

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2004



**Prepared by
Finance Department**

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

	Exhibit	Page
INTRODUCTORY SECTION		
Letter of Transmittal		1
Certificate of Achievement for Excellence in Financial Reporting		7
Organizational Chart		8
List of Elected and Appointed Officials		9
FINANCIAL SECTION		
Independent Auditors' Report		13
Management's Discussion and Analysis		15
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	1	28
Statement of Activities	2	30
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	32
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4	35
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5	36
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	39
Statement of Net Assets – Proprietary Funds	7	40
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	8	42
Statement of Cash Flows – Proprietary Funds	9	44
Statement of Fiduciary Net Assets – Fiduciary Funds	10	46
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	11	47
Notes to Financial Statements	12	48
Required Supplementary Information:		
Combined Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – Major Governmental Funds	13	92
Notes to Required Supplementary Information	14	94
Required Pension System Supplementary Information	15	96
Combining and Individual Fund Statements and Schedules:		
General Fund Comparative Balance Sheets	A-1	101
General Fund Schedule of Expenditures, Budget and Actual on Budgetary Basis	A-2	102

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

	Exhibit	Page
Combining Balance Sheet – Non-major Governmental Funds	B-1	108
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	B-2	112
Island Transit Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis)	B-3	116
Rosenberg Library Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	B-4	117
Debt Service Fund– Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	B-5	118
Combining Statement of Net Assets – Non-major Enterprise Funds	C-1	120
Combining Statement of Revenues, Expenses and Changes in Net Assets – Non-major Enterprise Funds	C-2	122
Combining Statement of Cash Flows – Non-major Enterprise Funds	C-3	124
Waterworks System Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets, - Budget and Actual	C-4	128
Sewer System Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-5	129
Sanitation Services Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-6	130
Drainage Utility Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-7	131
Airport Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-8	132
Golf Course Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-9	133
Internal Service Funds - Combining Statement of Net Assets	D-1	136
Internal Service Funds - Combining Statement of Revenues, Expenses and Changes in Net Assets	D-2	138
Internal Service Funds - Combining Statement of Cash Flows	D-3	140
Fiduciary Funds - Statement of Fiduciary Net Assets	E-1	145
Pension Trust Funds – Combining Statement of Plan Net Assets	E-2	146
Pension Trust Funds – Combining Statement of Changes in Plan Net Assets	E-3	148
Capital Assets Used in the Operation of Governmental Funds:		
Comparative Schedules of Capital Assets Used in Governmental Activities - By Source	F-1	153
Schedule of Changes in Capital Assets Used in Governmental Activities by Function and Activity	F-2	154

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

	Exhibit	Page
STATISTICAL SECTION		
Fund Information:		
General Governmental Expenditures by Function	I	158
General Governmental Revenues by Source	II	160
Property Tax Levies and Collections	III	162
Assessed and Actual Value of Taxable and Nontaxable Property	IV	164
Property Tax Rates – Direct and Overlapping Governments	V	166
Ratio of Net General Obligation Bonded Debt to Assessed Value and Net General Obligation Bonded Debt Per Capita	VI	168
Computation of Direct and Overlapping General Obligation Debt	VII	170
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures	VIII	171
Revenue Bond Coverage – Water and Sewer Bonds	IX	172
Waterworks and Sewer System Enterprise Funds Combined Schedule of Net Revenues Available for Debt Service	X	174
Ten Largest Taxpayers	XI	175
New Construction and Property Values	XII	176
Historical Water Consumption	XIII	178
Number of Employees in Governmental Service	XIV	180
Demographic Statistics	XV	181
Miscellaneous Statistics	XVI	182



City of Galveston



P. O. Box 779 / Galveston, Texas 77553

January 25, 2004

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 120 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, 2004.

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

The City of Galveston's financial statements have been audited by Null-Lairson, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Galveston for the fiscal year ended September 30, 2004 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, 2004 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, an airport, and a golf course.

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

- The Industrial Development Corporation which provides street repairs, beach re-nourishment and sewer improvements
- The City of Galveston Employee’s Retirement Plan for City employees, the Firemen’s Relief and Retirement Fund, and the City of Galveston Employee’s Retirement Plan for Police
- One Tax Reinvestment Zone which provides funds for development and improvement projects within specific geographic areas of the City
- The Park Board which provides improvements and maintenance to City waterfront parks and beaches
- 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 wharves of Galveston

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's and City Manager's approval. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and Island Transit Fund, this comparison is presented on page 92 as part of the Required Supplementary Information. For governmental funds, other than the General Fund and Island Transit Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection for each governmental fund for which a budget has been adopted.

Factors Affecting Financial Condition

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

Galveston Economic Climate Overview: The economic renaissance that began five years ago is still thriving on Galveston Island. The designation of Galveston Island as 2003 Economic Development Community of the Year by the Texas Economic Development Council was followed in 2004 by Barron's magazine naming Galveston an "up-and-comer" in the hot market for second homes. Economic growth and development on the island encompasses the areas of healthcare, tourism, retail, housing and maritime industries.

Based on the latest update from the Galveston Economic Development Partnership, development is planned and/or occurring at the following levels:

- Over \$1.7 billion in capital investments
- Over 1000 jobs being created or retained
- Over 3 million square feet of new/remodeled commercial space
- Over 3,500 new housing units in planned developments

Development in the public sector is generating opportunities for private sector development. UTMB is the largest employer in the area and the only educational institution in the country that is home to a Biosafety Level 4 Laboratory, designed for use by the National Department of Defense. UTMB's 20-year capital improvement plan on Galveston's east end promises to draw national attention, making a big impact on the area. Other initiatives include recent improvements to Scholes International Airport and the construction of the Galveston County Justice Center that will house 900 employees.

Growing tourism in the area has had a positive impact on Galveston. A booming cruise industry, recent convention center developments, hotel expansions and development, and the announcement of the Schlitterbahn Water Park and Resort are the byproducts of this growth. In just three years, the City has gone from having no cruises to establishing itself as a major player in the industry. Galveston currently ranks ninth in the country and 18th in the world as a premier cruise port.

Galveston has been working very aggressively with the home development industry. Last year saw a 22% increase over the previous year in the sale of single-family homes and condominiums. Real estate observers expect continued strong sales with the addition of 3,852 new homes during the next few years.

With the influx of visitors and new residents, Galveston has remained steadfast in its commitment to preserve the area for the future. Strategic steps have been taken to ensure that these developments are synergistic with Galveston's quality of life and future development. The active participation and support of Galvestonians in these endeavors illustrate the comprehensive strength of these developments and their long-term compatibility for Galveston Island.

Funding of Major Capital Projects: During the fiscal year, the City entered into a Performance Contract to replace all the existing water meters throughout the City within 18 months. The cost of the project is \$10 million and is being funded through a revolving loan with the State of Texas Energy Conservation Office.

\$4 million of 2001 general obligation bond funds will be used to re-lamp and refurbish one third of all traffic signals over the next 12 months. Additionally, approximately \$7 million of authorized but un-issued funds from the same issuance will be used to fund the following projects: \$4.5 million of street and signal light improvements, \$2 million in park improvements, and \$500,000 in transportation system improvements.

The City anticipates issuing \$15 million in waterworks and sewer system revenue and refunding bonds in fiscal year 2005 to be used for a new water tower and pump station at Jamaica Beach, major improvements to the sewer system on 81st Street and the Airport sewer plant to meet increased development in the area, and installation of main trunk and subdivision lines to the unserved areas of Sea Isle and Terramar Beach.

The City also plans to issue \$2.6 million in municipal drainage system revenue bonds for preliminary design and property acquisition as part of a \$75 million multi-year drainage improvement project.

Cash management policies and practices. The City of Galveston invests its available funds in securities authorized by Texas statute and in accordance with an Investment Policy reviewed and adopted annually by the City Council of the City of Galveston. Both state law and the City's investment policy are subject to change. Patterson & Associates, a professional management company, manages the City's investments. Daily, funds are swept from the City's demand account and invested in various authorized investments, including federal and state obligations, money market mutual funds, and state local government pools. As of September 30, 2004, weighted average maturities of the investments ranged from one day to 72 days. Yields ranged from 1.176% to 1.454%. Much liquidity has been maintained in the portfolio so that anticipated increased yields may be taken advantage of in the future.

Risk management: During the year, the City's risk management department continued several control techniques in the area of workers compensation. These activities included the fostering of monthly department safety meetings and utilizing accident review boards. Having a full time safety officer monitor the daily activities of workers in the field continues to help in determining which departments or activities cause the most accidents to be reported. From this information, the City has tailor made safety training programs and enables line departments to change work characteristics or methodologies where necessary.

Financially, the workers compensation program continues to be self-funded. The City provides for adequate funding, by department, for anticipated yearly losses. Specific and aggregate stop-loss insurance has been secured to limit the City's overall exposure. By utilizing a third party administrator ["TPA"] the City has gained appropriate management controls and receives meaningful reports. Most importantly, the

TPA has provided expertise in financial and management areas that are not commonly found within a city staff structure.

In the health insurance area, the City is also self-insured and has established specific and aggregate stop loss insurance levels commensurate with the risk exposure. In a manner similar to the workers compensation area discussed above, the City had previously made major changes to provide increased financial and management control over the employee health plan. The TPA also provides more timely and appropriate reports, which give a better picture of the benefit activities and claims paid.

The City has completed an in-depth review of property and vehicle insurance to make sure that the fixed and mobile capital assets are properly recorded and assigned appropriate valuation coverage. The coverage is handled both through the Texas Municipal League Risk Pool and private carriers.

Pension and other post-employment benefits: The City of Galveston, Texas sponsors a single-employer defined benefit pension plan for its non civil service employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. As of January 1, 2004, the plan had a funding ratio of 108.6% of the actuarial value of the assets to the actuarial present value of accumulated plan benefits. The City will meet the minimum recommended contribution for calendar year 2004.

The City also provides pension benefits for its civil service employees, including policemen and firefighters. The City makes contributions to the plans based on contracts with the respective unions. At the most recent actuarial valuation date (January 1, 2003 for the Retirement Plan for Police and January 1, 2004 for the Galveston Firemen's Relief and Retirement Fund), the plans were 66.5% (Police) and 77.6% (Firefighters) actuarially funded.

Additional information on the City's pension arrangements may be found in Note 13 in the notes to the financial statements.

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, 2003. 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 our 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 the City's Finance Department and the City's independent auditor, Null-Lairson, P.C. The successful and timely preparation of this report depends on the cooperation of these groups and upon the hard work and dedication of the entire staff of the Finance Department. We would like to express our appreciation to all the staff of the Finance department who assisted and contributed to the preparation of this report.

Other departments and offices of the City have also contributed directly or indirectly to the preparation of this report. We acknowledge their efforts in providing information and assistance during the preparation of this report. Finally, we acknowledge the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,

Steve LeBlanc
City Manager

Susan Cutchin
Finance Director

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, 2003

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.



