lease Payments
2012	\$ 956,607
2013	956,607
2014	956,607
2015	956,607
2016	956,607
Thereafter	4,328,951
Total	\$ 9,111,986

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED**

**Discretely Presented Component Units – Continued**

***Board of Trustees of the Galveston Wharves – Continued***

**Operating Leases**

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2011, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Year Ending December 31,	Future Lease Payments
2012	\$ 2,814,028
2013	2,898,449
2014	2,985,402
2015	3,074,964
2016	3,167,213
Total	<u>\$ 14,940,056</u>

**NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

The City provides certain post-employment retirement benefits for its qualifying employees and spouses/dependents through a single-employer defined benefit health care plan. Eligible participants, as defined by the City, may continue coverage during retirement by paying the total active contributions, including the City portion and the retiree portion. In the case of deferred retirement or death in service, the health care benefit 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. Coverage under the health care plan ceases upon reaching Medicare eligibility. A separate, audited GAAP-basis postemployment benefit plan report is not available.



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED**

**Funding Policy and Annual OPEB Cost**

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, 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's annual OPEB cost obligation for the year ended September 30, 2012 is as follows:

Annual required contribution	\$ 466,109
Interest on OPEB obligation	73,059
Adjustment to ARC	<u>(37,161)</u>
Annual OPEB cost (expense) – end of year	502,007
Net estimated employer contributions	<u>-</u>
Change in OPEB obligation	502,007
Net OPEB obligation – as of beginning of the year, as originally reported	422,039
Prior period adjustment (see Note 15)	<u>1,201,483</u>
Net OPEB obligation – as of beginning of the year, restated	<u>1,623,522</u>
Net OPEB obligation – as of end of year	<u><u>\$ 2,125,529</u></u>

**Funding Status and Funding Progress**

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2010, the most recent valuation date, 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 AAL (UAAL) (b-a)	Fund Ratio (%) (a/b)
12/31/2008	\$ -	\$ 5,709,319	\$ 5,709,319	0.0%
12/31/2010	\$ -	\$ 4,573,093	\$ 4,573,093	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 \$4,573,093 at December 31, 2010.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED**

**Actuarial Methods and Assumptions**

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

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

Health care cost trends	4.5% to 8.5%
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of payroll
Amortization period	Open period of 30 years
Investment rate of return	4.5%, net of expenses
Projected salary increase	3.0% per annum
Inflation rate	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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM**

**Plan Descriptions**

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 903 employees and retirees, Galveston Firefighters' Pension Fund (GFPF) covers 197 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 266 employees and retirees. The CERF and the PERF 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.

Each 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 has 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 GFPF 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 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 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

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Funding Policy and Annual Pension Cost**

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

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

Retirement Plan	Fiscal Year	Annual Pension Cost	Actual Contributions Made	Contributed	Net Pension Obligation (Asset)
<b>Primary Government</b>					
Employees' Retirement Plan for City Employees	2010	\$ 1,897,907	\$ 1,672,741	88%	\$ 133,421
	2011	\$ 1,802,530	\$ 1,700,302	94%	\$ 235,649
	2012	\$ 1,824,400	\$ 1,473,316	81%	\$ 586,733
Galveston Firefighters' Pension Fund	2010	\$ 905,497	\$ 1,147,527	127%	\$ (603,502)
	2011	\$ 994,678	\$ 972,131	98%	\$ (580,955)
	2012	\$ 927,388	\$ 972,131	105%	\$ (625,698)
Employees' Retirement Plan for City Police	2010	\$ 1,318,576	\$ 1,021,721	77%	\$ 792,012
	2011	\$ 1,244,654	\$ 1,229,688	99%	\$ 806,978
	2012	\$ 1,216,145	\$ 1,160,763	95%	\$ 862,360
	Employee's Retirement Plan 1/1/2012	Firefighters' Pension Fund 1/1/2010	Police Retirement Plan 1/1/2012		
Actuarial valuation date	Entry age	Entry age	Entry age		
Actuarial cost method	Level percent of pay contribution	Level percent of projected payroll, open	Level percent of pay contribution		
Amortization method	9.00%	14.00%	12.00%		
Contribution rates:	6.00%	12.00%	12.00%		
City	closed period	closed period	closed period		
Plan members	30 years	30 years	30 years		
Amortization Period	5-year Smoothed Market Value	Smoothed Market Value	5-year Smoothed Market Value		
Amortization Period	8.00%	8.00%	7.50%		
Asset valuation method	5.25% per year compounded annually	4.50%	4.0% to 10.24%, graded by service		
Actuarial assumptions:	3.25%	3.25%	4.00%		
Investment rate of return					
Projected salary increases					
Inflation					

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Funding Policy and Annual Pension Cost – Continued**

<b>Retirement Plan for Employees - Net Pension Obligation Components</b>	
<hr/>	
Annual Required Contribution (ARC)	\$ 1,825,452
Interest on Net Pension Obligation	37,441
Adjustment to the (ARC)	(38,493)
Annual Pension Cost (APC)	<u>1,824,400</u>
Contributions made	<u>(1,473,316)</u>
Change in net pension obligation	351,084
Net Pension Obligation, beginning of year	<u>235,649</u>
Net Pension Obligation, end of year	<u><u>\$ 586,733</u></u>
<b>Retirement Plan for Police - Net Pension Obligation Components</b>	
<hr/>	
Annual Required Contribution (ARC)	\$ 1,200,714
Interest on Net Pension Obligation	53,724
Adjustment to the (ARC)	(38,293)
Annual Pension Cost (APC)	<u>1,216,145</u>
Actual contributions made	<u>(1,160,763)</u>
Change in net pension obligation	55,382
Net Pension Obligation, beginning of year	<u>806,978</u>
Net Pension Obligation, end of year	<u><u>\$ 862,360</u></u>
<b>Firefighters' Pension Fund - Net Pension Asset Components</b>	
<hr/>	
Annual Required Contribution (ARC)	\$ 1,009,313
Interest on Net Pension Asset	(48,280)
Adjustment to the (ARC)	(33,645)
Annual Pension Cost (APC)	<u>927,388</u>
Actual contributions made	<u>(972,131)</u>
Change in net pension asset	(44,743)
Net Pension Asset, beginning of year	<u>(580,955)</u>
Net Pension Asset, end of year	<u><u>\$ (625,698)</u></u>

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Funding Status and Funding Progress**

The funded status of the City’s pension plans, under GASB Statement No. 45 as of January 1, 2012 and January, 1, 2010, respectively, the most recent valuation date, is as follows:

<b>City of Galveston Pension Plans</b>					
Pension Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (%) (a/b)
Employees	1/1/2012	\$ 40,151,763	\$ 50,841,331	\$ 10,689,568	79.0%
Police	1/1/2012	\$ 22,695,097	\$ 48,389,593	\$ 25,694,496	46.9%
Firefighters	1/1/2010	\$ 37,630,993	\$ 51,718,539	\$ 14,087,546	72.8%

Under the reporting parameters, the City’s Employees’, Police and Firefighters pension plans are 79.0%, 46.9% and 72.8% funded, respectively, with an estimated actuarial liability exceeding actuarial assets by \$10,689,568, \$25,694,496 and \$14,087,546, respectively, at December 31, 2011.

**Discretely Presented Component Unit Benefit Plans**

**Galveston Wharves – Plan Description**

The Galveston Wharves Pension Plan (the GWPP) is a single-employer defined benefit pension plan administered by a committee appointed by the Galveston Wharves. The GWPP 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 GWPP and any plan amendments is vested in the Galveston Wharves by Article 12 of the Charter of the City. The GWPP 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.

**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.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Discretely Presented Component Unit Benefit Plans – Continued**

**Annual Pension Cost**

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

Actuarial valuation date	<u>1/1/2011</u>	<u>1/1/2010</u>	<u>1/1/2009</u>
Actuarial value of plan assets	\$ 9,312,959	\$ 8,261,569	\$ 6,763,164
Actuarial accrued liability	<u>12,824,151</u>	<u>11,915,880</u>	<u>11,284,681</u>
Total funding excess (deficit)	<u>\$ (3,511,192)</u>	<u>\$ (3,654,311)</u>	<u>\$ (4,521,517)</u>
Annual covered payroll	<u>\$ 3,889,073</u>	<u>\$ 3,990,184</u>	<u>\$ 4,146,487</u>
Ratio-over (under) funded to covered payroll	<u>-90%</u>	<u>-92%</u>	<u>-109%</u>

The annual contribution was determined through an actuarial valuation performed as of January 1, 2011.

The actuarial assumptions used are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period in years	30 - closed
Asset valuation method	Market value
Investment rate of return	7.5%
Projected salary increases	4.6%
Interest credit for cash balance	5.0%
Rate of inflation	4.0%

Actuarial required contributions contributed to the GWPP by the Galveston Wharves during 2011 were \$593,171. At December 31, 2011 the GWPP had an unfunded actuarial liability of \$3,511,192.

**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Discretely Presented Component Unit Benefit Plans – Continued**

**Park Board of Trustees**

The 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 Park Board is eligible to participate in the plan upon attaining the age of twenty and one-half years and six months employment. Mandatory employee contributions vest immediately while contributions made by the Park Board vest upon a graduating scale from twenty percent after two years of service to 100% after seven 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 of covered compensation while the Park Board is required to contribute five percent of each eligible employee's covered compensation up to \$30,000 or twenty-five percent of total salary, whichever is less. If in any year, the Park Board makes a contribution that is less than five percent, 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 \$98,865, which was 5.0% of \$1,977,294, its current year covered payroll. Employees' required and actual contributions amounted to \$80,543. Total current year payroll was \$3,506,770.

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

The PBDCP held no securities of the Park Board or other related parties during the year or as of September 30, 2012.



**CITY OF GALVESTON, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED**

**Discretely Presented Component Unit Benefit Plans – Continued**

**Deferred Compensation Plan – City of Galveston**

The City, 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. PRIOR PERIOD ADJUSTMENT**

Subsequent to September 30, 2011, the City discovered that it did not record sufficient liabilities for its OPEB obligation in the Health and Life Insurance Internal Service Fund. The effect of this prior period adjustment was a decrease of \$1,201,483 in beginning net assets of the internal service funds and the government-wide financial statements.

A summary of the effects of this restatement on the City’s beginning net assets and change in net assets of the preceding year is as follows:

	Effect on beginning net assets of:		
	Internal	Government-wide	
	Service Funds	Governmental	Business-type
	Health and	Activities	Activities
	Life Insurance		
Adjustment to:	\$ (1,201,483)	\$ (804,994)	\$ (396,489)
Long-term liabilities			
Total effect of adjustment	(1,201,483)	(804,994)	(396,489)
Net assets/fund balance			
as originally reported	1,779,261	135,502,221	134,454,582
Net assets/fund balance			
as restated	\$ 577,778	\$ 134,697,227	\$ 134,058,093

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF GALVESTON, TEXAS  
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION  
IN PENSION PLANS  
SEPTEMBER 30, 2012**

**Employees' Retirement Plan for City Employees (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			(1) / (2)	(3) - (1)		(4) / (5)
1/1/2010	\$ 38,723,983	\$ 47,045,470	82.3%	\$ 8,321,487	\$ 17,581,734	47.3%
1/1/2011	\$ 39,645,731	\$ 48,387,558	81.9%	\$ 8,741,827	\$ 18,433,456	47.4%
1/1/2012	\$ 40,151,763	\$ 50,841,331	79.0%	\$ 10,689,568	\$ 18,203,002	58.7%

**Galveston Firefighters' Pension Fund (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			(1) / (2)	(3) - (1)		(4) / (5)
1/1/2006	\$ 31,247,296	\$ 39,606,700	78.9%	\$ 8,359,404	\$ 5,813,514	143.8%
1/1/2008	\$ 36,660,215	\$ 43,218,834	84.8%	\$ 6,558,619	\$ 6,125,532	107.1%
1/1/2010	\$ 37,630,993	\$ 51,718,539	72.8%	\$ 14,087,546	\$ 7,941,553	177.4%

**Employees' Retirement Plan for Police (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			(1) / (2)	(3) - (1)		(4) / (5)
1/1/2010	\$ 23,780,731	\$ 48,073,240	49.5%	\$ 24,292,509	\$ 9,986,209	243.3%
1/1/2011	\$ 24,390,425	\$ 48,521,735	50.3%	\$ 24,131,310	\$ 8,570,162	281.6%
1/1/2012	\$ 22,695,097	\$ 48,389,593	46.9%	\$ 25,694,496	\$ 8,233,404	312.1%

**CITY OF GALVESTON, TEXAS  
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION  
IN PENSION PLANS  
SEPTEMBER 30, 2012  
(CONTINUED)**

**City of Galveston Retiree Health Plan**

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)
12/31/2008	\$ -	\$ 5,709,319	0.0%	\$ 5,709,319
12/31/2010	\$ -	\$ 4,573,093	0.0%	\$ 4,573,093

**Board of Trustees of Galveston Wharves Pension Plan (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
1/1/2009	\$ 6,763,164	\$ 11,284,681	59.9%	\$ 4,521,517	\$ 4,146,487	109.0%
1/1/2010	\$ 8,261,569	\$ 11,915,880	69.3%	\$ 3,654,311	\$ 3,990,184	91.6%
1/1/2011	\$ 9,312,959	\$ 12,824,151	72.6%	\$ 3,511,192	\$ 3,889,073	90.3%

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS AND SCHEDULES**

**CITY OF GALVESTON, TEXAS  
GENERAL FUND  
SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL  
ON BUDGETARY BASIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
<b>General government</b>						
Legislative	\$ 431,359	\$ 462,359	\$ 459,417	\$ -	\$ 459,417	\$ 2,942
Judicial	758,700	758,700	705,801	-	705,801	52,899
Executive	1,260,834	1,260,834	1,218,989	-	1,218,989	41,845
City auditor	110,816	110,816	109,117	-	109,117	1,699
Finance	1,811,370	1,871,370	1,833,398	-	1,833,398	37,972
Legal	641,222	701,222	639,571	-	639,571	61,651
Personnel	291,299	291,299	255,429	-	255,429	35,870
Taxation	182,675	172,675	166,847	-	166,847	5,828
Total general government	5,488,275	5,629,275	5,388,569	-	5,388,569	240,706
<b>Public safety</b>						
Police	16,374,716	16,328,056	17,451,125	(1,234,052)	16,217,073	110,983
Fire	9,372,560	9,362,560	9,564,055	(300,102)	9,263,953	98,607
Emergency medical service	516,200	516,200	516,160	-	516,160	40
Emergency management	132,875	132,875	129,711	(30,638)	99,073	33,802
Total public safety	26,396,351	26,339,691	27,661,051	(1,564,792)	26,096,259	243,432
Public works and traffic	2,924,838	2,921,738	2,899,466	(66,062)	2,833,404	88,334
Culture and recreation	2,135,150	2,132,507	1,941,663	-	1,941,663	190,844
Planning and community development	2,062,976	2,062,976	1,920,367	-	1,920,367	142,609
Transportation system	850,000	850,000	850,000	-	850,000	-
Capital outlay	1,000,000	915,660	913,257	(39,158)	874,099	41,561
<b>Total expenditures</b>	<b>\$ 40,857,590</b>	<b>\$ 40,851,847</b>	<b>\$ 41,574,373</b>	<b>\$ (1,670,012)</b>	<b>\$ 39,904,361</b>	<b>\$ 947,486</b>

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Special revenue funds are used 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 community 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

### SPECIAL REVENUE 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.

**The Texas Water Development Board Grant (TWDB) Fund (ARRA)** – To account for receipt and expenditure of federal revenue designated for the purpose of construction projects of the City's pressure valves, water lines, storage tanks, pump stations and sewer lines.