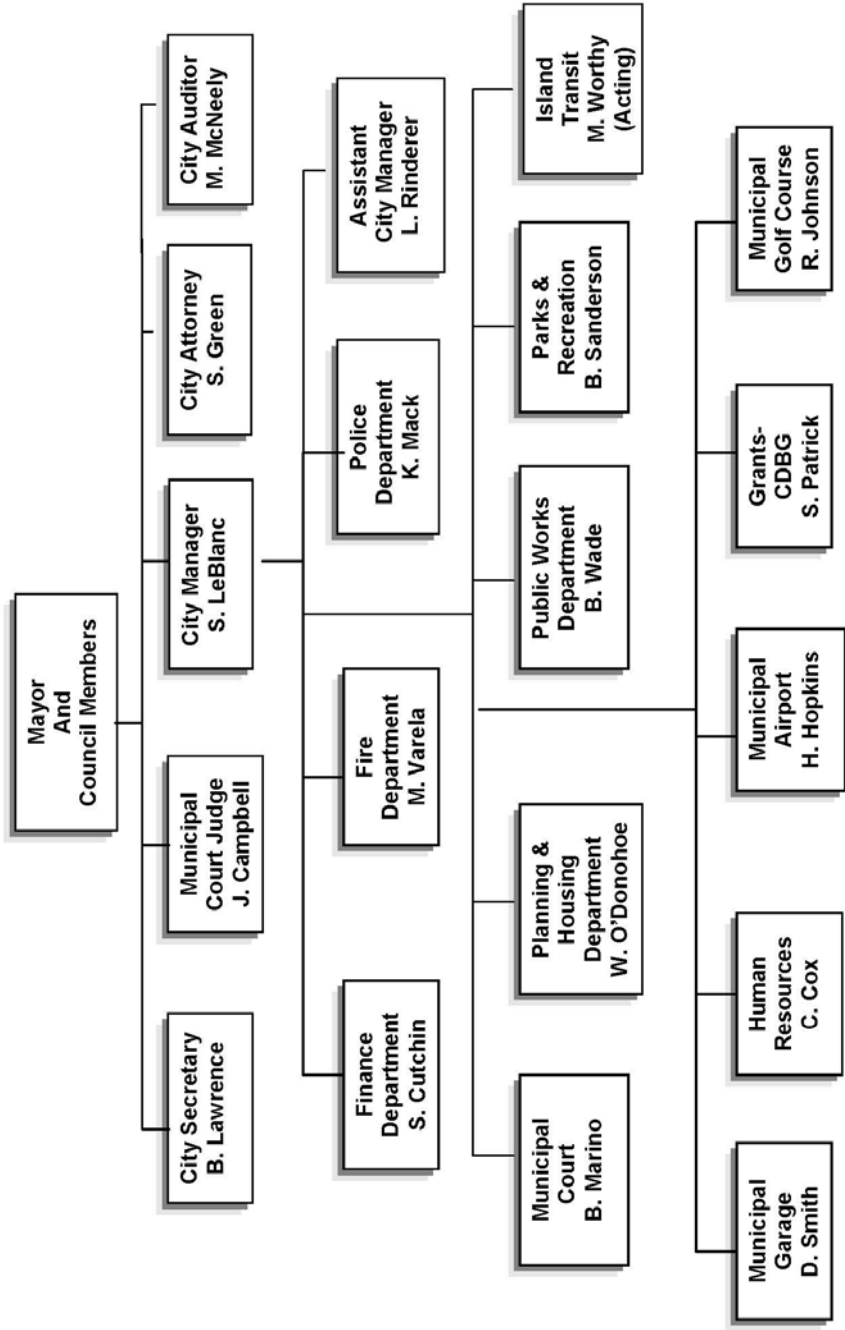
Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

City of Galveston, Texas Organization Chart



City of Galveston, Texas

Incorporated March 1839

Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council	
--------------	--

Mayor	Lyda Ann Thomas
Mayor Pro Tem	Joe Jaworski
Council Member	Cornelia Harris Banks
Council Member	Barbara Roberts
Council Member	Danny Weber, Sr.
Council Member	Patricia Bolton-Legg
Council Member	Jackie Cole

City Council Appointees	
-------------------------	--

City Manager	Steven J. LeBlanc
City Secretary	Barbara S. Lawrence
City Attorney	Susie Green
Court Judge	John Campbell
City Auditor	Mike McNeely

Departmental Directors (City Manager Appointees)

Airport
Assistant City Manager
Emergency Management
Finance
Fire
Grants
Island Transit (Acting)
Municipal Court
Municipal Garage
Municipal Golf Course
Parks and Recreation
Personnel
Planning and Housing
Police
Public Works

Hud N. Hopkins
Lloyd Rinderer
Eliot A. Jennings
Susan Cutchin
Mike Varela
Sterling W. Patrick
Michael Worthy
Beckie A. Marino
David A. Smith
Roger D. Johnson
Barbara E. Sanderson
Carolyn R. Cox
Wendy O'Donohoe
Kenneth Mack
Brandon E. Wade



FINANCIAL SECTION



11 Greenway Plaza, Suite 1515
Houston, TX 77046
(713) 621-1515
Fax: (713) 621-1570



2117 Post Office Street
Galveston, TX 77550
(409) 762.8380
Fax: (409) 762-1749

Independent Auditors' Report

To the Honorable Mayor and Members
of the City Council
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 City of Galveston, Texas (the City), as of and for the year ended September 30, 2004, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Park Board of Trustees of the City of Galveston, a discretely presented component unit of the City, of which, reflects 76% of total assets and 80% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for that discretely presented component units is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Galveston, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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 January 24, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions or laws, regulations, contracts, and grants. That report, which has been issued separately from this document, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 15 through 26, budgetary comparison information on pages 92 through 95 and Required Pension System Supplementary Information on page 96 through 97 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



January 24, 2005
Houston, Texas

City of Galveston, Texas Management's Discussion and Analysis

September 30, 2004

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, 2004. 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 2003. 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 \$109.4 million (net assets). Of these assets, \$25.9 million or 23.7% represents unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.
- Total assets, excluding component units, were \$274 million at September 30, 2004, increasing 11% over the previous fiscal year. Total liabilities, excluding component units, were \$164.6 million at September 30, 2004, increasing 8.9% over September 30, 2003.
- The ratio of total assets to total liabilities for governmental activities was 1.4 times; for business type activities the ratio was 2 times.
- The fund balance of the General Fund increased from \$6.7 million to \$7.8 million, a 16.4% increase. The ending balance represents 24.6% of the \$31.6 million in expenditures. Total undesignated and unreserved fund balance was \$5.8 million, or 18.4% of expenditures.
- Total net expenses over program revenue were \$22.4 million compared to \$33.5 million net expenses last fiscal year, or a 33% decrease.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

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

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

The government-wide financial statements can be found on pages 28-31 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 nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Island Transit fund and the Convention Center Fund all of which are considered to be major funds. Data from the other sixteen 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. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The City's governmental fund financial statements can be found on pages 32-39 of this report.

Proprietary funds. The City maintains six 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 waterworks services, sewer services, sanitation services, drainage services, airport operations, and golf course activities. 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, and insurance. 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 sewer services, both of which are considered to be major funds of the City. Data from the other four proprietary funds are combined into a single aggregated presentation. 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 40-45 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 46-47 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 48-89 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information beginning on page 92. Budget to actual comparison for major governmental funds are presented followed by information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

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, assets exceeded liabilities by \$109.4 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (69.9%) 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 citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Galveston, Texas
 Net Assets (in thousands)
 September 30, 2004
 With comparative totals for September 30, 2003

TABLE A-1

	Governmental activities		Business - type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 52,994	\$ 54,495	\$ 54,379	\$ 43,033	\$ 107,373	\$ 97,528
Capital assets	76,676	51,743	89,932	97,408	166,608	149,151
Total assets	129,669	106,238	144,311	140,441	273,981	246,679
Current liabilities	7,372	8,665	7,585	6,752	14,957	15,417
Long term liabilities	85,659	68,506	63,951	67,141	149,610	135,647
Total liabilities	93,031	77,171	71,537	73,893	164,568	151,064
Net assets:						
Invested in capital assets, net of related debt	23,872	14,956	52,562	40,480	76,434	55,436
Restricted	4,921	4,944	2,207	8,495	7,128	13,439
Unrestricted	7,845	9,167	18,006	17,573	25,851	26,740
Total net assets	\$ 36,638	\$ 29,067	\$ 72,774	\$ 66,548	\$ 109,412	\$ 95,615

An additional portion of the City's net assets (6.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$26 million) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without any 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 \$131.6 million, comprising 91.6% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$22.6 million and \$39.8 million, respectively, which is 86.6% of total net assets compared to 90.5% for 2003. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 94.1% of the total business-type unrestricted net assets.

Governmental activities. As shown in Table A-2, revenues were split between governmental activities and business-type activities 63.4% and 36.6% respectively. Expenses were split between governmental activities and business-type activities 66% and 34% respectively. Net assets increased \$7.6 million, or 26.0% from the

prior period for governmental activities and \$6.2 million or 9.4% for business-type activities, and 14.4% overall.

City of Galveston, Texas

Changes in Net Assets (in thousands)

TABLE A-2

For the Fiscal Year Ended September 30, 2004

With comparative totals for fiscal year ended September 30, 2003

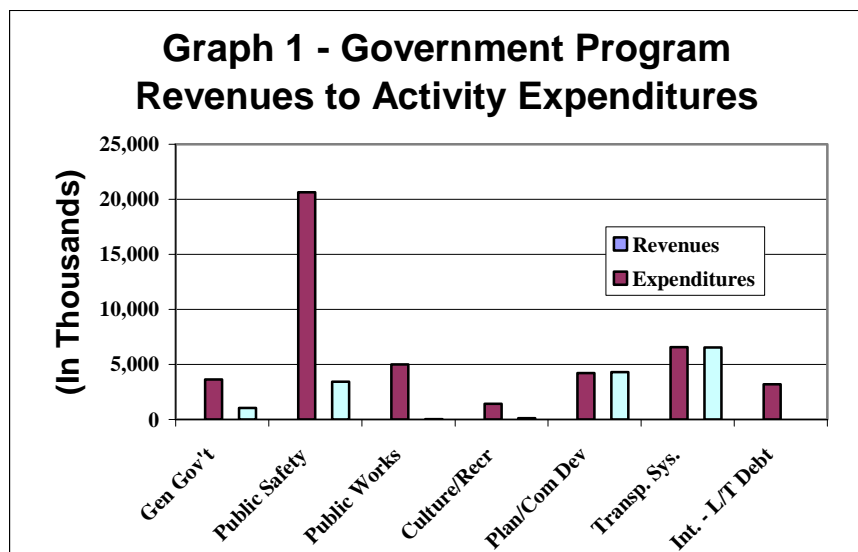
	Governmental activities		Business - type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	\$ 7,063	\$ 5,629	\$ 24,291	23,219	\$ 31,354	\$ 28,848
Operating grants and contributions	4,998	6,294			4,998	6,294
Capital grants and contributions	3,426	1,928	5,482	1,362	8,908	3,290
General revenues:						
Property taxes	13,215	12,061			13,215	12,061
Sales taxes	13,689	13,340			13,689	13,340
Hotel occupancy taxes	2,966	4,980			2,966	4,980
Franchise fees	4,841	4,824			4,841	4,824
Payments in lieu of taxes	568	555			568	555
Other	898	1,929	54	293	951	2,222
Total revenues	51,664	51,540	29,827	24,874	81,491	76,414
Expenses:						
General government	3,626	3,961			3,626	3,961
Public safety	20,638	20,712			20,638	20,712
Public works	4,997	7,113			4,997	7,113
Culture and recreation	1,419	3,800			1,419	3,800
Planning and community dev	4,225	4,202			4,225	4,202
Transportation system	6,580	6,052			6,580	6,052
Interest on long-term debt	3,208	3,236			3,208	3,236
Waterworks system			10,012	9,454	10,012	9,454
Sewer system			7,249	7,245	7,249	7,245
Sanitation services			3,077	2,788	3,077	2,788
Drainage utility			637	761	637	761
Airport			934	843	934	843
Golf Course			1,091	1,130	1,091	1,130
Total Expenses	44,693	49,076	23,001	22,221	67,694	71,297
Increase (decrease) in net assets before transfers	6,971	2,464	6,826	2,653	13,797	5,117
Transfer in (out)	600	450	(600)	(450)		
Change in net assets	7,571	2,914	6,226	2,203	13,797	5,117
Net assets at beginning of year	29,067	26,153	66,548	64,345	95,615	90,498
Net assets at end of year	\$ 36,638	\$ 29,067	\$ 72,774	\$ 66,548	\$ 109,412	\$ 95,615