### CAPITAL PROJECTS FUNDS

Capital projects funds are used 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, drainage and street improvements for improving drains and streets, financed by the IDC.

**Sewer Improvements** – To account for capital outlay for sewer improvements financed by the IDC.

**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 to city parks, and street, drainage and sewer systems financed by the IDC.

### DEBT SERVICE FUNDS

Debt service funds are used 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  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>Island Transit</b>	<b>Rosenberg Library</b>	<b>Parks and Recreation Improvement</b>	<b>Grants and Government Contracts</b>	<b>Industrial Development Corporation</b>	<b>Project Specific Programs</b>
Cash and cash equivalents	\$ -	\$ 6,910	\$ -	\$ 300,338	\$ 4,067,746	\$ 2,577,271
Receivables, net of allowance for uncollectibles	73,311	98,059	-	1,139,369	1,766	142,898
Due from other governments	172,072	-	-	463,520	854,686	1,177,522
Inventories	148,976	-	-	-	-	-
<b>Total assets</b>	<b>\$ 394,359</b>	<b>\$ 104,969</b>	<b>\$ -</b>	<b>\$ 1,903,227</b>	<b>\$ 4,924,198</b>	<b>\$ 3,897,691</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 10,694	\$ 6,910	\$ -	\$ 295,746	\$ 2,618	\$ 2,031,032
Other accrued expenses	44,481	-	-	13,293	-	31,807
Due to other funds	126,002	-	-	-	-	-
Deferred revenue	121,292	98,059	-	1,669,400	-	-
<b>Total liabilities</b>	<b>302,469</b>	<b>104,969</b>	<b>-</b>	<b>1,978,439</b>	<b>2,618</b>	<b>2,062,839</b>
<b>FUND BALANCES</b>						
Nonspendable						
Inventories	148,976	-	-	-	-	-
Restricted						
Debt service	-	-	-	-	-	-
Beach preservation	-	-	-	-	4,921,580	-
Capital projects	-	-	-	-	-	-
Committed						
Other	-	-	-	-	-	1,834,852
Unassigned	(57,086)	-	-	(75,212)	-	-
<b>Total fund balances</b>	<b>91,890</b>	<b>-</b>	<b>-</b>	<b>(75,212)</b>	<b>4,921,580</b>	<b>1,834,852</b>
<b>Total liabilities and fund balances</b>	<b>\$ 394,359</b>	<b>\$ 104,969</b>	<b>\$ -</b>	<b>\$ 1,903,227</b>	<b>\$ 4,924,198</b>	<b>\$ 3,897,691</b>

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)	ARRA Asphalt Project
\$ 2	\$ 5,702,134	\$ -	\$ -	\$ 1,530	\$ -	\$ 23,274	\$ -
-	-	-	-	-	672	308,109	-
-	-	-	11,501	10,966	-	11,206	-
-	-	-	-	-	-	-	-
<u>\$ 2</u>	<u>\$ 5,702,134</u>	<u>\$ -</u>	<u>\$ 11,501</u>	<u>\$ 12,496</u>	<u>\$ 672</u>	<u>\$ 342,589</u>	<u>\$ -</u>
\$ -	\$ 53,144	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	11,501	-	672	-	-
<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,496</u>	<u>-</u>	<u>342,589</u>	<u>-</u>
<u>2</u>	<u>53,144</u>	<u>-</u>	<u>11,501</u>	<u>12,496</u>	<u>672</u>	<u>342,589</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	5,648,990	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>5,648,990</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 2</u>	<u>\$ 5,702,134</u>	<u>\$ -</u>	<u>\$ 11,501</u>	<u>\$ 12,496</u>	<u>\$ 672</u>	<u>\$ 342,589</u>	<u>\$ -</u>

**CITY OF GALVESTON, TEXAS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012  
(CONTINUED)**

<b>ASSETS</b>	<b>Neighborhood Stabilization Program (ARRA)</b>	<b>Texas Water Development Board Grant Fund</b>	<b>Drainage and Street Improvements</b>	<b>Sewer Improvements</b>	<b>General Obligation Bond 2001 Capital Projects</b>	<b>Island Transit Capital Projects</b>
Cash and cash equivalents	\$ -	\$ 41,994	\$ 2,151,984	\$ 3,080,614	\$ 334,734	\$ -
Receivables, net of allowance for uncollectibles	-	6,526	-	-	-	-
Due from other governments	510,298	703,953	-	-	-	620,619
Inventories	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 510,298</b>	<b>\$ 752,473</b>	<b>\$ 2,151,984</b>	<b>\$ 3,080,614</b>	<b>\$ 334,734</b>	<b>\$ 620,619</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 230	\$ 752,473	\$ -	\$ -	\$ 16,745	\$ 506,642
Other accrued expenses	-	-	-	-	-	-
Due to other funds	510,068	-	-	-	-	68,713
Deferred revenue	-	-	-	-	-	101,333
<b>Total liabilities</b>	<b>510,298</b>	<b>752,473</b>	<b>-</b>	<b>-</b>	<b>16,745</b>	<b>676,688</b>
<b>FUND BALANCES</b>						
Nonspendable						
Inventories	-	-	-	-	-	-
Restricted						
Debt service	-	-	-	-	-	-
Beach preservation	-	-	-	-	-	-
Capital projects	-	-	2,151,984	3,080,614	317,989	-
Committed						
Other	-	-	-	-	-	-
Unassigned	-	-	-	-	-	(56,069)
<b>Total fund balances</b>	<b>-</b>	<b>-</b>	<b>2,151,984</b>	<b>3,080,614</b>	<b>317,989</b>	<b>(56,069)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 510,298</b>	<b>\$ 752,473</b>	<b>\$ 2,151,984</b>	<b>\$ 3,080,614</b>	<b>\$ 334,734</b>	<b>\$ 620,619</b>

<b>General Obligation Bond 2005 Capital Projects</b>	<b>IDC Capital Improvements</b>	<b>Debt Service Fund</b>	<b>Hotel Occupancy Tax Debt Service Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 3,125,266	\$ 6,600,854	\$ 3,766,060	\$ 3,100,981	\$ 34,881,692
-	-	109,029	-	1,879,739
-	-	-	-	4,536,343
-	-	-	-	148,976
<u>\$ 3,125,266</u>	<u>\$ 6,600,854</u>	<u>\$ 3,875,089</u>	<u>\$ 3,100,981</u>	<u>\$ 41,446,750</u>
\$ -	\$ -	\$ 325	\$ -	\$ 3,676,559
-	-	-	-	89,581
-	-	-	-	716,956
-	-	109,030	-	2,454,201
-	-	109,355	-	6,937,297
-	-	-	-	148,976
-	-	3,765,734	3,100,981	12,515,705
-	-	-	-	4,921,580
3,125,266	6,600,854	-	-	15,276,707
-	-	-	-	1,834,852
-	-	-	-	(188,367)
<u>3,125,266</u>	<u>6,600,854</u>	<u>3,765,734</u>	<u>3,100,981</u>	<u>34,509,453</u>
<u>\$ 3,125,266</u>	<u>\$ 6,600,854</u>	<u>\$ 3,875,089</u>	<u>\$ 3,100,981</u>	<u>\$ 41,446,750</u>

**CITY OF GALVESTON, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Island Transit	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Industrial Development Corporation	Project Specific Programs
<b>Revenues</b>						
Property taxes	\$ -	\$ 1,924,206	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-	4,308,838	161,938
Fines and forfeitures	-	-	-	-	-	93,329
Charge for services	1,053,368	-	-	-	-	74,185
Investment earnings	-	-	1	-	2,830	6,444
Intergovernmental	2,496,989	-	-	2,679,245	-	96,844
Other	14,795	-	-	-	-	87,844
<b>Total revenues</b>	<b>3,565,152</b>	<b>1,924,206</b>	<b>1</b>	<b>2,679,245</b>	<b>4,311,668</b>	<b>520,584</b>
<b>Expenditures</b>						
Current:						
General government	-	-	-	-	-	318,071
Public safety	-	-	-	11,327	-	136,532
Culture and recreation	-	1,924,206	451	-	127,776	101,283
Planning and community development	-	-	-	1,462,161	-	-
Transportation	3,568,055	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Capital outlay	-	-	-	1,248,592	-	701,522
<b>Total expenditures</b>	<b>3,568,055</b>	<b>1,924,206</b>	<b>451</b>	<b>2,722,080</b>	<b>127,776</b>	<b>1,257,408</b>
Excess (deficiency) of revenues expenditures	(2,903)	-	(450)	(42,835)	4,183,892	(736,824)
<b>Other financing sources (uses)</b>						
Other funding sources - MUD 29 abolishment	-	-	-	-	-	-
Sale of assets	2,903	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>2,903</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(450)</b>	<b>(42,835)</b>	<b>4,183,892</b>	<b>(736,824)</b>
Fund balances, beginning of year	91,890	-	450	(32,377)	737,688	2,571,676
Fund balances, end of year	<b>\$ 91,890</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (75,212)</b>	<b>\$ 4,921,580</b>	<b>\$ 1,834,852</b>

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)	ARRA Asphalt Project
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	3,388,930	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	141	-	-	-	-	-	-
-	-	-	23,823	188,914	-	167,172	105,079
6,369	1,338,917	-	-	-	-	-	-
6,369	4,727,988	-	23,823	188,914	-	167,172	105,079
-	-	-	-	-	-	-	-
6,369	-	-	23,823	-	-	-	-
-	3,734,256	-	-	-	-	-	-
-	-	-	-	188,914	-	167,172	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	57,077	-	-	-	-	-	107,242
6,369	3,791,333	-	23,823	188,914	-	167,172	107,242
-	936,655	-	-	-	-	-	(2,163)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,828,017	-	-	-	-	-	2,163
-	(1,828,017)	-	-	-	-	-	-
-	-	-	-	-	-	-	2,163
-	936,655	-	-	-	-	-	-
-	4,712,335	-	-	-	-	-	-
\$ -	\$ 5,648,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

	Neighborhood Stabilization Program (ARRA)	Texas Water Development Board Grant Fund	Drainage and Street Improvements	Sewer Improvements	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Charge for services	-	-	-	-	-	-
Investment earnings	-	-	6,827	9,773	1,129	-
Intergovernmental	19,809	862,540	-	-	-	3,570,617
Other	-	-	-	-	-	-
Total revenues	<u>19,809</u>	<u>862,540</u>	<u>6,827</u>	<u>9,773</u>	<u>1,129</u>	<u>3,570,617</u>
Expenditures						
Current:						
General government	-	79,766	-	-	-	-
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Planning and community development	19,809	-	-	-	-	-
Transportation	-	-	-	-	-	729,486
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Capital outlay	-	1,018,093	-	-	39,755	2,841,131
Total expenditures	<u>19,809</u>	<u>1,097,859</u>	<u>-</u>	<u>-</u>	<u>39,755</u>	<u>3,570,617</u>
Excess (deficiency) of revenues expenditures	-	(235,319)	6,827	9,773	(38,626)	-
Other financing sources (uses)						
Other funding sources - MUD 29 abolishment	-	-	-	-	-	-
Sale of assets	-	-	-	-	-	-
Transfers in	-	235,319	-	-	-	-
Transfers (out)	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>235,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	6,827	9,773	(38,626)	-
Fund balances, beginning of year	-	-	2,145,157	3,070,841	356,615	(56,069)
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,151,984</u>	<u>\$ 3,080,614</u>	<u>\$ 317,989</u>	<u>\$ (56,069)</u>

General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 2,036,599	\$ -	\$ 3,960,805
-	-	-	1,955,762	9,815,468
-	-	-	-	93,329
-	-	-	-	1,127,553
9,944	20,967	14,638	309	73,003
-	-	782,175	-	10,993,207
-	-	-	-	1,447,925
<u>9,944</u>	<u>20,967</u>	<u>2,833,412</u>	<u>1,956,071</u>	<u>27,511,290</u>
385	-	-	-	398,222
-	-	-	-	178,051
-	-	-	-	5,887,972
-	-	-	-	1,838,056
-	-	-	-	4,297,541
-	-	2,876,391	550,000	3,426,391
-	-	1,977,323	1,403,881	3,381,204
9,355	9,196	-	-	6,031,963
<u>9,740</u>	<u>9,196</u>	<u>4,853,714</u>	<u>1,953,881</u>	<u>25,439,400</u>
204	11,771	(2,020,302)	2,190	2,071,890
-	-	1,175,176	-	1,175,176
-	-	-	-	2,903
-	-	-	-	2,065,499
-	-	-	-	(1,828,017)
-	-	1,175,176	-	1,415,561
204	11,771	(845,126)	2,190	3,487,451
<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>\$ 3,125,266</u>	<u>\$ 6,600,854</u>	<u>\$ 3,765,734</u>	<u>\$ 3,100,981</u>	<u>\$ 34,509,453</u>



**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE – BUDGET AND ACTUAL**  
**ISLAND TRANSIT**  
**YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
<b>Revenues</b>			
Intergovernmental - federal	\$ 1,842,238	\$ 1,345,623	\$ (496,615)
Intergovernmental - state	492,008	447,695	(44,313)
Intergovernmental - local	650,000	703,671	53,671
Farebox revenues	260,000	302,162	42,162
Charges for services	545,000	751,206	206,206
Other	15,000	14,795	(205)
Total revenues	3,804,246	3,565,152	(239,094)
<b>Expenditures</b>			
Current			
Transportation system			
Transit system			
Personnel services	1,479,015	1,382,687	96,328
Materials and supplies	28,700	8,821	19,879
Contractual services	565,655	553,225	12,430
Other charges	117,023	117,023	-
Total transportation system expenditures	2,190,393	2,061,756	128,637
Maintenance			
Personnel services	852,665	779,289	73,376
Materials and supplies	251,729	248,483	3,246
Contractual services	44,177	67,507	(23,330)
Total maintenance expenditures	1,148,571	1,095,279	53,292
Administrative services			
Personnel services	259,608	259,221	387
Materials and supplies	45,949	40,391	5,558
Contractual services	127,179	111,380	15,799
Other charges	1,700	28	1,672
Total administrative services	434,436	411,020	23,416
Total expenditures	3,773,400	3,568,055	205,345
Revenues over (under) expenditures	30,846	(2,903)	(33,749)
<b>Other financing sources</b>			
Sale of assets	-	2,903	2,903
Total other financing sources	-	2,903	2,903
<b>Fund balance, beginning of year</b>	91,890	91,890	-
<b>Fund balance, end of year</b>	<u>\$ 122,736</u>	<u>\$ 91,890</u>	<u>\$ (30,846)</u>

**CITY OF GALVESTON, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
ROSENBERG LIBRARY  
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
<b>Revenues</b>			
Property taxes - current	\$ 1,893,376	\$ 1,875,084	\$ (18,292)
Property taxes - delinquent	51,059	49,122	(1,937)
Total revenues	<u>1,944,435</u>	<u>1,924,206</u>	<u>(20,229)</u>
<b>Expenditures</b>			
Current			
Payments to Rosenberg Library	<u>1,944,435</u>	<u>1,924,206</u>	<u>20,229</u>
Total expenditures	<u>1,944,435</u>	<u>1,924,206</u>	<u>20,229</u>
Revenues over (under) expenditures	-	-	-
<b>Fund balance, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF GALVESTON, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
PARKS AND RECREATION IMPROVEMENT  
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
<b>Revenues</b>			
Investment earnings	\$ -	\$ 1	\$ 1
Total revenues	<u>-</u>	<u>1</u>	<u>1</u>
<b>Expenditures</b>			
Culture and recreation	<u>-</u>	<u>451</u>	<u>(451)</u>
Total expenditures	<u>-</u>	<u>451</u>	<u>(451)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(450)</u>	<u>(450)</u>
Revenues and other financing sources over (under) expenditures	-	(450)	(450)
<b>Fund balance, beginning of year</b>	<u>450</u>	<u>450</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ (450)</u>

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE – BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
<b>Revenues</b>			
Property taxes	\$ 2,051,040	\$ 2,036,599	\$ (14,441)
Earnings on investments	21,000	14,638	(6,362)
Intergovernmental	782,175	782,175	-
Total revenues	<u>2,854,215</u>	<u>2,833,412</u>	<u>(20,803)</u>
<b>Expenditures</b>			
Principal retirement	1,851,392	2,876,391	(1,024,999)
Interest and fiscal agent fees	1,840,683	1,977,323	(136,640)
Cost of Issuance	-	-	-
Total expenditures	<u>3,692,075</u>	<u>4,853,714</u>	<u>(1,161,639)</u>
Revenues over (under) expenditures	<u>(837,860)</u>	<u>(2,020,302)</u>	<u>(1,182,442)</u>
<b>Other financing sources</b>			
Other funding sources - MUD 29 abolishment	-	1,175,176	1,175,176
Premiums on debt issued	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfer in:			
Industrial Development Corporation	<u>910,610</u>	<u>-</u>	<u>(910,610)</u>
Total other financing sources	<u>910,610</u>	<u>1,175,176</u>	<u>264,566</u>
Revenues and other financing sources over (under) expenditures	72,750	(845,126)	(917,876)
<b>Fund balance, beginning of year</b>	<u>4,610,860</u>	<u>4,610,860</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 4,683,610</u>	<u>\$ 3,765,734</u>	<u>\$ (917,876)</u>

## 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 the City, 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 the City, 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  
COMBINING STATEMENT OF NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sanitation</b>	<b>Drainage</b>	<b>Airport</b>	<b>Total</b>
<b>Current assets</b>				
Cash and temporary investments	\$ 316,066	\$ 1,007,760	\$ 979,157	\$ 2,302,983
Accounts receivable, net of allowance for doubtful accounts	2,064,175	717,151	135,736	2,917,062
Due from other funds	260,052	226,450	770,461	1,256,963
Prepaid expenses	2,344	1,563	390	4,297
<b>Restricted assets</b>				
Cash and investments	119,183	2,761,834	-	2,881,017
Total current assets	<u>2,761,820</u>	<u>4,714,758</u>	<u>1,885,744</u>	<u>9,362,322</u>
<b>Non-current assets</b>				
Deferred charges	1,496	-	-	1,496
Capital assets not being depreciated	21,002	1,945,705	4,465,461	6,432,168
Capital assets (net of depreciation)	2,192,157	3,512,299	13,398,406	19,102,862
Total non-current assets	<u>2,214,655</u>	<u>5,458,004</u>	<u>17,863,867</u>	<u>25,536,526</u>
Total assets	<u>4,976,475</u>	<u>10,172,762</u>	<u>19,749,611</u>	<u>34,898,848</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	83,356	164,013	9,285	256,654
Accrued interest payable	11,845	-	-	11,845
Due to other governments	278,336	-	90	278,426
Unearned revenue	13,025	-	470,916	483,941
<b>Long-term debt, current portion</b>				
Compensated absences	29,927	8,768	-	38,695
Capital lease obligation	134,697	-	-	134,697
Bonds and certificates of obligation payable	115,000	-	-	115,000
Total current liabilities	<u>666,186</u>	<u>172,781</u>	<u>480,291</u>	<u>1,319,258</u>
<b>Non-current liabilities</b>				
<b>Long-term debt, noncurrent portion</b>				
Compensated absences	268,109	101,546	61,745	431,400
Notes payable	200,000	-	-	200,000
Total non-current liabilities	<u>468,109</u>	<u>101,546</u>	<u>61,745</u>	<u>631,400</u>
Total liabilities	<u>1,134,295</u>	<u>274,327</u>	<u>542,036</u>	<u>1,950,658</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,964,958	8,219,838	17,863,867	28,048,663
Restricted for debt service	117,841	-	-	117,841
Unrestricted	1,759,381	1,678,597	1,343,708	4,781,686
Total net assets	<u>\$ 3,842,180</u>	<u>\$ 9,898,435</u>	<u>\$ 19,207,575</u>	<u>\$ 32,948,190</u>

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<b>Enterprise Funds</b>			
	<b>Sanitation</b>	<b>Drainage</b>	<b>Airport</b>	<b>Total</b>
<b>Operating Revenues</b>				
Charges for services	\$ 4,654,887	\$ 2,516,814	\$ 1,186,487	\$ 8,358,188
Miscellaneous	1,517	119,085	-	120,602
Total operating revenues	<u>4,656,404</u>	<u>2,635,899</u>	<u>1,186,487</u>	<u>8,478,790</u>
<b>Operating Expenses</b>				
Personnel services	2,012,555	1,166,814	379,337	3,558,706
Contractual services	1,531,959	391,519	99,680	2,023,158
Supplies and materials	40,578	84,084	98,971	223,633
Other expenses	150,663	98,204	206,768	455,635
Administrative charge	195,938	44,088	50,208	290,234
Depreciation	327,030	224,155	689,844	1,241,029
Total operating expenses	<u>4,258,723</u>	<u>2,008,864</u>	<u>1,524,808</u>	<u>7,792,395</u>
Operating income (loss)	<u>397,681</u>	<u>627,035</u>	<u>(338,321)</u>	<u>686,395</u>
<b>Non-operating revenues (expenses)</b>				
Interest and investment revenue	1,898	12,207	2,304	16,409
Gain (loss) on disposal of capital assets	4,479	5,827	620	10,926
Interest expense	(22,530)	-	-	(22,530)
Amortization of bond issuance costs	(2,243)	-	-	(2,243)
Total non-operating revenues (expenses)	<u>(18,396)</u>	<u>18,034</u>	<u>2,924</u>	<u>2,562</u>
Income (loss) before contributions and transfers	379,285	645,069	(335,397)	688,957
Capital contributions	-	329,621	2,410,258	2,739,879
Transfers in	32,216	53,361	-	85,577
Transfers out	(200,000)	(1,676)	-	(201,676)
Change in net assets	211,501	1,026,375	2,074,861	3,312,737
<b>Net assets, beginning of year</b>	<u>3,630,679</u>	<u>8,872,060</u>	<u>17,132,714</u>	<u>29,635,453</u>
<b>Net assets, end of year</b>	<u>\$ 3,842,180</u>	<u>\$ 9,898,435</u>	<u>\$ 19,207,575</u>	<u>\$ 32,948,190</u>

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
<b>OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 4,620,275	\$ 2,653,814	\$ 1,247,253	\$ 8,521,342
Cash payments to suppliers for goods and services	(1,695,218)	(504,010)	(475,410)	(2,674,638)
Cash payments to employees	(2,008,402)	(1,167,663)	(379,097)	(3,555,162)
Administrative service charge	(195,938)	(44,088)	(50,208)	(290,234)
<b>Net cash provided by operating activities</b>	720,717	938,053	342,538	2,001,308
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund transfers in	32,216	53,361	-	85,577
Interfund transfers out	(200,000)	(1,676)	-	(201,676)
<b>Net cash provided by (used in) noncapital financing activities</b>	(167,784)	51,685	-	(116,099)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Payments for capital acquisitions (net of sales)	(369,374)	(979,722)	(240,299)	(1,589,395)
Principal paid on bonds	(110,000)	-	-	(110,000)
Interest paid on bonds	(7,764)	-	-	(7,764)
Principal paid on capital leases	(261,963)	-	-	(261,963)
Interest paid on capital leases	(12,509)	-	-	(12,509)
Contributed capital	-	-	-	-
<b>Net cash used in capital and related financing activities</b>	(761,610)	(979,722)	(240,299)	(1,981,631)
<b>INVESTING ACTIVITIES</b>				
Interest on investments	1,898	12,207	2,304	16,409
<b>Net cash provided by investing activities</b>	1,898	12,207	2,304	16,409
<b>Net increase (decrease) in equity in pooled cash and investments</b>	(206,779)	22,223	104,543	(80,013)
<b>CASH AND TEMPORARY INVESTMENTS, beginning of year</b>	642,028	3,747,371	874,614	5,264,013
<b>CASH AND TEMPORARY INVESTMENTS, end of year</b>	\$ 435,249	\$ 3,769,594	\$ 979,157	\$ 5,184,000



**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 397,681	\$ 627,035	\$ (338,321)	\$ 686,395
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Amortization and depreciation expense	327,030	224,155	689,844	1,241,029
(Increase) decrease in accounts receivable	(34,479)	17,915	(12,556)	(29,120)
(Increase) decrease in inventory and prepaid	4,419	2,946	(390)	6,975
Increase (decrease) in salaries and benefits payable	(2,642)	1,409	696	(537)
Increase (decrease) in accounts payable	23,563	66,851	(69,601)	20,813
Increase (decrease) in deferred revenue	(1,650)	-	73,322	71,672
Increase (decrease) in compensated absences payable	6,795	(2,258)	(456)	4,081
<b>Net cash provided by operating activities</b>	<b>\$ 720,717</b>	<b>\$ 938,053</b>	<b>\$ 342,538</b>	<b>\$ 2,001,308</b>