Table A-2 above reflects that:

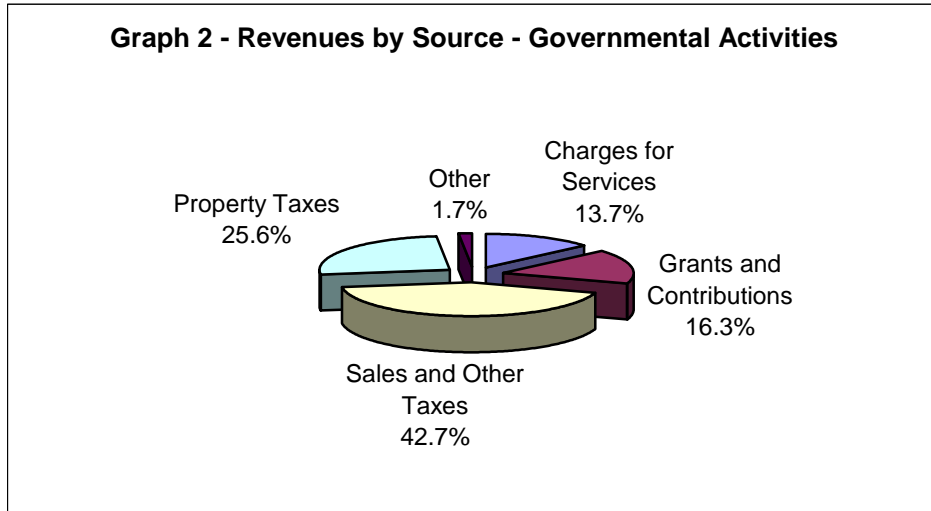
- The cost of all governmental activities for the fiscal year was \$44.7 million, a decrease of \$4.4 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 46.2% of governmental activities compared to 42.2% in 2003. Public Works expenses for streets and traffic decreased from 14.5% in the prior year to 11.2% of governmental activities in 2004.
- The amount that taxpayers paid for these services through City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes was \$35.3 million, a slight decrease over the previous year of \$35.8. Taxes and franchise fees contributed 68.3% of governmental activities revenue compared to 69.4% in fiscal year 2003.

- The second largest source of revenue is from governments and organizations that subsidize certain programs with grants and contributions. \$8.4 million was received in 2004 versus \$8.2 million in 2003.
- Charges for services account for 13.7% of governmental activities and increased \$1.4 million in fiscal 2004 to \$7.1 million. The increase attributable to Planning and Community Development revenue was due largely to increased construction on the island and an increase in funds available for community rehabilitation projects.

Graph 1 below presents the cost of each of the City’s major governmental functions, as well as the associated program revenues. Total expenditures were \$44.7 million. Program revenues provided \$15.5 million, for a net cost of services of \$29.2 million. The net cost of providing public safety was \$17.2 million or 58.9% of the net cost of governmental activities, an increase from 49.9% of net cost of governmental activities in 2003. As expected in governmental activities, the subsidy required from taxpayers provides the majority support to these core services.



Graph 2 below presents the sources of revenue for governmental activities. Sales taxes (26.5%), hotel taxes (5.7%), franchise fees (9.4%), and payments in lieu of taxes received from business-type activities (1.1%) comprise a total 42.7% of the total revenues. Property taxes account for an additional 25.6% of total revenues.



Business-type activities. Business-type activities increased the City’s net assets by \$6.2 million, or 9.4% from the prior year. Business-type net assets accounted for 66.5% of the City’s total net assets. Charges for services account for 81.4% of business-type activities.

City of Galveston, Texas

Expenses, Program Revenues, and Net Revenue (Cost) of Services - Business Type Activities (in thousands)

TABLE A-3

For the Fiscal Year Ended September 30, 2004

With comparative totals for fiscal year ended September 30, 2003

Program:	Expenses	Program Revenues	2004	2003
			Net Revenue (Cost) of Services	Net Revenue (Cost) of Services
Waterworks system	\$ 10,012	\$ 10,105	\$ 93	\$ 239
Sewer system	7,249	11,134	3,885	934
Sanitation services	3,077	3,606	529	765
Drainage utility	637	986	349	(12)
Airport	934	2,763	1,829	618
Golf Course	1,091	1,179	87	(184)
Totals	<u>\$ 23,001</u>	<u>\$ 29,773</u>	<u>\$ 6,773</u>	<u>\$ 2,360</u>

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$21 million, or 91.2% of all the expenses of business-type activities. Related revenues of those funds totaled \$25.8 million, or 86.8% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$22.2 million and expenses were \$20.2 million. The increase in revenue over the prior year is largely due to an increase of \$3.2 million in capital grants and contributions.

The net excess of program revenues over expenses for the four public utility related funds was \$4.9 million compared to \$2 million in 2003. In total, enterprise fund excess revenues over expenses were \$6.8 million in 2004 compared to \$2.4 million in 2003. As indicated above, the increase in the current year is largely due to a \$3.2 million increase in capital grants and contributions.

Table A-4 shows business-type activities revenues by source. Charges for services account for 81.4% of the total, with capital grants and contributions accounting for 18.4%.

City of Galveston, Texas

Revenues by Source- Business Type Activities
(in thousands)

TABLE A-4

For the Fiscal Year Ended September 30, 2004

With comparative totals for fiscal year ended September 30, 2003

	2004		2003	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 24,291	81.4%	\$ 23,219	93%
Capital grants and contributions	5,482	18.4%	1,362	5%
Other	54	0.2%	293	1%
Totals	<u>\$ 29,827</u>	<u>100%</u>	<u>\$ 24,874</u>	<u>100%</u>

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 grew from \$9.4 million in fiscal 2003 to \$11 million in fiscal 2004. Cash and temporary investments reflect \$4.2 million or 38.2% of total assets with net receivables reporting \$5.5 million, or 50% of the total. Sales and property taxes along with franchise fees account for 86.3% of net receivables.
- Total liabilities of the General Fund increased 17% from \$2.7 in the prior year to \$3.2 in 2004. Deferred revenue from property taxes accounts for approximately 59% and 48% of total liabilities for fiscal years 2004 and 2003, respectively.
- General Fund revenues reflect a \$95 increase over the budget. Property and sales tax revenues increased \$1.3 million over the prior year. General Fund expenditures were \$881 less than the budgeted amount.
- The General Fund’s unreserved undesignated fund balance increased 21.7% in 2004 to \$5.8 million. The current year increases in property and sales taxes as mentioned above contributed to the gain in fund balance.

- The General Fund unreserved, designated-for-emergency fund balance increased from \$1.3 million in 2003 to \$1.5 million in 2004. A \$200 increase per year in the emergency fund balance is required by ordinance.
- Other governmental non-major funds (16 separate funds) have cash and investments totaling \$15.1 million, comprising 46 % of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund decreased by \$157 to \$2.6 million at the end of 2004. This decrease was planned in the adopted budget, wherein the Debt Service Fund's fund balance is structured to accommodate no more than required cash flow needs for debt service payments.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23.4 million. Of this amount, \$17.8 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Included in this figure is \$2.3 million in unreserved special revenue funds. Additionally, there is an unreserved fund balance in the Capital Project Fund of \$7.5 million, which includes \$5.7 million for the 2001 Bond Capital Projects. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$388), 2) to pay prepaid expenses (\$93), and 3) to pay debt service (\$5.2 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 \$131.6 million, which comprises 91.6% of the total assets of all proprietary funds. Unrestricted net assets of those two funds are \$13.8 million and \$2.5 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 2004 there were no differences between the original budget and the final amended budget as detailed in Exhibit 13 of the Financial Statements.

The adopted budget for fiscal year 2004 sets General Fund revenue at \$31.8 million (exclusive of budget transfers) and expenditures at \$31.6 million, a 2.5% increase in estimated revenue over the prior year. Most revenue streams were budgeted to remain fairly constant except for property and sales tax revenue, which was budgeted to increase 10.4% and 2.8%, respectively in 2004 over prior year collections. This was the first time in many years that property tax was projected to exceed sales tax as the single largest revenue stream. The primary reason is growth in property values brought on by an increase of 12.7% in appraised values. The continuing building boom occurring on the island also contributed to the increase. Sales tax was projected to continue its upward trend due to continued development, including two new convention centers, and an increase in tourism associated with the growing cruise ship industry.

During the year, total revenues were \$95 higher than budgetary estimates. Major variances between budget and actual revenues include a \$196 increase in licenses and permits and a \$188 decrease in Municipal Court fines and forfeitures. The increase in licenses and permits is attributable to stricter code enforcement and increased development throughout the City. Municipal fines and forfeitures undertook a major refinement with the installation of the Incode Municipal Courts financial management and tracking program. This installation also allowed for the downloading of historical financial and case information to allow for enhanced review of uncollectible fines and case disposition. With this implementation, the City has obtained

a better understanding of the prior years' fines/forfeitures and the calculation of bond forfeitures and case dismissal. Because of this increased information process, it has been determined that as of September 30, 2004, \$2.4 million is outstanding. Based on knowledge of Municipal Court proceedings, accounting practices and auditing knowledge, only \$730 can realistically be viewed as collectible. This realization has had a profound impact on the financials for fiscal year 2003 as adjusted for fiscal year 2004. This situation also points out a need for City Manager-City Council involvement in the discussion of Municipal Court fines/forfeitures and unrealized revenue. Again, this situation became highlighted through the historical data review provided for by the implementation of the Incode Financial Management System.

General Fund expenditures were \$881 under the budget estimate with general government, public safety, and public works and streets contributing to the savings. Main contributing factors to the savings were vacancy lapse and saving in electricity throughout the City.

The Island Transit Special Revenue Fund had positive net revenue over expenditures compared to budget of \$154. The budgeted net increase was \$2, so the total increase was \$156 for the year.

Capital Asset and Debt Administration

City of Galveston, Texas

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

TABLE A-5

September 30, 2004

With comparative totals for September 30, 2003

	Governmental activities		Busines - type activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,716	\$ 1,673	\$ 1,916	\$ 1,916	\$ 4,632	\$ 3,589
Infrastructure	26,227	24,920	51,217	41,546	77,444	66,466
Buildings	35,450	2,959	18,489	15,481	53,939	18,440
Equipment and furniture	9,899	7,409	2,695	2,713	12,593	10,122
Construction in progress	2,384	14,782	15,615	15,994	18,000	30,776
Totals	\$ 76,676	\$ 51,743	\$ 89,932	\$ 77,650	\$166,608	\$ 129,393

As shown in Table A-5, at the end of 2004, the City had invested \$166.6 million in a broad range of capital assets, including 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 hold \$76.7 million in capital assets, while business-type activities have invested in \$89.9 million of capital assets.

Total infrastructure assets comprise 46.5% of the total assets. The City's new convention center was completed in May 2004 and accounts for \$34.3 million of the \$54 million invested in buildings.

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 \$99.2 million. Of this amount, \$17.6 million was comprised of debt backed by the full faith and credit of the government and \$40.9 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 (\$40.7 million) represents bonds secured solely by specified revenue sources (\$20.5 million) and certificates of obligation (\$20.2 million).