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
**WATER WORKS SYSTEM ENTERPRISE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Operating revenues</b>						
Charges for sales and services, net						
Water sales	\$ 16,395,900	\$ 16,395,900	\$ 16,533,353	\$ -	\$ 16,533,353	\$ 137,453
Tap fees	278,000	278,000	268,635	-	268,635	(9,365)
Other	33,220	33,220	52,523	-	52,523	19,303
Total operating revenues	16,707,120	16,707,120	16,854,511	-	16,854,511	147,391
<b>Operating expenses</b>						
Personnel services	1,643,208	1,641,506	1,561,696	-	1,561,696	79,810
Materials and supplies	996,184	953,554	941,207	-	941,207	12,347
Contractual services	980,779	993,034	943,402	-	943,402	49,632
Other charges	364,319	383,259	407,327	-	407,327	(24,068)
Administrative service charge	616,015	616,015	616,015	-	616,015	-
Surface water contract	8,261,501	8,261,501	4,485,455	2,889,183	7,374,638	886,863
Depreciation	-	-	4,043,038	(4,043,038)	-	-
Total operating expenses	12,862,006	12,848,869	12,998,140	(1,153,855)	11,844,285	1,004,584
Operating income (loss)	3,845,114	3,858,251	3,856,371	1,153,855	5,010,226	1,151,975
<b>Non-operating revenues (expenses)</b>						
Interest earned	23,000	23,000	54,810	(28,287)	26,523	3,523
Interest expense	(1,134,524)	(1,134,524)	(1,180,341)	61,305	(1,119,036)	15,488
Principal expenditure	(1,529,632)	(1,529,632)	-	(1,529,632)	(1,529,632)	-
Capital outlay	-	(34,227)	-	(32,088)	(32,088)	2,139
Gain (loss) on retirement of capital asset	2,000	2,000	20,531	-	20,531	18,531
Amortization of bond issuance costs	(123,161)	(123,161)	49,374	-	49,374	172,535
Total non-operating revenues (expenses)	(2,762,317)	(2,796,544)	(1,055,626)	(1,528,702)	(2,584,328)	212,216
Income (loss) before operating transfers and capital contributions	1,082,797	1,061,707	2,800,745	(374,847)	2,425,898	1,364,191
Capital contributions	-	-	6,409,604	(6,409,604)	-	-
Operating transfer in (out)	(1,082,797)	(1,061,707)	(439,454)	(627,993)	(1,067,447)	(5,740)
Change in net assets	-	-	8,770,895	(7,412,444)	1,358,451	1,358,451
<b>Net assets, beginning of year</b>	<u>52,611,950</u>	<u>52,611,950</u>	<u>52,611,950</u>	<u>-</u>	<u>52,611,950</u>	
<b>Net assets, end of year</b>	<u>\$ 52,611,950</u>	<u>\$ 52,611,950</u>	<u>\$ 61,382,845</u>	<u>\$ (7,412,444)</u>	<u>\$ 53,970,401</u>	<u>\$ 1,358,451</u>

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
**SEWER SYSTEM ENTERPRISE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Operating revenues</b>						
Charges for sales and services, net						
Sewer charges	\$ 12,385,200	\$ 12,385,200	\$ 12,238,235	\$ (262,546)	\$ 11,975,689	\$ (409,511)
Tap fees	35,000	35,000	55,561	-	55,561	20,561
Waste hauler fees	70,000	70,000	71,335	-	71,335	1,335
Other	2,000	2,000	33,173	-	33,173	31,173
Total operating revenues	12,492,200	12,492,200	12,398,304	(262,546)	12,135,758	(356,442)
<b>Operating expenses</b>						
Personnel services	3,667,126	3,582,126	3,348,494	-	3,348,494	233,632
Materials and supplies	1,423,694	1,566,702	1,439,344	(1,563)	1,437,781	128,921
Contractual services	1,538,759	1,490,615	1,669,232	(329,013)	1,340,219	150,396
Other charges	477,014	481,229	484,759	-	484,759	(3,530)
Administrative service charge	375,976	375,976	375,976	-	375,976	-
Depreciation	-	-	2,512,262	(2,512,262)	-	-
Total operating expenses	7,482,569	7,496,648	9,830,067	(2,842,838)	6,987,229	509,419
Operating income (loss)	5,009,631	4,995,552	2,568,237	2,580,292	5,148,529	152,977
<b>Non-operating revenues (expenses)</b>						
Interest earned	20,000	20,000	60,837	(42,998)	17,839	(2,161)
Interest expense	(1,383,195)	(1,383,195)	(1,292,827)	-	(1,292,827)	90,368
Principal expenditure	(1,962,358)	(1,962,358)	-	(1,962,358)	(1,962,358)	-
Insurance proceeds	-	-	-	-	-	-
Capital outlay	(12,965)	(44,577)	-	(37,341)	(37,341)	7,236
Gain (loss) on retirement of capital asset	100	100	18,679	-	18,679	18,579
Amortization of bond issuance costs	(37,618)	(43,798)	(43,797)	-	(43,797)	1
Total non-operating revenues (expenses)	(3,376,036)	(3,413,828)	(1,257,108)	(2,042,697)	(3,299,805)	114,023
Income (loss) before operating transfers and capital contributions	1,633,595	1,581,724	1,311,129	537,595	1,848,724	267,000
Capital contributions	-	-	14,933,855	(14,933,855)	-	-
Operating transfer in (out)	(1,633,595)	(1,581,724)	(327,173)	(1,261,790)	(1,588,963)	(7,239)
Change in net assets	-	-	15,917,811	(15,658,050)	259,761	259,761
<b>Net assets, beginning of year</b>	<b>50,607,837</b>	<b>50,607,837</b>	<b>50,607,837</b>	<b>-</b>	<b>50,607,837</b>	
<b>Net assets, end of year</b>	<b>\$ 50,607,837</b>	<b>\$ 50,607,837</b>	<b>\$ 66,525,648</b>	<b>\$ (15,658,050)</b>	<b>\$ 50,867,598</b>	<b>\$ 259,761</b>

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
**SANITATION SERVICES ENTERPRISE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Operating revenues</b>						
Charges for sales and services, net	\$ 4,880,245	\$ 4,880,245	\$ 4,654,887	\$ -	\$ 4,654,887	\$ (225,358)
Other	2,000	2,000	1,517	-	1,517	(483)
Total operating revenues	4,882,245	4,882,245	4,656,404	-	4,656,404	(225,841)
<b>Operating expenses</b>						
Personnel services	2,058,941	2,055,176	2,012,555	-	2,012,555	42,621
Materials and supplies	69,678	63,748	40,578	-	40,578	23,170
Contractual services	1,437,816	1,490,511	1,531,959	-	1,531,959	(41,448)
Other charges	155,590	155,590	150,663	-	150,663	4,927
Administrative service charge	195,938	195,938	195,938	-	195,938	-
Depreciation	-	-	327,030	(327,030)	-	-
Total operating expenses	3,917,963	3,960,963	4,258,723	(327,030)	3,931,693	29,270
Operating income (loss)	964,282	921,282	397,681	327,030	724,711	(196,571)
<b>Non-operating revenues (expenses)</b>						
Interest earned	2,700	2,700	1,898	147	2,045	(655)
Interest expense	(23,774)	(23,774)	(22,530)	-	(22,530)	1,244
Principal expenditure	(371,964)	(371,964)	-	(371,964)	(371,964)	-
Capital outlay	(400,000)	(357,000)	-	(337,558)	(337,558)	19,442
Gain (loss) on retirement of capital asset	31,000	31,000	4,479	-	4,479	(26,521)
Amortization of bond issuance costs	(2,244)	(2,244)	(2,243)	-	(2,243)	1
Total non-operating revenues (expenses)	(764,282)	(721,282)	(18,396)	(709,375)	(727,771)	(6,489)
Income (loss) before operating transfers and capital contributions	200,000	200,000	379,285	(382,345)	(3,060)	(203,060)
Operating transfer in (out)	(200,000)	(200,000)	(167,784)	4,078	(163,706)	36,294
Change in net assets	-	-	211,501	(378,267)	(166,766)	(166,766)
<b>Net assets, beginning of year</b>	3,630,679	3,630,679	3,630,679	-	3,630,679	
<b>Net assets, end of year</b>	\$ 3,630,679	\$ 3,630,679	\$ 3,842,180	\$ (378,267)	\$ 3,463,913	\$ (166,766)

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
**DRAINAGE UTILITY ENTERPRISE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Operating revenues</b>						
Charges for sales and services, net	\$ 2,657,000	\$ 2,657,000	\$ 2,516,814	\$ -	\$ 2,516,814	\$ (140,186)
Other	47,000	47,000	119,085	-	119,085	72,085
Total operating revenues	2,704,000	2,704,000	2,635,899	-	2,635,899	(68,101)
<b>Operating expenses</b>						
Personnel services	1,236,869	1,236,869	1,166,814	-	1,166,814	70,055
Materials and supplies	94,740	112,240	84,084	-	84,084	28,156
Contractual services	471,888	417,596	391,519	-	391,519	26,077
Other charges	99,320	99,320	98,204	-	98,204	1,116
Administrative service charge	44,088	44,088	44,088	-	44,088	-
Depreciation	-	-	224,155	(224,155)	-	-
Total operating expenses	1,946,905	1,910,113	2,008,864	(224,155)	1,784,709	125,404
Operating income (loss)	757,095	793,887	627,035	224,155	851,190	57,303
<b>Non-operating revenues (expenses)</b>						
Interest earned	6,000	6,000	12,207	(9,974)	2,233	(3,767)
Capital outlay - vehicles, etc.	(459,845)	(496,637)	-	(252,308)	(252,308)	244,329
Gain (loss) on retirement of capital asset	1,000	1,000	5,827	-	5,827	4,827
Total non-operating revenues (expenses)	(452,845)	(489,637)	18,034	(262,282)	(244,248)	245,389
Income (loss) before operating transfers and capital contributions	304,250	304,250	645,069	(38,127)	606,942	302,692
Capital contributions	-	-	329,621	(329,621)	-	-
Operating transfer in (out)	(304,250)	(304,250)	51,685	(356,617)	(304,932)	(682)
Change in net assets	-	-	1,026,375	(724,365)	302,010	302,010
<b>Net assets, beginning of year</b>	8,872,060	8,872,060	8,872,060	-	8,872,060	
<b>Net assets, end of year</b>	\$ 8,872,060	\$ 8,872,060	\$ 9,898,435	\$ (724,365)	\$ 9,174,070	\$ 302,010

**CITY OF GALVESTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN NET ASSETS – BUDGET AND ACTUAL**  
**AIRPORT ENTERPRISE FUND**  
**YEAR ENDED SEPTEMBER 30, 2012**

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
<b>Operating revenues</b>						
Charges for sales and services, net						
Building rental	\$ 75,708	\$ 75,708	\$ 63,641	\$ -	\$ 63,641	\$ (12,067)
Hangar rental	25,446	25,446	9,680	-	9,680	(15,766)
Terminal space rental	47,158	47,158	37,281	-	37,281	(9,877)
Land lease rental	731,758	731,758	738,000	-	738,000	6,242
Oil company receipts	33,272	33,272	37,771	-	37,771	4,499
Other	200	200	300,114	-	300,114	299,914
Total operating revenues	913,542	913,542	1,186,487	-	1,186,487	272,945
<b>Operating expenses</b>						
Personnel services	378,950	378,950	379,337	-	379,337	(387)
Materials and supplies	117,715	102,336	98,971	-	98,971	3,365
Contractual services	112,996	120,240	99,680	-	99,680	20,560
Other charges and bad debt expense	162,738	160,873	206,768	-	206,768	(45,895)
Administrative service charge	50,208	50,208	50,208	-	50,208	-
Depreciation	-	-	689,844	(689,844)	-	-
Total operating expenses	822,607	812,607	1,524,808	(689,844)	834,964	(22,357)
Operating income (loss)	90,935	100,935	(338,321)	689,844	351,523	250,588
<b>Non-operating revenues (expenses)</b>						
Interest earned	2,000	2,000	2,304	-	2,304	304
Capital outlay - improvements	(300,000)	(310,000)	-	(310,000)	(310,000)	-
Gain (loss) on retirement of capital asset	-	-	620	-	620	620
Total non-operating revenues (expenses)	(298,000)	(308,000)	2,924	(310,000)	(307,076)	924
Income (loss) before capital contributions	(207,065)	(207,065)	(335,397)	379,844	44,447	251,512
Capital contributions	-	-	2,410,258	(2,410,258)	-	-
Change in net assets	(207,065)	(207,065)	2,074,861	(2,030,414)	44,447	251,512
<b>Net assets, beginning of year</b>	<u>17,132,714</u>	<u>17,132,714</u>	<u>17,132,714</u>	<u>-</u>	<u>17,132,714</u>	
<b>Net assets, end of year</b>	<u>\$ 16,925,649</u>	<u>\$ 16,925,649</u>	<u>\$ 19,207,575</u>	<u>\$ (2,030,414)</u>	<u>\$ 17,177,161</u>	<u>\$ 251,512</u>

## 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 Service** – 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  
COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICE FUNDS  
SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>Central Garage</b>	<b>Casualty and Liability Insurance</b>	<b>Central Service</b>
<b>Current assets</b>			
Cash and temporary investments	\$ 1,450,218	\$ 678,683	\$ 664,716
Accounts receivable, net of allowance for doubtful accounts	155,923	-	-
Due from other funds	184,495	-	-
Inventories	208,681	-	4,917
Prepaid expenses	-	342,276	-
<b>Restricted assets</b>			
Cash and investments	-	-	472,285
Total current assets	<u>1,999,317</u>	<u>1,020,959</u>	<u>1,141,918</u>
<b>Non-current assets</b>			
Deferred charges	-	-	39,415
Capital assets (net of depreciation)	<u>135,925</u>	<u>-</u>	<u>5,518,825</u>
Total non-current assets	<u>135,925</u>	<u>-</u>	<u>5,558,240</u>
Total assets	<u>2,135,242</u>	<u>1,020,959</u>	<u>6,700,158</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	133,785	36,821	235,117
Accrued interest payable	-	-	65,517
<b>Long-term debt, current portion</b>			
Claims and judgments	-	-	-
Notes payable	-	-	92,993
Bonds and certificates of obligation payable	-	-	93,600
Total current liabilities	<u>133,785</u>	<u>36,821</u>	<u>487,227</u>
<b>Non-current liabilities</b>			
<b>Long-term debt, noncurrent portion</b>			
Compensated absences	138,149	13,568	172,201
Claims and judgments	-	-	-
Contracts payable	-	-	-
Notes payable	-	-	1,033,424
Bonds and certification of obligation payable	-	-	3,081,143
Total non-current liabilities	<u>138,149</u>	<u>13,568</u>	<u>4,286,768</u>
Total liabilities	<u>271,934</u>	<u>50,389</u>	<u>4,773,995</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	135,925	-	1,674,412
Restricted for debt service	-	-	23,713
Unrestricted	<u>1,727,383</u>	<u>970,570</u>	<u>228,038</u>
Total net assets	<u>\$ 1,863,308</u>	<u>\$ 970,570</u>	<u>\$ 1,926,163</u>

The Notes to the Basic Financial Statements  
are an integral part of this statement.



<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 70,937	\$ 1,071,040	\$ 3,573,086	\$ 7,508,680
-	-	67,603	223,526
-	-	-	184,495
-	-	-	213,598
-	-	-	342,276
-	-	-	472,285
<u>70,937</u>	<u>1,071,040</u>	<u>3,640,689</u>	<u>8,944,860</u>
-	-	-	39,415
-	-	-	5,654,750
-	-	-	5,694,165
<u>70,937</u>	<u>1,071,040</u>	<u>3,640,689</u>	<u>14,639,025</u>
1,073	36,216	128,099	571,111
-	-	-	65,517
-	90,664	-	90,664
-	-	-	92,993
-	-	-	93,600
<u>1,073</u>	<u>126,880</u>	<u>128,099</u>	<u>913,885</u>
72,274	-	-	396,192
-	1,185,555	386,583	1,572,138
-	-	2,125,529	2,125,529
-	-	-	1,033,424
-	-	-	3,081,143
<u>72,274</u>	<u>1,185,555</u>	<u>2,512,112</u>	<u>8,208,426</u>
<u>73,347</u>	<u>1,312,435</u>	<u>2,640,211</u>	<u>9,122,311</u>
-	-	-	1,810,337
-	-	-	23,713
<u>(2,410)</u>	<u>(241,395)</u>	<u>1,000,478</u>	<u>3,682,664</u>
<u>\$ (2,410)</u>	<u>\$ (241,395)</u>	<u>\$ 1,000,478</u>	<u>\$ 5,516,714</u>

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
INTERNAL SERVICE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<b>Central Garage</b>	<b>Casualty and Liability Insurance</b>	<b>Central Service</b>
<b>Operating Revenues</b>			
Charges for services	\$ 5,117,071	\$ 1,880,909	\$ 2,363,728
Miscellaneous	13,886	-	-
Total operating revenues	<u>5,130,957</u>	<u>1,880,909</u>	<u>2,363,728</u>
<b>Operating Expenses</b>			
Personnel services	1,027,603	126,989	944,627
Contractual services	362,618	21,069	529,406
Supplies and materials	3,076,888	142	301,216
Insurance claims and premiums	-	1,230,635	-
Other expenses	279,591	-	101,550
Depreciation	20,860	-	264,153
Total operating expenses	<u>4,767,560</u>	<u>1,378,835</u>	<u>2,140,952</u>
Operating income (loss)	<u>363,397</u>	<u>502,074</u>	<u>222,776</u>
<b>Non-operating revenues (expenses)</b>			
Interest and investment revenue	2,666	482	2,523
Insurance proceeds	49,920	-	-
Interest expense	-	-	(209,088)
Amortization of bond issuance costs	-	-	(2,724)
Total non-operating revenues (expenses)	<u>52,586</u>	<u>482</u>	<u>(209,289)</u>
Income (loss) before contributions and transfers	415,983	502,556	13,487
Transfers in	264,104	-	-
Transfers out	<u>(47,141)</u>	<u>-</u>	<u>(15,000)</u>
Change in net assets	632,946	502,556	(1,513)
<b>Net assets, beginning of year, as originally reported</b>	1,230,362	468,014	1,927,676
<b>Prior Period Adjustment</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets, beginning of year, as restated</b>	<u>1,230,362</u>	<u>468,014</u>	<u>1,927,676</u>
<b>Net assets, end of year</b>	<u>\$ 1,863,308</u>	<u>\$ 970,570</u>	<u>\$ 1,926,163</u>

<b>Construction Management</b>	<b>Workers Compensation Insurance</b>	<b>Health and Life Insurance</b>	<b>Total</b>
\$ 125,293	\$ 696,436	\$ 5,636,975	\$ 15,820,412
-	-	-	13,886
<u>125,293</u>	<u>696,436</u>	<u>5,636,975</u>	<u>15,834,298</u>
53,163	-	-	2,152,382
44,542	85,627	1,049,978	2,093,240
-	-	-	3,378,246
-	338,443	3,817,290	5,386,368
27,592	-	356,115	764,848
-	-	-	285,013
<u>125,297</u>	<u>424,070</u>	<u>5,223,383</u>	<u>14,060,097</u>
<u>(4)</u>	<u>272,366</u>	<u>413,592</u>	<u>1,774,201</u>
4	3,335	9,108	18,118
-	-	-	49,920
-	-	-	(209,088)
-	-	-	(2,724)
<u>4</u>	<u>3,335</u>	<u>9,108</u>	<u>(143,774)</u>
-	275,701	422,700	1,630,427
-	-	-	264,104
-	-	-	(62,141)
-	275,701	422,700	1,832,390
(2,410)	(517,096)	1,779,261	4,885,807
-	-	(1,201,483)	(1,201,483)
<u>(2,410)</u>	<u>(517,096)</u>	<u>577,778</u>	<u>3,684,324</u>
<u>\$ (2,410)</u>	<u>\$ (241,395)</u>	<u>\$ 1,000,478</u>	<u>\$ 5,516,714</u>

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Central Garage</u>	<u>Casualty and Liability Insurance</u>	<u>Central Service</u>	<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>							
Receipts from customers and users	\$ 5,107,795	\$ 1,885,080	\$ 2,473,032	\$ 125,293	\$ 696,436	\$ 5,603,213	\$ 15,890,849
Disbursed for personnel services	(909,208)	(125,463)	(953,047)	(53,981)	-	-	(2,041,699)
Disbursed for goods and services	(3,885,839)	(1,335,477)	(945,417)	(72,134)	(624,093)	(4,719,540)	(11,582,500)
<b>Net cash provided by (used in) operating activities</b>	312,748	424,140	574,568	(822)	72,343	883,673	2,266,650
<b>NONCAPITAL FINANCING ACTIVITIES</b>							
Interfund transfers in	264,104	-	-	-	-	-	264,104
Interfund transfers out	(47,141)	-	(15,000)	-	-	-	(62,141)
Proceeds from insurance	49,920	-	-	-	-	-	49,920
<b>Net cash provided by (used in) noncapital financing activities</b>	266,883	-	(15,000)	-	-	-	251,883
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Payments for capital acquisitions (net of sales)	-	-	(49,107)	-	-	-	(49,107)
Proceeds from sale of capital assets	-	-	-	-	-	-	-
Principal payment on debt - bond	-	-	(248,680)	-	-	-	(248,680)
Principal payment on debt - capital leases	-	-	(89,253)	-	-	-	(89,253)
Interest payments on capital leases	-	-	(49,508)	-	-	-	(49,508)
Interest payments on revenue bonds	-	-	(1,671)	-	-	-	(1,671)
<b>Net cash provided by (used in) capital and related financing activities</b>	-	-	(438,219)	-	-	-	(438,219)
<b>INVESTING ACTIVITIES</b>							
Interest received	2,666	482	2,523	4	3,335	9,108	18,118
<b>Net cash provided by (used in) investing activities</b>	2,666	482	2,523	4	3,335	9,108	18,118
<b>Net increase (decrease) in equity in pooled cash and investments</b>	582,297	424,622	123,872	(818)	75,678	892,781	2,098,432
<b>CASH AND TEMPORARY INVESTMENTS, beginning of year</b>	867,921	254,061	1,013,129	71,755	995,362	2,680,305	5,882,533
<b>CASH AND TEMPORARY INVESTMENTS, end of year</b>	<u>\$ 1,450,218</u>	<u>\$ 678,683</u>	<u>\$ 1,137,001</u>	<u>\$ 70,937</u>	<u>\$ 1,071,040</u>	<u>\$ 3,573,086</u>	<u>\$ 7,980,965</u>

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
YEAR ENDED SEPTEMBER 30, 2012  
(CONTINUED)**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 363,397	\$ 502,074	\$ 222,776	\$ (4)	\$ 272,366	\$ 413,592	\$ 1,774,201
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Depreciation	20,860	-	264,153	-	-	-	285,013
(Increase) decrease in accounts receivable	(23,162)	4,171	109,304	-	-	(33,762)	56,551
(Increase) decrease in inventory	(11,239)	-	(3,356)	-	-	-	(14,595)
(Increase) decrease in prepaid expenses	-	(8,809)	-	-	-	-	(8,809)
Increase (decrease) in accounts payable	(155,503)	(74,822)	(9,889)	-	(200,023)	503,843	63,606
Increase (decrease) in salaries payable	117,006	62	1,227	174	-	-	118,469
Increase (decrease) in compensated absences payable	1,389	1,464	(9,647)	(992)	-	-	(7,786)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 312,748</u>	<u>\$ 424,140</u>	<u>\$ 574,568</u>	<u>\$ (822)</u>	<u>\$ 72,343</u>	<u>\$ 883,673</u>	<u>\$ 2,266,650</u>

## 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, 2011.

**Agency** – Custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

<b>ASSETS</b>	<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>
Cash and temporary investments	\$ -	\$ -	\$ 2,161,036	\$ 2,161,036
Receivables				
Interest and dividends	63,620	11,426	28,729	103,775
Loans to participants	160,763		-	160,763
Total receivables	224,383	11,426	28,729	264,538
Investments				
U.S. Government agencies	579,546	1,545,480	-	2,125,026
Common stocks	7,354,667	17,923,181	15,913,479	41,191,327
Mutual funds (equity funds)	4,871,053	2,548,371	5,406,770	12,826,194
Corporate and foreign bonds	-	14,017,840	-	14,017,840
Fixed income funds	8,074,223	1,424,716	10,899,904	20,398,843
Total investments	20,879,489	37,459,588	32,220,153	90,559,230
Prepaid benefits	293,151		-	293,151
Total Assets	21,397,023	37,471,014	34,409,918	93,277,955
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	4,882	23,848	-	28,730
Total liabilities	4,882	23,848	-	28,730
Net assets				
Held in trust for benefits and other purposes	\$ 21,392,141	\$ 37,447,166	\$ 34,409,918	\$ 93,249,225

**CITY OF GALVESTON, TEXAS  
COMBINING STATEMENT OF CHANGES IN  
FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED DECEMBER 31, 2011**

	<u>City of Galveston Employee's Retirement Plan for Police</u>	<u>City of Galveston Employee's Retirement Plan for Employees</u>	<u>Galveston Firefighters' Pension Fund</u>	<u>Total</u>
<b>Additions</b>				
Contributions:				
Employer	\$ 1,070,099	\$ 1,645,622	\$ 914,489	\$ 3,630,210
Plan members	1,070,099	1,097,079	904,583	3,071,761
Total contributions	2,140,198	2,742,701	1,819,072	6,701,971
Investment earnings:				
Net increase (decrease) in fair value of investments	(64,812)	357,428	(426,741)	(134,125)
Interest	368,063	5,242	781,520	1,154,825
Dividends	321,876	1,255,464		1,577,340
Investment activity expense	(133,992)	(212,117)	(173,687)	(519,796)
Total net investment earnings	491,135	1,406,017	181,092	2,078,244
Other income	-	782	6,097	6,879
Total additions	2,631,333	4,149,500	2,006,261	8,787,094
<b>Deductions</b>				
Benefits	3,982,184	3,446,196	2,732,077	10,160,457
Administrative	72,354	109,812	86,925	269,091
Total deductions	4,054,538	3,556,008	2,819,002	10,429,548
Change in net assets	(1,423,205)	593,492	(812,741)	(1,642,454)
<b>Net assets, beginning of year</b>	<u>22,815,346</u>	<u>36,853,674</u>	<u>35,222,659</u>	<u>94,891,679</u>
<b>Net assets, end of year</b>	<u>\$ 21,392,141</u>	<u>\$ 37,447,166</u>	<u>\$ 34,409,918</u>	<u>\$ 93,249,225</u>



**CITY OF GALVESTON, TEXAS  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
YEAR ENDED SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>September 30, 2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>September 30, 2012</b>
Cash and temporary investments	\$ 702,889	\$ -	\$ (1,355)	\$ 701,534
Total Assets	<u>\$ 702,889</u>	<u>\$ -</u>	<u>\$ (1,355)</u>	<u>\$ 701,534</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ 597	\$ 3,727	\$ -	\$ 4,324
Refunds payable and others	702,292	-	(5,082)	697,210
Total liabilities	<u>\$ 702,889</u>	<u>\$ 3,727</u>	<u>\$ (5,082)</u>	<u>\$ 701,534</u>