City of Galveston, Texas
Outstanding Debt (in thousands)
 September 30, 2004
 With comparative totals for September 30, 2003

TABLE A-6

	Governmental activities		Business - type activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 17,599	\$ 17,984	\$	\$	\$ 17,599	\$ 17,984
Special obligation bonds	40,910	42,075			40,910	42,075
Contracts payable			44,388	45,471	44,388	45,471
Revenue bonds			20,471	22,094	20,471	22,094
Certificates of obligation	19,324	-	910	1,000	20,234	1,000
Capital lease obligations	1,559	2,449	594	364	2,152	2,813
Total debt	<u>79,392</u>	<u>62,508</u>	<u>66,363</u>	<u>68,929</u>	<u>145,755</u>	<u>131,436</u>
Compensated absences	5,707	5,450	873	821	6,580	6,271
Claims and judgments	561	548	112	187	673	734
Totals	<u>\$ 85,659</u>	<u>\$ 68,506</u>	<u>\$ 67,349</u>	<u>\$ 69,936</u>	<u>\$ 153,008</u>	<u>\$ 138,442</u>

The City's total debt increased \$14.6 million or 10.5% during the current fiscal year. In January 2004, the City issued Combination Tax and Revenue Certificates of Obligation Series 2004A and 2004B totaling \$19.4 million in favor of the Galveston Wharves. The primary security for the repayment of this debt is the net revenues of the Wharves. There is a junior and subordinate lien on such revenues. The primary obligation for payment rests upon the ad valorem tax levied by the City. The proceeds of this issue are to be used for renovation to and construction of new wharf and terminal facilities.

The City maintains an "A-" rating from Standard & Poor's and an "A3" rating from Moody's for its general obligation debt and certificates of obligation.

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

Economic Factors and Next Year's Budgets and Rates

Property and sales tax revenue each contribute a little over 25% of the City's Government Funds revenue. The City's sales tax collection rate for fiscal year 2004 was up almost 2.4% compared to prior year. The City anticipates the continuation of increased sales tax collections, and has budgeted for a 3.5% increase for fiscal year ending September 30, 2005.

The property tax rate was kept the same for fiscal year 2005 at 54.2 cents per \$100 of valuation for all funds. The rate for the General Fund decreased slightly. Additional revenue of \$520 is expected in 2005 due to increased property appraisal values of 14.9% for the year

All utility rates were increased effective October 1, 2004. Water rates increased a total of 8.4% with 2.1% of the increase designated to cover increases in operating expenses and debt service. The remaining 6.3% increase will fund emergency capital replacement and TCEQ required improvements. Sewer rates increased a total of 17.2% with 8.2% of the increase designated to cover operating expenses and the remaining 9% will fund capital improvements. Municipal drainage revenue is expected to increase \$1.2 million due largely to the equitable fee rate of \$42 per acre that will be charged to commercial drainage accounts and a \$2 increase in residential drainage rates. Commercial drainage accounts had previously been charged an average of \$3 per month. The Sanitation Fund's rate will increase by \$1.50 to \$16.75 budgeted to generate approximately \$4 million in revenue.

New businesses and construction new to the Island for calendar year 2004 total approximately \$418 million. Construction of commercial and residential properties will continue at a strong pace in 2005. Projects in development total approximately \$1.7 billion.

However, the unemployment rate for the City is currently 9.7 %, which is an increase from a rate of 8.6 % a year ago. This compares unfavorably to the state's average unemployment rate of about 5.5 % and the national average rate of about 5.4 %. Inflationary trends in the region compare favorably to state and national indices.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and temporary investments	\$ 21,108,902	\$ 1,890,900	\$ 22,999,802
Receivables (net of allowance for uncollectibles)	6,767,309	4,397,516	11,164,825
Due from other governments	5,119,320	241,128	5,360,448
Inventories	403,562	117,147	520,709
Prepaid expenses	270,926	250,072	520,998
Restricted assets:			
Cash and temporary investments		14,151,147	14,151,147
Other assets with trustee		11,564,337	11,564,337
Net investment in direct financing and capital leases			
Deferred charges		2,007,514	2,007,514
Long term receivable from other government	19,323,672		19,323,672
Contractual rights to water supply		19,758,713	19,758,713
Capital Assets (net of accumulated depreciation where applicable):			
Land	2,715,802	1,915,875	4,631,677
Infrastructure	26,226,993	51,217,078	77,444,071
Buildings	35,450,145	18,489,284	53,939,429
Equipment and furniture	9,898,591	2,694,851	12,593,442
Construction in progress	2,384,224	15,615,362	17,999,586
Total capital assets	<u>76,675,755</u>	<u>89,932,450</u>	<u>166,608,205</u>
Total assets	<u>129,669,446</u>	<u>144,310,924</u>	<u>273,980,370</u>
LIABILITIES			
Accounts payable and other current liabilities	3,991,475	1,546,585	5,538,060
Deferred revenues	2,607,715	39,634	2,647,349
Advances payable	23,058		23,058
Accrued interest	749,874		749,874
Customer deposits		2,010,845	2,010,845
Current portion of long term liabilities payable from restricted assets		3,988,053	3,988,053
Non-current liabilities:			
Due within one year	2,610,898	147,170	2,758,068
Due in more than one year	83,048,171	63,804,164	146,852,335
Total liabilities	<u>93,031,191</u>	<u>71,536,451</u>	<u>164,567,642</u>
NET ASSETS			
Invested in capital assets, net of related debt	23,871,760	52,562,006	76,433,766
Restricted for:			
Debt service	4,921,212	2,206,619	7,127,831
Other projects			
Unrestricted	7,845,283	18,005,848	25,851,131
Total net assets	<u>\$ 36,638,255</u>	<u>\$ 72,774,473</u>	<u>\$ 109,412,728</u>

See Notes to Financial Statements

Exhibit 1

Component Units			
Governmental Activities		Business-type Activities	
\$ 2,712,157		\$ 14,743,332	
1,263,158		1,733,231	
		527,725	
8,973			
77,584		452,503	
622,927		8,939	
		980,871	
		24,034,898	
15,347		2,013,065	
		9,062,610	
322,822,472		48,736,155	
		714,799	
		2,564,953	
322,822,472		61,078,517	
327,522,618		105,573,081	
520,099		3,858,833	
10,000		4,865,985	
241,025			
		742,454	
		2,975,574	
563,127		3,757,903	
2,189,683		39,705,000	
3,523,934		55,905,749	
322,333,537		31,648,292	
574,765		4,555,240	
331,679			
758,703		13,463,800	
\$ 323,998,684		\$ 49,667,332	

CITY OF GALVESTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 3,625,563	\$ 1,056,000	\$	\$
Public safety	20,638,059	3,033,772	408,163	
Public works	4,997,292	39,393		
Culture and recreation	1,419,056	82,883	18,883	
Planning and community dev	4,224,986	2,207,421	2,086,032	
Transportation system	6,579,590	643,129	2,484,876	3,426,381
Interest on long-term debt	3,208,444			
Total governmental activities	<u>44,692,990</u>	<u>7,062,598</u>	<u>4,997,954</u>	<u>3,426,381</u>
Business-type activities:				
Waterworks system	10,012,254	10,104,912		
Sewer system	7,248,577	8,019,708		3,114,357
Sanitation services	3,076,830	3,606,311		
Drainage utility	637,251	779,723		206,425
Airport	934,268	853,313		1,909,920
Golf course	1,091,943	927,857		250,876
Total business-type activities	<u>23,001,123</u>	<u>24,291,824</u>		<u>5,481,578</u>
Total primary government	<u>\$ 67,694,113</u>	<u>\$ 31,354,422</u>	<u>\$ 4,997,954</u>	<u>\$ 8,907,959</u>
Component Units				
Governmental activities	\$ 22,517,557	\$ 4,581,605	\$ 796,475	\$
Business-type activities	16,015,495	13,953,740	32,243	700,868
Total component units	<u>\$ 38,533,052</u>	<u>\$ 18,535,345</u>	<u>\$ 828,718</u>	<u>\$ 700,868</u>

General revenues:

Taxes:

 Property taxes, levied for general purposes

 Sales tax

 Hotel occupancy taxes

 Franchise taxes

 Payments in lieu of taxes

 Net loss on sale of asset

 Unrestricted investment earnings

 Miscellaneous

 Capital contributions

Transfers

 Total general revenues, special items, and transfers

 Change in net assets

Net assets at beginning of year

Net assets at end of year

See Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (2,569,563)	\$	\$ (2,569,563)		
(17,196,124)		(17,196,124)		
(4,957,899)		(4,957,899)		
(1,317,290)		(1,317,290)		
68,467		68,467		
(25,204)		(25,204)		
(3,208,444)		(3,208,444)		
<u>(29,206,057)</u>		<u>(29,206,057)</u>		
	92,658	92,658		
	3,885,488	3,885,488		
	529,481	529,481		
	348,897	348,897		
	1,828,965	1,828,965		
	86,790	86,790		
	<u>6,772,279</u>	<u>6,772,279</u>		
<u>(29,206,057)</u>	<u>6,772,279</u>	<u>(22,433,778)</u>		
			\$ (17,139,477)	\$
				(1,328,644)
			<u>\$ (17,139,477)</u>	<u>\$ (1,328,644)</u>
13,215,080		13,215,080	209,667	
13,689,462		13,689,462	828,780	
2,965,811		2,965,811	4,239,092	
4,841,443		4,841,443		
567,848		567,848		
(72,188)	(124,776)	(196,964)		
420,135	179,456	599,591	21,848	1,471,887
549,675		549,675	480,063	
			55,914,683	
600,000	(600,000)			
<u>36,777,266</u>	<u>(545,320)</u>	<u>36,231,946</u>	<u>61,694,133</u>	<u>1,471,887</u>
7,571,209	6,226,959	13,798,168	44,554,656	143,243
29,067,046	66,547,514	95,614,560	279,444,028	49,524,089
<u>\$ 36,638,255</u>	<u>\$ 72,774,473</u>	<u>\$ 109,412,728</u>	<u>\$ 323,998,684</u>	<u>\$ 49,667,332</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Island Transit</u>	<u>Convention Center Capital Projects</u>
ASSETS			
Cash and temporary investments	\$ 4,195,100	\$	\$ 528,970
Receivables (net of allowance for uncollectibles):			
Taxes	3,064,903		
Fines and forfeitures	730,345		
Accounts	1,681,666	10,066	
Investment earnings	699		
Notes			
Due from other funds	1,122,385		
Due from other governments	90,245	623,644	
Inventories		203,056	
Prepaid items	92,751		
Total assets	<u>\$ 10,978,094</u>	<u>\$ 836,766</u>	<u>\$ 528,970</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Salaries payable	\$ 772,930	\$ 64,686	\$
Accounts payable and other current liabilities	304,686	124,720	
Due to other funds		479,958	
Due to other governments	230,378		
Deferred revenue	1,895,712	3,408	
Advances payable			
Total liabilities	<u>3,203,706</u>	<u>672,772</u>	
FUND BALANCES:			
Reserved for:			
Encumbrances	387,810		
Prepaid expenses	92,751		
Debt service			
Unreserved	7,293,827	163,994	528,970
Unreserved, reported in non-major:			
Special revenue funds			
Capital project funds			
Total fund balances	<u>7,774,388</u>	<u>163,994</u>	<u>528,970</u>
Total liabilities and fund balances	<u>\$ 10,978,094</u>	<u>\$ 836,766</u>	<u>\$ 528,970</u>

See Notes to Financial Statements

Exhibit 3

Other Governmental Funds	Total Governmental Funds
\$ 15,111,721	\$ 19,835,791
197,607	3,262,510
899,718	730,345
12,050	2,591,450
15,526	12,749
4,405,431	15,526
	1,122,385
	5,119,320
	203,056
2,750	95,501
<u>\$ 20,644,803</u>	<u>\$ 32,988,633</u>

\$ 20,621	\$ 858,237
2,204,381	2,633,787
642,427	1,122,385
2,456	232,834
2,757,277	4,656,397
23,058	23,058
<u>5,650,220</u>	<u>9,526,698</u>