## **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, 2012**

<b>ASSETS</b>	<b>Park Board of Trustees</b>	<b>Galveston Island Redevelopment Authority</b>	<b>Campeche Shores - Public Improvement District No. 1</b>	<b>Beachside Village - Public Improvement District</b>	<b>Totals</b>
Cash and equivalents	\$ 4,947,784	\$ 4,494,170	\$ -	\$ -	\$ 9,441,954
Investments	4,746,864	-	-	-	4,746,864
Receivables - less allowance for uncollectibles	2,316,205	91,298	94,685	439	2,502,627
Due from other governments	-	31,930	-	-	31,930
Inventories	5,607	-	-	-	5,607
Prepaid items	211,471	-	-	-	211,471
Deferred charges	-	46,753	-	-	46,753
Capital assets not being depreciated	2,117,321	-	-	-	2,117,321
Capital assets (net of accumulated depreciation)	335,889,513	-	-	-	335,889,513
Total assets	350,234,765	4,664,151	94,685	439	354,994,040
<b>LIABILITIES AND NET ASSETS</b>					
Accounts payable and accrued expenses	1,304,471	1,698,461	-	1,186	3,004,118
Accrued interest payable	5,459	-	-	-	5,459
Long-term debt liabilities					
Due within one year	1,156,544	600,000	-	-	1,756,544
Due in more than one year	6,871,540	15,142,052	-	-	22,013,592
Total liabilities	9,338,014	17,440,513	-	1,186	26,779,713
Net assets					
Invested in capital assets, net of related debt	335,012,441	-	-	-	335,012,441
Restricted					
Capital projects	159,735	-	-	-	159,735
Debt service	-	1,330,095	-	-	1,330,095
Unrestricted	5,724,575	(14,106,457)	94,685	(747)	(8,287,944)
Total net assets	\$ 340,896,751	\$ (12,776,362)	\$ 94,685	\$ (747)	\$ 328,214,327

**CITY OF GALVESTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS –  
GOVERNMENTAL ACTIVITIES  
COMBINING STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
<b>Component Unit</b>			
Park Board of Trustees	\$ 25,347,219	\$ 4,485,333	\$ 1,812,261
Galveston Island Redevelopments Authority	1,308,062	-	-
Campeche Shores - Public Improvement District No. 1	90,401	-	-
Preserve at Sweetwater Lake - Public Improvement District	-	-	-
Beachside Village - Public Improvement District	71,801	-	-
Total governmental activities	<u>\$ 26,817,483</u>	<u>\$ 4,485,333</u>	<u>\$ 1,812,261</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 of year**

**NET ASSETS, end of year**

**Net (Expense) and Changes in Net Assets**

<b>Park Board of Trustees</b>	<b>Galveston Island Redevelopment Authority</b>	<b>Campeche Shores - Public Improvement District No. 1</b>	<b>Beachside Village - Public Improvement District</b>	<b>Totals</b>
\$ (19,049,625)	\$ -	\$ -	\$ -	\$ (19,049,625)
-	(1,308,062)	-	-	(1,308,062)
-	-	(90,401)	-	(90,401)
-	-	-	-	-
-	-	-	(71,801)	(71,801)
<u>(19,049,625)</u>	<u>(1,308,062)</u>	<u>(90,401)</u>	<u>(71,801)</u>	<u>(20,519,889)</u>
-	3,500,983	88,200	64,615	3,653,798
7,654,936	-	-	-	7,654,936
109,098	2,897	-	-	111,995
4,454,822	-	-	-	4,454,822
<u>12,218,856</u>	<u>3,503,880</u>	<u>88,200</u>	<u>64,615</u>	<u>15,875,551</u>
(6,830,769)	2,195,818	(2,201)	(7,186)	(4,644,338)
<u>347,727,520</u>	<u>(14,972,180)</u>	<u>96,886</u>	<u>6,439</u>	<u>332,858,665</u>
<u>\$ 340,896,751</u>	<u>\$ (12,776,362)</u>	<u>\$ 94,685</u>	<u>\$ (747)</u>	<u>\$ 328,214,327</u>

**CITY OF GALVESTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS –  
BUSINESS ACTIVITY TYPES  
COMBINING STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

<b>ASSETS</b>	<b>Board of Trustees of Galveston Wharves</b>	<b>Galveston Housing Finance Corporation</b>	<b>Galveston Property Finance Authority</b>	<b>Total</b>
Cash and equivalents	\$ 9,127,910	\$ 224,553	\$ 54,138	\$ 9,406,601
Receivables - less allowance for uncollectibles	5,692,233	3,181	875	5,696,289
Internal balances	-	(87,598)	87,598	-
Prepays	612,450	-	-	612,450
Restricted assets				
Cash and temporary investments	22,687,962	-	-	22,687,962
Other assets	886,550	-	-	886,550
Net investments in direct financing and capital leases - noncurrent	3,029,403	-	-	3,029,403
Capital assets not being depreciated	33,031,965	44,138	831,626	33,907,729
Capital assets (net of accumulated depreciation)	85,018,537	-	-	85,018,537
Total assets	<u>160,087,010</u>	<u>184,274</u>	<u>974,237</u>	<u>161,245,521</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and accrued expenses	3,470,086	-	20,152	3,490,238
Accrued interest	1,771,104	-	-	1,771,104
Due to primary government	182,000	-	-	182,000
Long-term liabilities				
Due within one year	4,720,954	-	-	4,720,954
Due in more than one year	57,201,744	-	-	57,201,744
Total liabilities	67,345,888	-	20,152	67,366,040
Net assets				
Invested in capital assets, net of related debt	85,136,679	-	-	85,136,679
Restricted for:				
Debt service	2,324,964	-	-	2,324,964
Unrestricted	5,279,479	184,274	954,085	6,417,838
Total net assets	<u>\$ 92,741,122</u>	<u>\$ 184,274</u>	<u>\$ 954,085</u>	<u>\$ 93,879,481</u>

**CITY OF GALVESTON, TEXAS  
DISCRETELY PRESENTED COMPONENT UNITS –  
BUSINESS ACTIVITY TYPES  
COMBINING STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Program Revenues				Net (Expense) and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Unit			Totals
					Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	
<b>Component Unit</b>								
Business-type Activities:								
Board of Trustees of Galveston Wharves	\$ 25,950,284	\$ 24,843,317	\$ 1,962,345	\$ 716,170	\$ 1,571,548	\$ -	\$ -	\$ 1,571,548
Galveston Housing Finance Corporation	15,478	6,362	-	-	-	(9,116)	-	(9,116)
Galveston Property Finance Authority	87,929	61,913	-	-	-	-	(26,016)	(26,016)
Total governmental activities	<u>\$ 26,053,691</u>	<u>\$ 24,911,592</u>	<u>\$ 1,962,345</u>	<u>\$ 716,170</u>	<u>1,571,548</u>	<u>(9,116)</u>	<u>(26,016)</u>	<u>1,536,416</u>
<b>GENERAL REVENUES</b>								
Unrestricted investment earnings					81,193	2,271	21	83,485
Miscellaneous					(77,611)	-	-	(77,611)
Total general revenues and transfers					<u>3,582</u>	<u>2,271</u>	<u>21</u>	<u>5,874</u>
Change in net assets					1,575,130	(6,845)	(25,995)	1,542,290
<b>NET ASSETS, beginning of year</b>					<u>91,165,992</u>	<u>191,119</u>	<u>980,080</u>	<u>92,337,191</u>
<b>NET ASSETS, end of year</b>					<u>\$ 92,741,122</u>	<u>\$ 184,274</u>	<u>\$ 954,085</u>	<u>\$ 93,879,481</u>

**STATISTICAL SECTION  
(Unaudited)**



## **STATISTICAL SECTION (Unaudited)**

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.

**FINANCIAL TRENDS INFORMATION** – information to help the reader understand how the City of Galveston's financial performance and well-being have changed over time.

- 1 Net assets by component
- 2 Changes in net assets
- 3 Fund balances, governmental funds
- 4 Changes in fund balances, governmental funds

**REVENUE CAPACITY INFORMATION** – information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.

- 5 Assessed value and estimated actual value of taxable property
- 6 Direct and overlapping property tax rates
- 7 Principal property tax payers
- 8 Property tax levies and collections

**DEBT CAPACITY INFORMATION** – 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.

- 9 Ratios of outstanding debt by type
- 10 Ratios of net general bonded debt outstanding
- 11 Direct and overlapping governmental activities debt

**DEMOGRAPHIC ECONOMIC INFORMATION** – information to help the reader understand the environment within which the City of Galveston's financial activities take place.

- 12 Demographic and economic statistics
- 13 Principal employers

**OPERATING INFORMATION** – information in the City of Galveston's financial report relates to the services the city provides and the activities it performs.

- 14 Full-time equivalent city government employees by function/program
- 15 Operating indicators by function/program
- 16 Capital asset statistics by function/program

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

**Table 1**  
**City of Galveston**  
**Net Assets by Component (in thousands)**  
**Last Nine Fiscal Years**  
(accrual basis of accounting)  
(unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities									*	
Invested in capital assets, net of related debt	\$ 14,956	\$ 23,872	\$ 29,356	\$ 25,631	\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300	\$ 98,510	\$ 90,856
Restricted	4,943	4,921	4,894	10,791	18,757	19,950	25,689	26,256	25,326	25,670
Unrestricted	9,168	7,845	8,012	11,081	5,912	6,113	18,853	26,157	10,861	31,737
Total governmental activities net assets	<u>\$ 29,067</u>	<u>\$ 36,638</u>	<u>\$ 42,262</u>	<u>\$ 47,503</u>	<u>\$ 61,996</u>	<u>\$ 75,336</u>	<u>\$ 94,149</u>	<u>\$ 150,713</u>	<u>\$ 134,697</u>	<u>\$ 148,262</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 40,480	\$ 64,284	\$ 70,442	\$ 71,492	\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051	\$ 99,989	\$ 80,157
Restricted	20,835	6,367	3,301	9,502	10,327	11,053	7,173	10,949	11,886	11,920
Unrestricted	5,233	2,123	3,069	5,817	13,967	12,364	24,354	20,713	22,183	70,504
Total business-type activities net assets	<u>\$ 66,548</u>	<u>\$ 72,774</u>	<u>\$ 76,812</u>	<u>\$ 86,811</u>	<u>\$ 98,285</u>	<u>\$ 87,765</u>	<u>\$ 96,566</u>	<u>\$ 110,713</u>	<u>\$ 134,058</u>	<u>\$ 162,582</u>
Primary government										
Invested in capital assets, net of related debt	\$ 55,436	\$ 88,156	\$ 99,798	\$ 97,123	\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351	\$ 198,499	\$ 171,013
Restricted	25,778	11,288	8,195	20,293	29,084	31,003	32,862	37,205	37,212	37,590
Unrestricted	14,401	9,968	11,081	16,898	19,879	18,477	43,207	46,870	33,044	102,241
Total primary government net assets	<u>\$ 95,615</u>	<u>\$ 109,412</u>	<u>\$ 119,074</u>	<u>\$ 134,314</u>	<u>\$ 160,281</u>	<u>\$ 163,101</u>	<u>\$ 190,715</u>	<u>\$ 261,426</u>	<u>\$ 268,755</u>	<u>\$ 310,844</u>

\* As restated, see Note 15 to the Basic Financial Statements.

**Table 2**  
**City of Galveston**  
**Changes in Net Assets (in thousands)**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

	2003	2004	2005	2006
<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 development	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
Total governmental activities expenses	<u>49,077</u>	<u>44,693</u>	<u>47,588</u>	<u>54,058</u>
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
Total business-type activities expenses	<u>22,821</u>	<u>23,001</u>	<u>25,281</u>	<u>28,118</u>
Total primary government expenses	<u>71,898</u>	<u>67,694</u>	<u>72,869</u>	<u>82,176</u>
<b>Program Revenues</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 development	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 development	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 development	-	-	-	-
Transportation system	1,928	3,426	2,440	1,575
Total governmental activities program revenues	<u>13,852</u>	<u>15,487</u>	<u>14,161</u>	<u>14,225</u>
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				
Waterworks	-	-	-	-
Sewer system	-	-	-	-
Drainage	-	-	-	-
Airport	1,362	5,482	1,178	2,680
Total business-type activities program revenues	<u>24,580</u>	<u>29,772</u>	<u>29,352</u>	<u>36,962</u>
Total primary government program revenues	<u>38,432</u>	<u>45,259</u>	<u>43,513</u>	<u>51,187</u>
<b>Net (Expense)/Revenues</b>				
Governmental activities	(35,225)	(29,206)	(33,427)	(39,833)
Business-type activities	1,759	6,771	4,071	8,844
Total primary government net expense	<u>\$ (33,466)</u>	<u>\$ (22,435)</u>	<u>\$ (29,356)</u>	<u>\$ (30,989)</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 5,166	\$ 5,307	\$ 5,742	\$ 8,484	\$ 7,413	\$ 5,164
27,040	32,145	29,390	29,180	27,056	26,919
5,990	12,735	69,234	25,590	23,631	6,925
8,258	9,020	10,764	8,289	8,820	9,672
4,483	4,936	4,237	7,902	31,723	12,942
5,552	4,548	5,120	5,347	4,649	24,150
3,096	2,839	2,757	2,868	2,555	4,909
<u>59,585</u>	<u>71,530</u>	<u>127,244</u>	<u>87,660</u>	<u>105,847</u>	<u>90,681</u>
12,999	13,350	13,060	14,165	15,519	14,001
11,536	10,806	9,900	11,202	11,058	10,991
3,781	3,808	3,907	3,999	4,108	4,176
1,312	1,651	1,700	1,737	1,750	1,959
1,201	1,185	1,073	1,127	1,496	1,468
333	-	-	-	-	-
<u>31,162</u>	<u>30,800</u>	<u>29,640</u>	<u>32,230</u>	<u>33,931</u>	<u>32,594</u>
<u>90,747</u>	<u>102,330</u>	<u>156,884</u>	<u>119,890</u>	<u>139,778</u>	<u>123,275</u>
1,400	1,552	1,628	1,717	1,841	2,159
3,133	3,338	2,595	2,310	3,030	2,554
21	37	30	50	318	-
407	166	8	2	1	2
1,620	1,119	1,890	1,282	1,441	1,379
939	697	461	508	650	840
-	-	489	3,336	176	-
487	312	1,646	5,234	537	181
-	-	76,730	37,424	281	-
767	936	980	963	734	116
2,021	2,244	1,653	5,069	25,706	31,006
2,455	3,136	3,034	6,749	3,015	2,771
-	-	316	-	-	-
-	5,086	-	-	-	-
-	10,752	-	25,298	10,247	1,718
9,557	8,656	2	23	3	-
-	-	-	-	12,398	23,385
1,735	1,501	448	2,934	1,392	3,525
<u>24,542</u>	<u>39,532</u>	<u>91,910</u>	<u>92,899</u>	<u>61,770</u>	<u>69,636</u>
14,309	14,640	14,168	14,988	16,132	16,834
12,799	12,259	11,082	11,523	12,108	12,365
4,587	4,360	3,888	4,257	4,247	4,655
2,800	2,691	2,418	2,567	2,507	2,517
1,071	960	783	1,312	804	1,186
189	-	-	-	-	-
-	-	-	-	-	501
-	-	-	-	-	1,127
-	-	-	-	-	330
6,065	1,925	2,253	11,964	2,700	2,413
<u>41,820</u>	<u>36,835</u>	<u>34,592</u>	<u>46,611</u>	<u>38,498</u>	<u>41,927</u>
<u>66,362</u>	<u>76,367</u>	<u>126,502</u>	<u>139,510</u>	<u>100,268</u>	<u>111,563</u>
(35,043)	(31,998)	(35,334)	5,239	(44,077)	(21,045)
10,658	6,035	4,952	14,381	4,567	9,333
<u>\$ (24,385)</u>	<u>\$ (25,963)</u>	<u>\$ (30,382)</u>	<u>\$ 19,620</u>	<u>\$ (39,510)</u>	<u>\$ (11,712)</u>

(Continued)

**Table 2**  
**City of Galveston**  
**Changes in Net Assets (in thousands)**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</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
Total governmental activities	<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)
Total business-type activities	<u>443</u>	<u>(544)</u>	<u>(33)</u>	<u>1,154</u>
Total primary government	<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	2,202	6,227	4,038	9,998
Total primary government	<u>\$ 5,116</u>	<u>\$ 13,798</u>	<u>\$ 9,662</u>	<u>\$ 15,240</u>

Fiscal Year						
2007	2008	2009	2010	2011	2012	
\$ 16,333	\$ 18,640	\$ 19,718	\$ 18,270	\$ 20,087	\$ 21,489	
17,498	17,747	18,588	15,705	16,589	17,712	
4,619	4,958	3,742	4,058	4,722	5,507	
5,375	5,450	4,807	4,756	5,009	5,073	
737	126	120	120	120	119	
-	-	-	-	-	-	
2,439	1,483	219	115	89	122	
844	224	418	438	1,113	3,418	
-	-	-	-	-	-	
-	(2,022)	-	-	-	-	
-	-	-	-	-	-	
-	(1,867)	1,112	-	-	-	
-	-	4,863	7,170	-	-	
1,690	600	562	695	(18,863)	(18,830)	
<u>49,535</u>	<u>45,339</u>	<u>54,149</u>	<u>51,327</u>	<u>28,866</u>	<u>34,609</u>	
2,454	1,805	877	169	-	-	
52	136	28	106	155	132	
-	-	-	-	158	228	
-	(17,897)	-	(34)	-	-	
-	-	3,509	220	-	-	
<u>(1,690)</u>	<u>(600)</u>	<u>(562)</u>	<u>(695)</u>	<u>18,863</u>	<u>18,830</u>	
816	(16,556)	3,852	(234)	19,176	19,191	
<u>50,351</u>	<u>28,783</u>	<u>58,001</u>	<u>51,093</u>	<u>48,042</u>	<u>53,800</u>	
14,492	13,341	18,815	56,566	(15,211)	13,565	
11,474	(10,521)	8,804	14,147	23,743	28,524	
<u>\$ 25,966</u>	<u>\$ 2,820</u>	<u>\$ 27,619</u>	<u>\$ 70,713</u>	<u>\$ 8,532</u>	<u>\$ 42,088</u>	

(Concluded)

**Table 3**  
**City of Galveston**  
**Fund Balances, Governmental Funds**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Non-spendable										
Inventory	\$ -	\$ -	\$ -	\$ -	\$ 8,255	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	53,929	92,751	200,997	206,920	190,081	86,688	100,407	101,738	88,521	49,626
Restricted										
Debt service	-	-	-	-	-	-	-	-	-	-
Other	43,914	-	-	-	-	-	-	-	-	-
Committed										
Emergency reserves	494,680	387,810	1,917,994	2,053,226	2,425,226	2,625,226	2,825,226	3,025,226	3,225,226	3,425,226
Other	-	-	-	-	-	-	-	-	363,296	-
Assigned	-	-	-	-	-	-	-	-	176,999	-
Unassigned	6,064,743	7,293,827	7,252,569	9,840,129	11,227,881	11,421,882	13,751,737	8,580,214	6,588,090	12,939,901
Total general fund	<u>\$ 6,657,266</u>	<u>\$ 7,774,388</u>	<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>	<u>\$ 13,851,443</u>	<u>\$ 14,133,796</u>	<u>\$ 16,677,370</u>	<u>\$ 11,707,178</u>	<u>\$ 10,442,132</u>	<u>\$ 16,778,049</u>
All Other Governmental Funds										
Non-spendable										
Inventory	\$ 190,854	\$ 133,983	\$ 216,159	\$ 255,735	\$ 311,042	\$ 363,026	\$ 363,212	\$ 193,611	\$ 151,858	\$ 148,976
Restricted										
Debt service	4,825,767	4,921,212	5,663,207	6,663,217	6,819,760	7,044,374	7,603,944	7,643,345	8,447,339	12,515,705
Beach preservation	-	-	-	-	-	-	-	-	-	4,921,580
Capital projects	29,878,465	7,992,863	7,359,277	14,555,199	16,204,348	14,130,090	14,662,428	16,854,667	29,207,678	15,276,707
Grants	-	-	-	-	-	-	-	-	-	8,782,571
Other	266,608	405,404	90,848	166,257	175,307	69,031	176,765	287,163	-	-
Committed										
Other	1,022,177	879,063	1,618,405	1,447,555	1,512,171	1,492,648	1,552,638	2,680,920	2,145,641	1,834,852
Assigned	1,318,678	1,355,023	442,606	849,133	465,327	(127,495)	33,210,416	30,831,813	-	-
Unassigned	-	-	-	-	-	-	-	-	(147,964)	(188,367)
Total all other governmental funds	<u>\$ 37,502,549</u>	<u>\$ 15,687,548</u>	<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>	<u>\$ 22,971,674</u>	<u>\$ 57,569,403</u>	<u>\$ 58,491,519</u>	<u>\$ 39,804,552</u>	<u>\$ 43,292,024</u>

**Note:** In fiscal year 2011, the City implemented GASB 54 which changed the fund balance classifications to nonspendable, restricted, committed, assigned and unassigned. See Note 1 to the Basic Financial Statements.

**Table 4**  
**City of Galveston**  
**Changes in Fund Balances, Governmental Funds**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>										
Taxes										
Property taxes	\$ 12,147,194	\$ 13,186,960	\$ 13,883,642	\$ 15,570,356	\$ 16,200,093	\$ 18,647,994	\$ 19,530,352	\$ 18,284,008	\$ 20,133,281	\$ 21,581,964
Sales and use taxes	13,339,761	13,689,462	14,424,663	16,849,450	22,116,284	22,704,813	22,329,682	19,762,544	21,310,423	23,218,434
Franchise fees	4,824,484	4,841,443	4,879,699	5,148,416	5,374,681	5,450,345	4,806,846	4,756,164	5,009,456	5,073,022
Hotel occupancy	-	-	-	4,122,104	-	-	-	-	-	-
Licenses and permits	882,048	1,179,514	1,313,886	1,577,415	1,334,749	1,000,361	1,784,222	1,161,760	1,143,096	1,260,920
Fines and forfeitures	1,835,900	1,764,861	2,330,349	1,828,036	2,466,285	2,601,586	2,326,075	2,040,355	2,833,357	2,466,092
Charges for services	2,692,018	2,841,201	3,432,738	3,533,981	3,686,864	2,838,980	2,075,934	2,285,567	2,647,526	2,703,729
Investment earnings	716,787	395,202	682,679	1,523,724	2,234,647	1,378,287	414,544	103,811	77,639	103,988
Intergovernmental	8,212,693	8,421,167	7,295,013	7,185,304	6,893,575	16,654,859	83,977,409	68,424,863	54,464,276	62,395,037
Other	7,433,637	4,841,764	4,737,887	791,144	1,407,875	1,567,770	1,427,391	2,388,035	2,235,767	2,633,854
Payments in lieu of taxes	-	-	-	655,190	736,824	125,880	119,753	120,117	-	-
Total revenues	<u>52,084,522</u>	<u>51,161,574</u>	<u>52,980,556</u>	<u>58,785,120</u>	<u>62,451,877</u>	<u>72,970,875</u>	<u>138,792,208</u>	<u>119,327,224</u>	<u>109,854,821</u>	<u>121,437,040</u>
<b>Expenditures</b>										
General government	3,988,181	4,213,164	4,624,844	5,005,095	5,044,120	5,482,693	5,934,113	7,642,352	6,565,344	5,862,705
Public safety	19,784,935	20,297,811	22,197,995	23,518,717	25,262,076	31,028,485	28,674,367	28,881,042	27,751,162	26,312,416
Highways and roads	2,807,218	2,777,669	2,732,340	3,152,531	3,356,179	9,479,789	66,170,885	17,007,107	20,947,719	4,376,642
Culture and recreation	3,102,454	3,363,044	3,566,928	6,071,320	6,826,276	7,816,000	8,800,651	6,697,503	7,933,345	7,902,712
Planning and community development	4,353,386	4,394,758	3,766,931	3,762,075	4,330,446	3,531,916	3,293,090	6,420,644	30,051,147	33,911,247
Transportation	3,870,762	3,703,654	4,102,026	4,355,966	4,892,519	5,022,723	4,418,959	4,941,417	5,115,134	5,057,683
Other	-	-	-	-	-	-	-	-	-	-
Capital outlay	21,006,276	28,812,375	6,489,761	3,473,537	5,437,402	8,027,872	7,223,020	33,770,019	26,735,581	28,211,925
Debt service										
Principal	2,334,328	2,403,386	2,336,783	2,638,390	2,376,618	1,976,368	2,048,866	22,393,732	2,474,843	3,460,785
Interest and fiscal charges	3,234,649	3,145,796	2,977,186	3,321,250	3,225,640	3,501,027	3,451,105	3,479,515	3,657,873	3,385,968
Total expenditures	<u>64,482,189</u>	<u>73,111,657</u>	<u>52,794,794</u>	<u>55,298,881</u>	<u>60,751,276</u>	<u>75,866,873</u>	<u>130,015,056</u>	<u>131,233,331</u>	<u>131,232,148</u>	<u>118,482,083</u>
<b>Excess of revenues</b>										
<b>Over (under) expenditures</b>	(12,397,667)	(21,950,083)	185,762	3,486,239	1,700,601	(2,895,998)	8,777,152	(11,906,107)	(21,377,327)	2,954,957
<b>Other Financing Sources (Uses)</b>										
Other funding sources - MUD 29 abolishment	-	-	-	-	-	-	-	-	-	2,632,838
Bonds issued	-	-	-	9,840,254	-	-	-	-	8,029,904	-
Payment to refunding bond escrow agent	-	-	-	(2,669,235)	-	-	-	-	(7,810,944)	-
Proceeds from capital leases	195,785	95,720	349,786	-	767,043	-	-	-	150,000	1,564,791
Proceeds from loan	-	-	-	-	-	-	22,500,000	-	-	-
Sales of assets	-	623,447	264,629	118,052	258,495	61,239	21,898	(3,808)	150,489	1,990,040
Capital contributions	-	-	-	-	-	-	316,072	-	-	-
Transfers in	-	533,036	600,000	4,023,293	4,490,769	4,264,684	4,696,451	6,295,984	4,281,316	2,816,126
Transfers (out)	(150,000)	-	(100,000)	(3,523,293)	(3,914,885)	(3,663,853)	(4,080,005)	(5,601,169)	(3,378,451)	(2,135,363)
Total other financing sources (uses)	45,785	1,252,203	1,114,415	7,789,071	1,601,422	662,070	23,454,416	691,007	1,422,314	6,868,432
Extraordinary item - insurance proceeds to Hurricane Ike	-	-	-	-	-	-	4,909,735	7,170,024	-	-
<b>Net change in fund balance</b>	<u>\$(12,351,882)</u>	<u>\$(20,697,880)</u>	<u>\$ 1,300,177</u>	<u>\$ 11,275,310</u>	<u>\$ 3,302,023</u>	<u>\$ (2,233,928)</u>	<u>\$ 37,141,303</u>	<u>\$ (4,045,076)</u>	<u>\$(19,955,013)</u>	<u>\$ 9,823,389</u>
Debt service as a percentage of noncapital expenditures	12.8%	14.2%	13.6%	15.8%	13.9%	11.2%	4.6%	40.3%	5.0%	6.9%



**Table 5**  
**City of Galveston**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Nine Fiscal Years**  
(accrual basis of accounting)  
(unaudited)

Fiscal Year Ended September 30,	Tax Year	Real Property				Less Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
		Residential Property	Commercial Property	Personal Property						
2003	2002	*	*	*	*		*	*	*	
2004	2003	\$ 1,298,374,213	\$ 2,129,572,561	\$ 296,743,081	\$ 1,288,394,811	\$ 2,436,295,044	0.54170	\$ 3,724,887,715	65.41%	
2005	2004	1,417,277,656	2,170,011,241	350,374,967	1,356,161,582	2,581,502,282	0.54170	3,937,872,354	65.56%	
2006	2005	1,672,452,438	2,820,883,699	377,360,369	1,962,444,790	2,908,251,716	0.54170	4,870,900,236	59.71%	
2007	2006	1,683,926,873	3,003,749,029	314,300,569	1,673,747,884	3,328,228,587	0.49400	5,001,976,471	66.54%	
2008	2007	2,017,563,012	3,434,393,698	414,272,322	1,726,137,187	4,140,091,845	0.49400	6,183,802,150	66.95%	
2009	2008	2,238,512,202	3,448,537,786	481,608,711	1,738,355,125	4,430,303,574	0.49400	6,518,843,089	67.96%	
2010	2009	1,895,989,601	2,915,703,876	471,811,336	1,505,666,315	3,777,838,498	0.55400	5,602,592,850	67.43%	
2011	2010	2,326,513,779	3,180,929,673	448,096,912	1,653,285,702	4,302,254,662	0.55400	6,273,760,599	68.58%	
2012	2011	2,389,829,758	3,186,490,428	496,632,617	1,656,461,844	4,416,490,959	0.55400	6,420,552,045	68.79%	

\* : Information not available

**Source:** Galveston Central Appraisal District

**Note:** 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. Residential property includes both single-family and multi-family properties.