	387,810
	92,751
5,182,790	5,182,790
	7,986,791
2,347,900	2,347,900
7,463,893	7,463,893
<u>14,994,583</u>	<u>23,461,935</u>
<u>\$ 20,644,803</u>	<u>\$ 32,988,633</u>



CITY OF GALVESTON, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

Exhibit 4

Total fund balance, governmental funds \$ 23,461,935

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 75,692,321

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

Property taxes receivable 1,398,679
Municipal Court receivables 658,345
Long term receivable from other government 19,323,672

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 1,932,902

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

Bonds payable (77,832,893)
Capital lease obligations (1,534,143)
Compensated absences (5,489,785)
Accrued interest (749,874)
Claims and judgments (222,904)

Net assets of governmental activities in the Statement of Net Assets \$ 36,638,255

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Island Transit</u>	<u>Convention Center Capital Projects</u>
REVENUES			
Property taxes	\$ 10,767,293	\$	\$
Sales and use taxes	10,362,894		
Hotel occupancy taxes			919,721
Franchise fees	4,841,443		
Fines and forfeitures	1,539,303		
Licenses and permits	1,179,514		
Intergovernmental		2,478,237	
Charges for services	1,969,991	608,861	
Payments in lieu of taxes	567,848		
Investment earnings	97,860		82,375
Miscellaneous	551,484	34,274	80,002
Total revenues	<u>31,877,630</u>	<u>3,121,372</u>	<u>1,082,098</u>
EXPENDITURES			
Current:			
General government	4,096,096		
Public safety	19,911,586		
Public works	2,777,669		
Culture and recreation	1,273,774		
Planning and community development	1,464,011		
Transportation	545,847	3,154,527	
Debt Service:			
Principal	898,560		
Interest and other charges	80,254		
Capital Outlay:			
General government	13,812		
Public safety	340,942		
Public works			
Culture and recreation	31,244		17,668,451
Planning and community development	30,866		
Transportation	112,202		
Total expenditures	<u>31,576,863</u>	<u>3,154,527</u>	<u>17,668,451</u>
Revenues over (under) expenditures	300,767	(33,155)	(16,586,353)
OTHER FINANCING SOURCES (USES)			
Proceeds from capital leases	95,720		
Proceeds from sale of capital asset	120,635	2,812	
Transfers in (out)	600,000		
Total other financing sources and (uses)	<u>816,355</u>	<u>2,812</u>	
Net change in fund balances	1,117,122	(30,343)	(16,586,353)
Fund balances at beginning of year	6,657,266	194,337	17,115,323
Fund balances at end of year	<u>\$ 7,774,388</u>	<u>\$ 163,994</u>	<u>\$ 528,970</u>

See Notes to Financial Statements

Exhibit 5

Other Governmental Funds	Total Governmental Funds
\$ 2,419,667	\$ 13,186,960
3,326,568	13,689,462
2,046,090	2,965,811
	4,841,443
225,558	1,764,861
	1,179,514
5,942,930	8,421,167
262,349	2,841,201
	567,848
214,967	395,202
642,345	1,308,105
<u>15,080,474</u>	<u>51,161,574</u>
117,068	4,213,164
386,225	20,297,811
	2,777,669
2,089,270	3,363,044
2,930,747	4,394,758
3,280	3,703,654
1,504,826	2,403,386
3,065,542	3,145,796
110,675	124,487
38,000	378,942
5,078,893	5,078,893
1,903,175	19,602,870
12,545	43,411
3,471,570	3,583,772
<u>20,711,816</u>	<u>73,111,657</u>
(5,631,342)	(21,950,083)
	95,720
500,000	623,447
(66,964)	533,036
<u>433,036</u>	<u>1,252,203</u>
(5,198,306)	(20,697,880)
20,192,889	44,159,815
<u>\$ 14,994,583</u>	<u>\$ 23,461,935</u>



CITY OF GALVESTON, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Exhibit 6

Net change in fund balances - total governmental funds: \$ (20,697,880)

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 outlays of \$28,606,152 exceeded depreciation of \$3,738,825 in the current period. 24,867,327

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Property tax revenue 28,121
Municipal Court revenue 530,421

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond 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.

Principal repayments 2,403,386
Proceeds from capital lease (95,720)
Interest accretion 75,971

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:

Change in accrued interest (135,290)
Change in accrued compensated absences (224,818)
Change in workers compensation reserve (25,227)

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. 844,918

Change in net assets of governmental activities \$ 7,571,209

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004

	Business-type Activities-Enterprise Funds		
	Waterworks System	Sewer System	Other Enterprise Funds
ASSETS			
Current Assets:			
Cash and temporary investments	\$ 62,975	291,367	\$ 887,831
Receivables (net of allowance for uncollectibles):			
Accounts	1,860,385	1,511,155	1,025,454
Investment earnings	21	215	286
Due from other governments	241,128		
Inventories	86,297		30,850
Prepaid expenses	220,380	10,000	19,692
Restricted assets:			
Cash and cash equivalents	1,693,398	10,037,171	
Cash and cash equivalents to pay current portion of long term liabilities	276,904	1,959,807	183,867
Total current assets	<u>4,441,488</u>	<u>13,809,715</u>	<u>2,147,980</u>
Non-current assets:			
Restricted assets			
Other assets with trustee	11,564,337		
Deferred charges	1,823,657	164,414	19,443
Contractual rights to water supply	19,758,713		
Capital assets, net of depreciation where applicable	34,198,356	45,880,710	9,853,384
Total non-current assets	<u>67,345,063</u>	<u>46,045,124</u>	<u>9,872,827</u>
Total assets	<u>71,786,551</u>	<u>59,854,839</u>	<u>12,020,807</u>
LIABILITIES			
Current Liabilities:			
Salaries payable	40,092	80,681	68,620
Accounts payable and other current liabilities	334,463	678,556	344,173
Customer deposits	1,007,551	1,003,294	
Deferred revenue			39,634
Current portion of long term liabilities	10,725	16,725	119,720
Current portion of long term liabilities payable from restricted assets	1,927,745	1,959,807	100,501
Total current liabilities	<u>3,320,576</u>	<u>3,739,063</u>	<u>672,648</u>
Non-current liabilities:			
Non-current portion of long term liabilities	45,823,137	16,277,725	1,703,302
Total liabilities	<u>49,143,713</u>	<u>20,016,788</u>	<u>2,375,950</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,826,192	35,115,584	8,620,230
Restricted for debt service		2,206,619	
Unrestricted	13,816,646	2,515,848	1,024,627
Total net assets	<u>\$ 22,642,838</u>	<u>\$ 39,838,051</u>	<u>\$ 9,644,857</u>

The net assets of certain internal service funds are not included in the Fund Financial Statement, but are included in the Business Activities of the Statement of Net Assets.

Total net assets per government-wide financial statements

See Notes to Financial Statements

Exhibit 7

Total	Governmental Activities Internal Service Funds
\$ 1,242,173	\$ 1,921,837
4,396,994	154,491
522	238
241,128	
117,147	200,506
250,072	175,425
11,730,569	
2,420,578	
20,399,183	2,452,497
11,564,337	
2,007,514	
19,758,713	
89,932,450	983,434
123,263,014	983,434
143,662,197	3,435,931
189,393	44,045
1,357,192	273,774
2,010,845	
39,634	
147,170	304,670
3,988,053	
7,732,287	622,489
63,804,164	231,813
71,536,451	854,302
52,562,006	958,953
2,206,619	
17,357,121	1,622,676
\$ 72,125,746	\$ 2,581,629
648,727	
\$ 72,774,473	

CITY OF GALVESTON, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Business-type Activities		
	Waterworks System	Sewer System	Other Enterprise Funds
REVENUES			
Charges for services	\$ 10,093,002	\$ 8,002,675	\$ 6,083,051
Miscellaneous	11,910	17,032	84,153
Total operating revenues	<u>10,104,912</u>	<u>8,019,707</u>	<u>6,167,204</u>
OPERATING EXPENSES			
Personal services	1,478,278	2,524,738	2,617,715
Materials and supplies	566,982	1,028,198	358,540
Contractual services	619,156	844,095	1,622,084
Other charges	150,373	245,716	307,197
Surface water contract	5,290,001		
Administrative service charge	503,000	307,000	237,000
Depreciation and amortization	1,195,662	1,420,339	695,301
Total operating expenses	<u>9,803,452</u>	<u>6,370,086</u>	<u>5,837,837</u>
Operating income (loss)	<u>301,460</u>	<u>1,649,621</u>	<u>329,367</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest earned	25,202	140,813	13,442
Interest expense	(167,373)	(949,483)	(57,734)
Gain (loss) on retirement of capital asset	4,600	380	(129,756)
Amortization of bond issuance costs	(115,113)	(42,887)	
Total non-operating revenue (expenses)	<u>(252,684)</u>	<u>(851,177)</u>	<u>(174,048)</u>
Income (loss) before contributions and transfers	48,776	798,444	155,319
Capital contributions		3,114,357	2,367,221
Transfers in (out)	(1,208,032)	(195,968)	804,000
Change in net assets	<u>(1,159,256)</u>	<u>3,716,833</u>	<u>3,326,540</u>
Net assets at beginning of year	23,802,094	36,121,218	6,318,317
Net assets at end of year	<u>\$ 22,642,838</u>	<u>\$ 39,838,051</u>	<u>\$ 9,644,857</u>

Change in net assets, per above

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.

Change in business-type activities in net assets per government-wide financial statements

See Notes to Financial Statements

Exhibit 8

Total	Governmental Activities Internal Service Funds
\$ 24,178,728	\$ 10,060,594
113,095	81,571
24,291,823	10,142,165
6,620,731	1,473,233
1,953,720	1,522,558
3,085,335	5,513,196
703,286	316,299
5,290,001	
1,047,000	
3,311,302	125,777
22,011,375	8,951,063
2,280,448	1,191,102
179,457	24,929
(1,174,590)	(3,343)
(124,776)	
(158,000)	
(1,277,909)	21,586
1,002,539	1,212,688
5,481,578	
(600,000)	66,964
5,884,117	1,279,652
66,241,629	1,301,977
\$ 72,125,746	\$ 2,581,629
5,884,117	
342,842	
\$ 6,226,959	

CITY OF GALVESTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit 9
Page 1 of 2

Business Type Activities - Enterprise Funds

	Waterworks System	Sewer System	Other Enterprise Funds	Totals	Governmental Activities Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 9,953,991	\$ 7,848,081	\$ 6,061,218	\$ 23,863,290	\$ 10,152,064
Cash payments to suppliers for goods and services	(6,807,351)	(1,642,807)	(1,977,150)	(10,427,308)	(7,581,307)
Cash payments to employees	(1,442,641)	(2,595,956)	(2,615,322)	(6,653,919)	(1,378,406)
Administrative service charge	(503,000)	(307,000)	(201,000)	(1,011,000)	
Other operating revenues	11,909	17,032		28,941	
Net cash provided by (used for) operating activities	<u>1,212,908</u>	<u>3,319,350</u>	<u>1,267,746</u>	<u>5,800,004</u>	<u>1,192,351</u>
Cash flows from noncapital and related financing activities:					
Due from other funds	1,012,016		(1,306,962)	(294,946)	66,964
Interfund transfers	(1,208,032)	(195,968)	804,000	(600,000)	
Net cash provided by (used for) noncapital and related financing activities	<u>(196,016)</u>	<u>(195,968)</u>	<u>(502,962)</u>	<u>(894,946)</u>	<u>66,964</u>
Cash flows from capital and related financing activities:					
Proceeds from issuance of capital leases			285,436	285,436	
Payments for capital acquisitions	(1,429,510)	(10,206,095)	(3,833,220)	(15,468,825)	(292,000)
Principal paid on revenue bonds	(105,300)	(1,517,662)		(1,622,962)	
Principal payments on long term contracts	(1,082,515)		(90,000)	(1,172,515)	
Principal paid on capital leases		(453)	(54,393)	(54,846)	(56,304)
Interest paid on revenue bonds	(244,790)	(978,043)		(1,222,833)	
Interest paid on capital leases			(24,434)	(24,434)	(3,343)
Premium on bond		(44,672)		(44,672)	
Contributed capital		3,114,357	2,367,221	5,481,578	
Net cash provided by (used for) capital and related financing activities	<u>(2,862,115)</u>	<u>(9,632,568)</u>	<u>(1,349,390)</u>	<u>(13,844,073)</u>	<u>(351,647)</u>
Cash flows from investing activities:					
Investment with trustee	774,271			774,271	
Interest on investments	20,775	145,147	14,536	180,458	24,724
Net cash provided by (used for) investing activities	<u>795,046</u>	<u>145,147</u>	<u>14,536</u>	<u>954,729</u>	<u>24,724</u>
Net increase (decrease) in equity in pooled cash and investments	(1,050,177)	(6,364,039)	(570,070)	(7,984,286)	932,392
Cash and temporary investments, beginning of year	<u>3,083,454</u>	<u>18,652,384</u>	<u>1,641,768</u>	<u>23,377,606</u>	<u>989,445</u>
Cash and temporary investments, end of year	<u>\$ 2,033,277</u>	<u>\$ 12,288,345</u>	<u>\$ 1,071,698</u>	<u>\$ 15,393,320</u>	<u>\$ 1,921,837</u>
Cash and temporary investments per balance sheet					
Unrestricted	\$ 62,975	\$ 291,367	\$ 887,831	\$ 1,242,173	\$ 1,921,837
Restricted	<u>1,970,302</u>	<u>11,996,978</u>	<u>183,867</u>	<u>14,151,147</u>	
Cash and temporary investments, end of year	<u>\$ 2,033,277</u>	<u>\$ 12,288,345</u>	<u>\$ 1,071,698</u>	<u>\$ 15,393,320</u>	<u>\$ 1,921,837</u>

See Notes to Financial Statements

CITY OF GALVESTON
STATEMENT OF CASH FLOWS - Continued
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit 9
Page 2 of 2

Business Type Activities - Enterprise Funds

	Waterworks System	Sewer System	Other Enterprise Funds	Totals	Governmental Activities Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 301,460	\$ 1,649,621	\$ 329,367	\$ 2,280,448	\$ 1,191,102
Adjustments to reconcile operating income to net cash provided by operating activities:					
Amortization and depreciation expense	1,195,662	1,420,339	695,301	3,311,302	125,777
(Increase) decrease in accounts receivable	(113,893)	(150,533)	(42,295)	(306,721)	5,502
(Increase) decrease in deferred charges			5,545	5,545	
(Increase) decrease in inventory and prepaid	36,370	(6,250)	199,843	229,963	(92,786)
Increase (decrease) in salaries and benefits payable	9,550	10,258	11,105	30,913	6,978
Increase (decrease) in accounts payable	(238,272)	481,401	85,202	328,331	(24,329)
Increase (decrease) in interfund payable			(33,300)	(33,300)	
Increase (decrease) in in customer deposits	(4,061)	(4,061)	21,339	13,217	
Increase (decrease) in estimated liability claims	(26,196)	(16,744)	(29,071)	(72,011)	(50,695)
Increase (decrease) in compensated absences payable	52,288	(64,681)	24,710	12,317	30,802
Total adjustments	<u>911,448</u>	<u>1,669,729</u>	<u>938,379</u>	<u>3,519,556</u>	<u>1,249</u>
Net cash provided by (used for) operating activities	<u>\$ 1,212,908</u>	<u>\$ 3,319,350</u>	<u>\$ 1,267,746</u>	<u>\$ 5,800,004</u>	<u>\$ 1,192,351</u>

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2004

Exhibit 10

	Pension Trust Funds *	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and temporary investments	\$ 3,504,054	\$ 342,581
Investments, at fair value:		
Government and corporate bonds	26,805,255	
Common stock	50,753,714	
Receivables:		
Investment earnings	160,390	
Loans to participants	162,212	
Contributions	351,994	
Due from other governments		
Prepaid benefits	168,087	
Total assets	<u>81,905,706</u>	<u>342,581</u>
 LIABILITIES		
Accounts payable and other current liabilities	106,059	12,772
Refunds payable and others		329,809
Total liabilities	<u>106,059</u>	<u>342,581</u>
 NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 81,799,647</u>	<u>\$</u>

* as of December 31, 2003

See Notes to Financial Statements

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit 11

	Pension Trust Funds
	<u> </u>
ADDITIONS	
Contributions:	
Employer	\$ 2,060,084
Plan members	2,015,244
Total contributions	<u>4,075,328</u>
Investment earnings:	
Net appreciation of investments	10,906,606
Interest	1,073,631
Dividends	1,046,161
Investment activity expense	(486,523)
Total net investment earnings	<u>12,539,875</u>
Total additions	<u>16,615,203</u>
 DEDUCTIONS	
Benefits	6,611,169
Administrative	221,809
Total deductions	<u>6,832,978</u>
Change in net assets	9,782,225
Net assets at beginning of year	72,017,422
Net assets at end of year	<u><u>\$ 81,799,647</u></u>

See Notes to Financial Statements

1 REPORTING ENTITY AND BASIS OF PRESENTATION

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

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

A. Reporting Entity

As required by GAAP, these financial statements present the City and its component units. The component units are included in the reporting entity because of the City’s financial accountability over their operations. Blended component units, although legally separate entities are, in substance, part of the City’s operations and so data from these units are combined with data of the primary government.

Blended Component Units

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

Industrial Development Corporation

The Industrial Development Corporation (the “IDC”) was formed in 1993 to provide for street repairs, beach re-nourishment and sewer improvements. The IDC Board of Directors is appointed by City Council. Its Board of Directors is substantially the same as the City Council. Its activities are funded by a special local sales tax. The City manages the fiscal affairs of the IDC. The IDC operations are devoted to providing services for the City. The IDC fund is included in the City’s non-major governmental funds as of September 30, 2004.

Pension Funds

The City of Galveston Employee’s Retirement Plan for City Employees, Firemen’s Relief and Retirement 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, 2003.

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. The following discretely presented component units are reported:

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

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

Complete financial statements for the Park Board may be obtained at the following address:

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

Tax Reinvestment Zone Twelve (the "Tax Zone") was established December 31, 2001 to provide funds for development and improvement projects within a specific geographic area 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 the Tax Zone activity consistent with the State Statute for the economic benefit of the City. The City accounts for the Tax Zone and separate audited reports are not available. The Tax Zone is reported as a non-major governmental type discretely presented component unit.

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

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 by the City Council. The Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. financial records are each corporation's responsibility.

Complete financial statements for the Galveston Housing Finance Corporation and the City of Galveston Property Finance Authority, Inc. may be obtained at the following address:

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

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

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

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

Related Organizations and Jointly Governed Organizations

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information about the City as a whole. These statements include all nonfiduciary 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The government reports the following major governmental funds:

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

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

The Convention Center Capital Projects Fund accounts for capital outlay financed by Series 2002, Hotel Occupancy Tax Revenue Bonds.

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following fund types:

Internal Service Funds account for central services related to mailing, printing, data processing, insurance costs, and garage services provided to other City departments and functions of the government on a cost reimbursement basis.

The Pension Trust Funds account for the activities of the City Employees Retirement Plan, the Firemen's Relief and Retirement Fund and the Police Retirement Fund.

The Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally, are followed in both the Government-wide and Proprietary Fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. 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.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

i. 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

ii. 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 30% of total property taxes including the related penalty and interest accrual as of September 30, 2004. The allowance for enterprise fund charges for services is 20% of total outstanding charges as of September 30, 2004.

iii. Inventories

Inventories are valued at cost, which approximates market, 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.

iv. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2004, are recorded as prepaid items.

v. Restricted Assets

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

vi. 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 as constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Property or Equipment Type	Estimated Useful Lives
Buildings	20 – 75 years
Improvements	5 – 50 years
Equipment	2 – 40 years
Sewer Plants	50 – 75 years
Sewer Lines	40 – 75 years
Water Plants, Lines, Wells and Hydrants	50 – 75 years
Water Tanks and Valves	50 years
Water Meters	10 years

vii. 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.

viii. 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.

ix. Fund Equity

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

x. 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.

2 EQUITY IN POOLED CASH AND INVESTMENTS

The City utilizes GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, and reports all investments that have a remaining maturity at the time of purchase of more than one year, as provided in the statement, at fair market value, as defined in the statement. Investments, which do not have an established market value, are reported at estimated fair value. All assets, at September 30, 2004 and 2003, had established market values and no estimated values had to be applied to any investment at September 30, 2004 and 2003. Investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost as provided in GASB Statement No. 31.

A. Deposits

The City's deposits are categorized to give an indication of the level of risk assumed by the City at year-end as follows:

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Un-collateralized or collateralized with securities held by the pledging financial institution or its trust department or agent, but not in the City's name.

At September 30, 2004, the City's deposits categorized by level of risk are (in thousands):

	Category			Total
	1	2	3	
Primary Government	\$ 6,582	\$	\$	\$ 6,582
Agency Fund	343			343
Pension funds (1)	3,504			3,504
Discretely presented Component Units (1)	2,336	3,054	13	5,403
Totals	<u>\$ 12,765</u>	<u>\$ 3,054</u>	<u>\$ 13</u>	<u>\$ 15,832</u>

(1) Reported as of December 31, 2003.

B. Investments

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end as follows:

- Category 1 Investments that are insured or registered for which the securities are held by the City's agent in the City's name.
- Category 2 Uninsured and unregistered investments for which the securities are held by the dealer banks' trust department or agent in the City's name.
- Category 3 Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

A summary of investments by risk category, as of September 30, 2004, follows (in thousands):

Type of Investment	Category				Total
	1	2	3	Not Categorized	
<i>Primary Government</i>					
<i>City of Galveston</i>					
US Government and Agency Securities	\$ 15,821	\$	\$	\$	\$ 15,821
TexPool				14,748	14,748
Total Primary Government	<u>\$ 15,821</u>	<u>\$</u>	<u>\$</u>	<u>\$ 14,748</u>	<u>\$ 30,569</u>
<i>Pension Trust Funds</i>					
Government and Corporate Bonds	\$	\$ 26,805	\$	\$	\$ 26,805
Common Stock		50,754			50,754
Total Pension Trust Funds	<u>\$</u>	<u>\$ 77,559</u>	<u>\$</u>	<u>\$</u>	<u>\$ 77,559</u>
<i>Discretely Presented</i>					
<i>Component Units</i>					
US Government and Agency Securities	\$ 4,339	\$	\$	\$	\$ 4,339
Certificate of Deposit	8,044				8,044
Guaranteed Investment Contract	301				301
Total discretely presented Component Units	<u>\$ 12,684</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 12,684</u>

Reconciliation of Deposits and Investments to Statement of Net Assets

B. Reconciliation of Deposits and Investments to Statement of Net Assets (in thousands)

<i>Primary Government</i>	
Cash and temporary investments	\$ 23,000
Restricted cash and temporary investments	14,151
Total Primary Government as reported on the Statement of Net Assets	<u>\$ 37,151</u>
Deposits	\$ 6,582
Investments	30,569
Total Primary Government as classified above	<u>\$ 37,151</u>
<i>Discretely Presented Component Units</i>	
<i>Governmental Activities</i>	
Cash and temporary investments	\$ 2,712
Restricted cash and component units	623
<i>Business-type Activities</i>	
Cash and temporary investments	14,743
Restricted cash and component units	9
Total Component Units as reported on the Statement of Net Assets	<u>\$ 18,087</u>
Deposits	\$ 5,403
Investments	12,684
Total Component Units as classified above	<u>\$ 18,087</u>

3 PROPERTY TAX

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 September 30 are also recognized as receivables.