**Table 6**  
**City of Galveston**  
**Direct and Overlapping Property Tax Rates**  
**Last Nine Fiscal Years**  
(accrual basis of accounting)  
(unaudited)

Fiscal Year Ended September 30,	City Direct Rates				Overlapping Rates				
	General	Library	Debt Service	Total Direct	Galveston Independent School District	Galveston College	Navigation District 1	Galveston County	Total Millage
2003	0.44210	0.05000	0.06280	0.55490	1.57000	0.19520	0.04200	0.59390	2.95600
2004	0.44240	0.05000	0.04930	0.54170	1.56000	0.19520	0.04200	0.62760	2.96650
2005	0.43580	0.05000	0.05590	0.54170	1.71000	0.19520	0.04090	0.62795	3.11575
2006	0.42280	0.05000	0.06890	0.54170	1.71000	0.19180	0.03800	0.64000	3.12150
2007	0.38340	0.05000	0.06060	0.49400	1.52500	0.17000	0.03370	0.58740	2.81010
2008	0.38980	0.05000	0.05420	0.49400	1.17500	0.17000	0.03300	0.56860	2.44060
2009	0.39310	0.05000	0.05090	0.49400	1.16500	0.17000	0.03200	0.55860	2.41960
2010	0.44040	0.05000	0.06360	0.55400	1.16500	0.19000	0.04800	0.61860	2.57560
2011	0.44640	0.05000	0.05760	0.55400	1.16500	0.18950	0.04880	0.61980	2.57710
2012	0.45120	0.05000	0.05280	0.55400	1.16500	0.18950	0.04660	0.61290	2.56800

**Source:** Galveston Central Appraisal District, 2011 Taxing Entities and Tax Rates



**Table 8**  
**City of Galveston**  
**Property Tax Levies and Collections**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<u>Fiscal Year Ended September 30,</u>	<u>Tax Year</u>	<u>Tax Rate (A)</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections (adjustments) in Subsequent Years</u>	<u>Total Collections to Date</u>	
				<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2003	2002	0.55490	\$ 12,227,748	\$ 11,707,895	95.7%	\$ 435,003	\$ 12,142,898	99.3%
2004	2003	0.54170	13,168,877	12,608,244	95.7%	447,609	13,055,853	99.1%
2005	2004	0.54170	13,908,839	13,142,435	94.5%	547,588	13,690,023	98.4%
2006	2005	0.54170	15,753,999	15,104,332	95.9%	460,883	15,565,215	98.8%
2007	2006	0.49400	16,373,557	15,524,973	94.8%	392,080	15,917,053	97.2%
2008	2007	0.49400	18,845,581	17,848,399	94.7%	482,864	18,331,263	97.3%
2009	2008	0.49400	19,933,324	18,814,521	94.4%	383,514	19,198,035	96.3%
2010	2009	0.55400	18,549,699	17,435,131	94.0%	525,369	17,960,500	96.8%
2011	2010	0.55400	20,259,666	19,157,461	94.6%	628,686	19,786,147	97.7%
2012	2011	0.55400	21,237,761	20,665,231	97.3%	534,159	21,199,390	99.8%

**Source:** Tax department records of the City.

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

**Table 9**  
**City of Galveston**  
**Ratios of Outstanding Debt by Type (in thousands except per capita amounts)**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

Fiscal Year	Governmental Activities					Business-Type Activities				Total Primary Government	Percentage of Personal Income *	Per Capita *
	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other**	Revenue Bonds	Capital Leases	Certificates of Obligation	Other**			
2003	\$ 17,984	\$ 42,075	\$ 2,449	\$ -	\$ 5,998	\$ 60,569	\$ -	\$ 3,940	\$ 46,736	138,424	1.35%	\$ 2,391
2004	17,599	40,910	1,559	19,324	6,268	75,215	594	3,850	45,285	153,008	1.49%	2,642
2005	17,184	39,670	1,072	19,324	7,754	50,860	627	2,870	63,631	154,556	1.50%	2,669
2006	23,733	38,360	608	19,324	10,502	62,544	725	725	68,537	189,132	1.86%	3,304
2007	22,898	36,985	756	19,324	21,433	60,575	2,128	630	63,645	185,914	1.79%	3,187
2008	21,967	35,535	748	22,905	21,077	56,450	2,892	16,849	64,493	201,577	1.92%	3,406
2009	20,963	34,010	880	22,772	35,171	80,585	2,420	16,146	68,998	214,273	2.40%	4,259
2010	19,834	32,835	606	22,691	17,139	75,980	2,025	15,668	66,549	185,689	1.85%	3,293
2011	18,478	31,595	212	22,605	16,453	71,285	1,643	15,174	60,924	174,281	1.55%	3,650
2012	21,702	30,290	1,654	22,516	16,430	63,880	3,451	14,658	67,541	172,415	1.53%	3,611

**Notes:** 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.

**Table 10**  
**City of Galveston**  
**Ratios of Net General Bonded Debt Outstanding**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<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>
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
2012	21,701,978	3,765,734	17,936,244	0.28%	370

1 Includes all long term general obligation debt

2 FY 2012 includes \$1,110,949 accretion

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

**Table 11**  
**City of Galveston**  
**Direct and Overlapping Governmental Activities Debt**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

Governmental Unit		Debt Outstanding	* Estimated Percentage Applicable	Estimated Share of Overlapping Debt
<b>Debt repaid with property taxes</b>				
Galveston Independent School District	1	\$ 69,049,998	87.87%	\$ 60,674,233
Galveston County	2	265,054,000	18.57%	49,220,528
Subtotal, overlapping debt				109,894,761
<b>City direct debt</b>				79,016,413
<b>Total direct and overlapping debt</b>				\$ 188,911,174
Ratio of total direct and overlapping net debt to 2012 assessed valuation				4.28%
Direct and overlapping net debt per capita				\$ 3,900

Sources:

- (1): Galveston Independent School District and City Finance Department
- (2): Galveston County Auditors Office

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

**Table 12**  
**City of Galveston**  
**Demographic and Economic Statistics**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<b>Calendar Year</b>	<b>Estimated 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>
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%
2012	48,444	1,142,357,964	23,581	35.5	12.0	6,450	7.6%

**Sources:** 1 - United States Census Bureau  
 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.



**Table 13**  
**City of Galveston**  
**Principal Employers**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<u>Employer</u>	2012			2003		
	<u>Estimated Employees</u>	<u>Rank</u>	<u>Percentage of Total City Workforce</u>	<u>Estimated Employees</u>	<u>Rank</u>	<u>Percentage of Total City Workforce</u>
University of Texas Medical Branch	7,500	1	36.14%	9,000	1	30.19%
Galveston Independent School District	1,366	2	6.58%	1,361	3	4.57%
Landry's	1,300	3	6.26%	1,300	4	4.36%
American National Insurance Company	866	4	4.17%	1,600	2	5.37%
Galveston County (on Island only)	864	5	4.16%	460	9	1.54%
Moody Gardens	810	6	3.90%	922	5	3.09%
City of Galveston	722	7	3.48%	700	6	2.35%
Mitchell Family Corp	460	8	2.22%	-		-
Texas A&M University at Galveston	423	9	2.04%	397	10	1.33%
Galveston College	300	10	1.45%	543	8	1.82%
Fertitta Hospitality	-		-	566	7	1.90%
<b>Total</b>	<b>14,611</b>		<b>70.40%</b>	<b>16,849</b>		<b>56.52%</b>

**Source:** Galveston Chamber of Commerce and GEDP Survey

**Table 14**  
**City of Galveston**  
**Full-time Equivalent City Government Employees by Function/Program**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of September 30</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government:										
City Secretary	3	3	3	3	3	3	4	3	3	3
Municipal Court	12	12	12	13	13	13	9	9	10	10
City Manager	4	4	4	4	4	4	4	3	5	5
City Auditor	-	-	-	-	-	1	1	-	1	1
Finance	16	17	17	16	17	16	20	18	13	13
Legal	4	4	5	6	5	5	5	5	5	5
Human Resources	3	4	4	4	3	4	4	5	4	3
Public Safety:										
Police	211	218	216	219	220	205	192	197	131	177
Fire	106	113	123	127	131	131	119	124	115	115
Emergency Management	1	1	2	2	1	1	2	1	1	1
Public Works:										
Streets and Traffic	40	49	50	50	50	51	44	45	31	31
Parks:	30	34	36	51	34	38	44	39	34	34
Planning and Community Development:	22	25	25	33	23	35	42	54	23	24
Waterworks:	49	45	43	39	38	34	36	39	32	32
Sewer System:	84	86	80	73	74	69	55	65	69	69
Drainage Utility:	22	25	25	23	22	16	16	7	23	23
Municipal Golf Course:	18	18	12	12	12	-	-	-	-	-
Sanitation:	37	46	57	55	55	43	39	39	45	45
Municipal Airport:	9	9	9	9	9	9	8	8	8	8
Central Service:	12	11	11	11	10	12	9	10	12	12
Central Garage:	23	22	22	22	23	22	20	19	22	22
Municipal Insurance:	3	3	2	2	2	2	2	-	2	2
Construction Management:	-	-	6	6	6	7	7	6	5	5
Island Transit:	56	52	64	65	65	59	48	52	52	52
<b>Total City Employees:</b>	<b>765</b>	<b>801</b>	<b>828</b>	<b>845</b>	<b>820</b>	<b>780</b>	<b>730</b>	<b>748</b>	<b>646</b>	<b>692</b>

Source: City Budget Office

**Table 15**  
**City of Galveston**  
**Operating Indicators by Function/Program**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police:										
Physical arrests	9,069	9,094	9,094	17,845	14,245	10,889	7,154	7,043	6,593	7,065
Parking violations	57,431	47,116	47,116	38,822	38,822	18,600	5,733	4,391	11,951	27,680
Traffic violations	45,450	43,435	43,435	21,084	21,084	32,804	31,072	25,499	40,676	15,328
Fire:										
Calls	7,276	7,657	7,657	7,299	7,751	7,852	7,024	6,382	8,645	6,681
Inspections	531	1,154	1,154	1,654	2,276	2,099	1,913	2,123	735	1,324
Water:										
Service connections	22,000	22,000	22,000	22,000	25,747	22,688	25,083	26,305	23,966	21,323
Average daily consumption (gallons)	17,192,000	13,648,765	13,648,765	13,648,765	16,696,885	16,458,298	15,399,203	16,013,795	16,143,437	14,480,142
Sewer:										
Average daily flow (gallons)	10,000,000	10,215,000	10,215,000	10,215,000	10,877,000	8,161,875	8,175,912	8,529,000	6,694,692	7,108,791
Maximum daily capacity of plants (gallons)	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	14,580,000	14,580,000	14,580,000

**Source:** Various City departments.

**Table 16**  
**City of Galveston**  
**Capital Asset Statistics by Function/Program**  
**Last Nine Fiscal Years**  
 (accrual basis of accounting)  
 (unaudited)

Function/Program	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	3	3	3	2	3	1	1	3	4	1
Patrol units	63	58	58	58	63	60	63	51	67	55
Police officers	164	170	170	154	162	158	152	158	131	139
Fire										
Stations	6	6	6	6	6	6	6	6	6	6
Fire fighters	105	109	109	117	131	120	120	112	115	108
Highways and streets										
Streets (miles)	288	288	288	288	321	321	321	321	321	321
Street lights	3,812	3,812	3,812	3,812	4,199	4,212	4,236	4,257	4,444	4,365
Culture and recreation										
Parks acreage	277	277	277	277	277	128	50	50	50	50
Parks	16	16	16	16	16	10	14	14	14	14
Tennis courts	15	15	15	15	15	19	15	15	16	16
Community centers	2	1	1	1	1	2	2	2	2	2
Cemeteries	7	7	7	7	7	6	5	5	2	2
Athletic fields	28	28	28	28	28	20	22	22	11	11
Municipal golf course	1	1	1	1	1	-	-	-	-	-
Water										
Water mains (miles)	240	317	317	317	333	380	385	386	388	389
Fire hydrants	1,800	1,931	1,934	1,931	2,350	2,368	2,410	2,414	2,422	2,422
Maximum daily capacity (thousands of gallons)	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	37,150,000
Sewer										
Treatment plants	4	4	4	4	4	5	4	4	4	4
Sanitary sewers (miles)	220	182	182	220	182	238	238	243	243	243
Storm sewers (miles)	75	75	75	75	75	75	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	8,529,000	14,580,000	14,580,000

**Source:** Various City departments and Centerpoint Energy

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