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

- A. A maximum tax rate of 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).
- B. A limit on the annual increase in advalorem taxes on any property to 5% over the prior year's taxes, except for increases due to increases in market value and improvements made.

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

Within these guidelines, the maximum tax rate per \$100 of assessed valuation, for the year ended September 30, 2004, was 54.171 cents. The tax rate to finance general governmental services was set at 44.24 cents and the tax rate for all other purposes, including Debt service, was set at 9.931 cents per \$100 of assessed valuation.

4 SALES TAX

The City's sales tax rate is 2 cents for the year ended September 30, 2004. A City Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset advalorem taxes each year with the amount of additional (½ cent) sales tax collected in the prior year. The ½ cent offset was calculated using a calendar year formula provided by the State of Texas, resulting in advalorem taxes offset by actual sales tax revenue of \$3,150,826 in fiscal year 2004. The total maximum allowable tax rate of 70 cents was thus limited to 54.171 cents for the current fiscal year. It is the City Attorney's opinion that this amendment does not create a new tax cap and it would not restrict the City's ability to meet bond obligations.

Of the 2 cents tax, 1.5 cents is allocated to the General Fund and ½ cent is for Industrial Development Corporation (IDC) Projects. Of the IDC ½ cent, 1/8 cent is for the purpose of beach re-nourishment, 1/8 cent is for street drainage and improvement projects and ¼ cent is for sanitary sewer projects.

5 RECEIVABLES

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

	<u>General</u>	<u>Island Transit</u>	<u>Water</u>	<u>Sewer</u>	<u>Non-major Funds</u>	<u>Total</u>
Receivables:						
Taxes	\$ 3,560,308	\$	\$	\$	\$ 285,810	\$ 3,846,118
Accounts	4,116,150	10,066	2,054,456	1,775,259	2,456,896	10,412,827
Interest	699		21	215	12,336	13,271
Gross receivables	<u>7,677,157</u>	<u>10,066</u>	<u>2,054,477</u>	<u>1,775,474</u>	<u>2,755,042</u>	<u>14,272,216</u>
Less: allowance for uncollectibles	<u>(2,199,544)</u>		<u>(194,071)</u>	<u>(264,104)</u>	<u>(619,927)</u>	<u>(3,277,646)</u>
Net total receivables	<u>\$ 5,477,613</u>	<u>\$ 10,066</u>	<u>\$ 1,860,406</u>	<u>\$ 1,511,370</u>	<u>\$ 2,135,115</u>	<u>\$ 10,994,570</u>

Notes and interest receivable balances for the primary government are as follows:

<u>Description</u>	<u>Effective Date</u>	<u>Life (years)</u>	<u>Original Loan Amount</u>	<u>Monthly Installment</u>	<u>Balance at September 30, 2004</u>	
					<u>Current</u>	<u>Total</u>
Parking Garage – George P. Mitchell & U. S. National Bank	4/15/1985	20	\$ 275,970	\$ 2,663	\$ 15,526	\$ 15,526
Total					<u>\$ 15,526</u>	<u>\$ 15,526</u>

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

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

The mortgage loans have a fixed interest rate of 10%. Certain designated loan servicers service the loans, which have estimated remaining maturities of 10 years. These loan servicers are responsible for collecting the loan payments from the borrowers and remitting these payments to the Trustee. The loan servicers are compensated monthly from collections in an amount equal to 1/12 of 1/6 of 1% of the unpaid principal balance on each mortgage loan. The Administrator supervises the purchase of the mortgage loans and the monthly collection of principal and interest.

Most individual mortgage loans are insured by primary mortgage insurance, FHA insurance or VA guarantees. At December 31, 2003, the remaining aggregate coverage available under the mortgage pool insurance was approximately \$1.6 million.

As of December 31, 2003, approximately \$138,938 of the mortgage loans outstanding was one or more months delinquent. At December 31, 2003, an allowance of \$30,000 for anticipated losses not recoverable from mortgage loan insurance and possible uninsured losses on mortgage-related assets was recorded.

6 INTERFUND ACTIVITIES

Operating transfers, for the year ended September 30, 2004, are as follows for the primary government:

Transfer In Fund	Transfer Out Fund					Totals
	Industrial Development Corporation	Capital Projects - City Hall	Waterworks System	Sewer System	Sanitation	
General Fund	\$	\$	\$ 200,000	\$200,000	\$ 200,000	\$ 600,000
Debt Service	1,318,525					1,318,525
Capital Projects Fund:						
Drainage and Street Improvement	482,639					482,639
Sewer Improvements	869,142					869,142
Golf Course Fund			1,004,000			1,004,000
Sewer System			4,032			4,032
Internal Service Fund:						
Central service		66,964				66,964
Totals	\$ 2,670,306	\$ 66,964	\$ 1,208,032	\$200,000	\$ 200,000	\$ 4,345,302

Transfer from	Transfer to	Purpose
Industrial Development Corporation	Debt Service	Provided by election for the purpose of drainage, street and sewer improvements and related debt service from sales tax revenue
	Drainage and Street Improvement	
	Sewer Improvements	
Capital Projects - City Hall	Central Service	To move residual balances from city hall restoration projects to central service fund which is currently responsible for the upkeep and repairs of city hall
Waterworks System	General Fund	To transfer payments in lieu of taxes
	Sewer Improvements	To transfer utility deposits
	Golf Corse	To fund Municipal Golf Course operations
Sewer	General Fund	To transfer payments in lieu of taxes

The following is a detail of inter-fund receivables/payables for the City of Galveston at September 30, 2004:

Payable Funds: Due From	Receivable Funds	
	Due to	
	General Fund	
Governmental Funds		
Island Transit Fund	\$	479,958
Island Transit Capital Projects Fund		642,427
Total	\$	<u>1,122,385</u>

7 CAPITAL ASSETS

Capital asset activity, for the year ended September 30, 2004, was as follows:

Primary Government

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,673,302	\$ 1,042,962	\$ (462)	\$ 2,715,802
Construction in progress	14,782,148	5,991,858	(18,389,782)	2,384,224
Total capital assets, not being depreciated	<u>16,455,450</u>	<u>7,034,820</u>	<u>(18,390,244)</u>	<u>5,100,026</u>
Capital assets, being depreciated:				
Buildings	8,972,882	33,421,860	(3,983,124)	38,411,618
Improvements other than buildings	3,797,600	15,964		3,813,564
Machinery and equipment	5,155,699	2,959,755	(516,992)	7,598,462
Licensed vehicles	13,429,187	1,201,470	(1,982,870)	12,647,787
Infrastructure	66,420,856	4,281,026		70,701,882
Total capital assets being depreciated	<u>97,776,224</u>	<u>41,880,075</u>	<u>(6,482,986)</u>	<u>133,173,313</u>
Less accumulated depreciation for:				
Buildings	(6,014,107)	(402,457)	3,455,091	(2,961,473)
Improvements other than buildings	(2,521,192)	(176,175)		(2,697,367)
Machinery and equipment	(2,103,086)	(755,243)	(715,582)	(3,573,911)
Licensed vehicles	(7,715,066)	(1,054,211)	1,995,530	(6,773,747)
Infrastructure	(44,134,905)	(1,477,397)	21,216	(45,591,086)
Total accumulated depreciation	<u>(62,488,356)</u>	<u>(3,865,483)</u>	<u>4,756,255</u>	<u>(61,597,584)</u>
Total capital assets, being depreciated, net	<u>35,287,868</u>	<u>38,014,592</u>	<u>(1,726,731)</u>	<u>71,575,729</u>
Governmental activities capital assets, net	<u>\$ 51,743,318</u>	<u>\$ 45,049,412</u>	<u>\$ (20,116,975)</u>	<u>\$ 76,675,755</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,915,875	\$	\$	\$ 1,915,875
Construction in progress	15,994,185	11,915,711	(12,294,534)	15,615,362
Total capital assets, not being depreciated	<u>17,910,060</u>	<u>11,915,711</u>	<u>(12,294,534)</u>	<u>17,531,237</u>
Capital assets, being depreciated:				
Buildings and system	26,679,025	3,579,953		30,258,978
Improvements other than buildings	70,243,684	11,409,255		81,652,939
Machinery and equipment	9,635,695	1,114,950	(430,870)	10,319,775
Total capital assets, being depreciated	<u>106,558,404</u>	<u>16,104,158</u>	<u>(430,870)</u>	<u>122,231,692</u>
Less accumulated depreciation for:				
Buildings and system	(11,197,788)	(571,905)		(11,769,693)
Improvements other than buildings	(28,698,099)	(1,737,762)		(30,435,861)
Machinery and equipment	(6,923,008)	(1,001,635)	299,718	(7,624,925)
Total accumulated depreciation	<u>(46,818,895)</u>	<u>(3,311,302)</u>	<u>299,718</u>	<u>(49,830,479)</u>
Total capital assets, being depreciated, net	<u>59,739,509</u>	<u>12,792,856</u>	<u>(131,152)</u>	<u>72,401,213</u>
Business-type activities capital assets, net	<u>\$ 77,649,569</u>	<u>\$ 24,708,567</u>	<u>\$ (12,425,686)</u>	<u>\$ 89,932,450</u>

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

Governmental activities:		
General government		\$ 39,641
Public safety		835,093
Public works and streets, including depreciation		1,587,515
Culture and recreation		597,828
Planning and community development		51,932
Transit operations		626,816
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>126,658</u>
Total depreciation expense - governmental activities		<u>\$ 3,865,483</u>

Business-type activities:		
Water		\$ 1,195,662
Sewer		1,420,339
Sanitation		378,262
Drainage		2,319
Airport		238,828
Golf		75,892
Total depreciation expense - business-type activities		<u>\$ 3,311,302</u>

Construction in progress and remaining commitment, at September 30, 2004, were as follows:

Governmental activities			
<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
Trolley expansion (UTMB)	\$ 3,708,464	\$ 2,047,249	\$ 1,661,215
Livable communities initiatives	3,087,544	203,606	2,883,938
Fixed guideway demonstration project	937,500	27,364	910,136
Lindale Park traffic project	21,500	2,486	19,014
City Hall Improvements (Central Serv.Fund)	79,171	60,672	18,499
Laskar Park phase 2 improvements	50,000	42,847	7,153
Totals	<u>\$ 7,884,179</u>	<u>\$ 2,384,224</u>	<u>\$ 5,499,955</u>
Business - type activities			
<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
<i>Waterworks System Fund Projects</i>			
GCWA Water Lines at Jamaica Beach, Pelican Island, etc (2002 Bond)	\$ 10,450,243	\$ 2,421,249	\$ 8,028,994
Various other	677,745	434,514	243,231
<i>Sewer System Fund Projects</i>			
Various sewer projects	14,084,664	11,334,838	2,749,826
<i>Drainage Fund Projects</i>			
Various drainage projects	702,507	530,407	172,100
<i>Sanitation Fund Projects</i>			
Various sanitation projects	532,158	446,368	85,790
<i>Airport Fund Projects</i>			
Totals	<u>\$ 27,030,749</u>	<u>\$ 15,615,362</u>	<u>\$ 11,415,387</u>

8 LONG-TERM DEBT

Governmental activities long-term liability activity for the year ended September 30, 2004, was as follows:

<u>Description</u>	<u>Balance at 9/30/2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/04</u>	<u>Current Portion</u>
General Obligation Bonds	\$ 17,983,514	\$	\$ (384,293)	\$ 17,599,221	\$ 284,573
Special Obligation Bonds	42,075,000		(1,165,000)	40,910,000	1,240,000
Certificates of Obligation		19,323,672		19,323,672	
Capital Leases	2,449,270	95,720	(986,366)	1,558,624	763,275
Accrued Compensated Absences	5,450,203	2,886,504	(2,629,984)	5,706,723	9,868
Claims and Judgements - Accrued Insurance claims	547,616	3,137,789	(3,124,576)	560,829	313,182
Totals	<u>\$ 68,505,603</u>	<u>\$ 25,443,685</u>	<u>\$ (8,290,219)</u>	<u>\$ 85,659,069</u>	<u>\$ 2,610,898</u>

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

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

General Obligation Debt Bonds

\$3,741,630 1990 Public Improvements Bonds due in annual installments of \$322,781 to \$371,800 through May 1, 2009; interest at 7.38% to 7.44%. Includes interest accretion of \$2,738,546.	\$ 3,802,526
\$13,275,102 2001 Obligation and Refunding Bonds due in annual installments of \$568,993 to \$710,000 May 1, 2010 through May 1, 2023; interest at 4.8% to 5.25%. Includes interest accretion of \$345,548.	<u>13,796,695</u>
Total General Obligation Bonds	<u><u>\$ 17,599,221</u></u>

Special Obligation Bonds

\$10,900,000 1995 Industrial Development Corporation (IDC) Sales Tax Revenue Bonds due in annual installments of \$505,000 to \$875,000 through September 1, 2015; interest at 5.0% to 5.75% (this debt is being serviced, principal and interest, by Industrial Development Corp.)	\$ 505,000
\$1,925,000 2001A Industrial Development Corporation Refunding Bonds due in annual installments of \$350,000 to \$410,000 through March 1, 2009; interest at 3.75% to 4.0% (this debt is being serviced, principal and interest, by Industrial Development Corp.)	1,900,000
\$7,455,000 2001B Industrial Development Corporation Refunding Bonds due in annual installments of \$60,000 to \$865,000 through September 1, 2015; interest at 4.0% to 5.0% (this debt is being serviced, principal and interest, by Industrial Development Corp.)	7,225,000
\$16,150,000 2002A Hotel Occupancy Tax Bonds due in annual installments of \$120,000 to \$1,165,000 through September 1, 2034; interest at 3.0% to 5.0%.	15,895,000
\$15,700,000 2002B Hotel Occupancy Tax Bonds due in annual installments of \$150,000 to \$1,165,000 through September 1, 2032; interest at 3.0% to 5.0%.	<u>15,385,000</u>
Total Special Obligation Bonds	<u><u>\$ 40,910,000</u></u>

Certificates of Obligation

\$19,323,672 2004 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$2,425,000 to \$1,390,621 through February 1, 2020, interest at 4.25% to 5.18%	<u><u>\$ 19,323,672</u></u>
--	-----------------------------

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Capital Leases

\$95,721 2004 Capital Lease purchase due in annual installments of \$31,907 through October 20, 2006; interest at 4.15%.	\$ 95,721
\$231,455 2000 Capital Lease purchase due in annual installments of \$54,767 through January 25, 2005; interest at 5%.	51,655
\$900,000 2000 Capital Lease purchase due in semi-annual installments of \$107,387 through October 1, 2005; interest at 6.695%.	301,738
\$157,837 2001 Capital lease purchase due in semi-annual installments of \$17,816 through September 17, 2006; interest at 4.53%.	67,404
\$256,793 2000 Capital Lease purchase due in monthly installments of \$4,970 through February 9, 2005; interest at 6.67%	24,481
\$434,316 2002 Capital lease purchase due in semi-annual installments of \$48,941 through August 20, 2006; interest at 4.465%.	185,307
\$720,000 2002 Capital lease purchase due in annual installments of \$158,993 through November 28, 2006; interest at 3.395%.	446,334
\$572,740 2003 Capital lease purchase due in semi-annual installments of \$198,322 through August 6, 2006; interest at 2.3%.	<u>385,984</u>
Total Capital Leases	<u><u>\$ 1,558,624</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments, as of September 30, 2004, were as follows:

<u>Fiscal year ending September 30</u>	<u>Governmental Activities</u>
2005	\$ 819,700
2006	608,542
2007	<u>186,807</u>
Total minimum payments	1,615,049
Less: Interest	<u>(56,425)</u>
Present value of minimum lease payments	1,558,624
Current Portion	<u>763,275</u>
Long Term Portion	<u><u>\$ 795,349</u></u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

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

Fiscal Year ending 9/30	General Obligation Bonds		Special Obligation Bonds		Certificates Of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 284,573	\$ 1,104,227	\$ 1,240,000	\$ 1,913,006	\$	\$ 782,175
2006	264,454	1,124,346	1,310,000	1,860,296		782,175
2007	252,912	1,160,888	1,375,000	1,811,096		782,175
2008	234,896	1,178,904	1,450,000	1,758,646		782,175
2009	279,162	1,379,638	1,525,000	1,703,459		782,175
2010	568,993	829,807	1,175,000	1,650,329		782,175
2011	552,612	871,188	1,240,000	1,614,129		782,175
2012	536,391	917,409	1,305,000	1,559,091		782,175
2013	503,351	950,449	1,380,000	1,506,069	2,425,000	721,550
2014	471,829	981,971	1,465,000	1,443,019	2,540,000	608,538
2015	441,927	1,011,873	1,550,000	1,375,413	2,660,000	489,650
2016	915,000	538,800	740,000	1,303,050	2,795,000	353,275
2017	960,000	493,050	795,000	1,270,675	2,940,000	209,900
2018	1,010,000	445,050	860,000	1,226,950	3,090,000	68,200
2019	1,065,000	389,500	930,000	1,179,650	1,483,051	1,676,949
2020	1,120,000	330,925	1,005,000	1,128,500	1,390,621	1,769,379
2021	3,745,000	269,325	1,085,000	1,078,250		
2022	675,000	72,713	1,160,000	1,024,000		
2023	710,000	37,275	1,245,000	966,000		
2024			1,335,000	903,750		
2025			1,425,000	837,000		
2026			1,525,000	765,750		
2027			1,630,000	689,500		
2028			1,735,000	608,000		
2029			1,850,000	521,250		
2030			1,975,000	425,750		
2031			2,105,000	330,000		
2032			2,220,000	224,750		
2033			1,110,000	113,750		
2034			1,165,000	58,250		
	<u>\$ 14,591,100</u>	<u>\$ 14,087,338</u>	<u>\$ 40,910,000</u>	<u>\$ 32,849,378</u>	<u>\$ 19,323,672</u>	<u>\$ 12,154,841</u>
Accreted interest	<u>3,008,121</u>					
Total Payable	<u>\$ 17,599,221</u>					

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Business-type activities long-term liability activity for the year ended September 30, 2004, was as follows:

<u>Description</u>	<u>Balance at 9/30/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/04</u>	<u>Current Portion</u>
Contracts (Gulf Coast Water Authority)	\$ 45,470,989	\$	\$ (1,082,515)	\$ 44,388,474	\$ 1,558,431
Revenue Bonds	22,094,086		(1,622,962)	20,471,124	1,736,124
Certificates of Obligation	1,000,000		(90,000)	910,000	90,000
Capital Lease	363,535	277,240	(47,102)	593,673	104,020
Accrued Compensated Absences	821,088	571,184	(518,973)	873,299	43,150
Claims and Judgements - Workers Compensation Claims	186,592	148,372	(237,073)	112,346	13,027
Totals	<u>\$ 69,936,290</u>	<u>\$ 996,796</u>	<u>\$ (3,598,625)</u>	<u>\$ 67,348,916</u>	<u>\$ 3,544,752</u>

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

Contracts Payable – Enterprise Funds

\$2,934,618 Gulf Coast Water Authority Contract Revenue and Refunding Bonds, Series 1981 and 1985, due in monthly installments of \$39,963 to \$41,254 through July 2009; interest at 5.6% to 5.65%	\$ 2,018,424
\$11,000,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 1997, due in annual installments of \$325,000 to \$925,000 through August 15, 2017; interest at 4.1% to 5.1%.	9,160,000
\$24,640,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 1998A, due in annual installments of \$1,950,000 to \$2,595,00 through August 15, 2022; interest at 4.15% to 5%. (Liability represents the City's 98.693% share of the remaining balance due).	21,895,050
\$11,315,000 Gulf Coast Water Authority Contract Revenue Bonds, Series 2002, due in annual installments of \$425,000 to \$595,000 through August 15, 2013; interest at 4.0% to 4.5%.	<u>11,315,000</u>
Total Contracts Payable – Enterprise Funds	<u>\$ 44,388,474</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Certificates of Obligation - Enterprise Funds

\$1,000,000 2003 Sanitation Certificates of Obligation due in annual installments of \$90,000 to \$115,000 through May 1, 2013; interest at 2.85% to 3.75%. \$ 910,000

Revenue Bonds – Enterprise Funds

\$1,486,683 1989A Sewer System Revenue Refunding Bonds due in annual installments of \$31,124 to \$58,032 through May 1, 2005; interest at 7.8%. \$ 31,124

\$6,155,000 1993 Sewer System Revenue Refunding Bonds due in annual installments of \$785,000 to \$945,000 through May 1, 2005; interest at 4.4% to 5%. 945,000

\$9,995,000 2000 Waterworks and Sewer System Revenue Bonds due in annual installments of \$290,000 to \$810,000 through May 1, 2020; interest at 5.3% to 3.3%. 8,885,000

\$11,000,000 2003 Waterworks and Sewer System Revenue Bonds due in annual installments of \$390,000 to \$795,000 through May 1, 2023; interest at 3.5% to 4.38%. 10,610,000

Total Revenue Bonds, Face Value 20,471,124

Total Revenue Bonds – Enterprise Funds, Net \$ 20,471,124

Capital Leases

\$285,436 2004 Capital lease purchase due in annual installments of \$57,087 through November 18, 2008; interest at 3.08% \$ 277,240

\$738,515 1990 Capital lease purchase due in monthly installments of \$5,886 through February 1, 2010; interest at 7.1 % 316,433

Total Capital Leases - Enterprise Funds, Net \$ 593,673

Fiscal Year Ending 9/30	Revenue Bonds		Contracts		Sanitation Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 1,736,124	\$ 1,059,188	\$ 1,558,431	\$ 2,181,429	\$ 90,000	\$ 31,503
2006	785,000	898,587	1,634,877	2,105,924	95,000	28,128
2007	820,000	857,640	1,714,186	2,026,410	95,000	24,565
2008	855,000	814,692	1,796,965	1,941,906	95,000	21,003
2009	900,000	769,745	2,354,262	1,845,420	100,000	17,440
2010	940,000	723,620	1,954,675	1,728,192	105,000	14,590
2011	980,000	678,630	2,054,152	1,633,036	105,000	11,309
2012	1,025,000	631,730	2,153,629	1,534,285	110,000	7,765
2013	1,070,000	583,840	2,253,106	1,430,347	115,000	4,025
2014	1,120,000	535,845	2,362,518	1,319,913		
2015	1,170,000	484,995	2,481,865	1,204,083		
2016	1,230,000	430,943	2,601,211	1,081,618		
2017	1,290,000	373,153	3,692,749	939,800		
2018	1,355,000	310,422	2,857,096	755,864		
2019	1,425,000	244,259	2,995,723	613,030		
2020	1,500,000	173,429	3,149,220	463,206		
2021	720,000	97,469	3,302,717	305,781		
2022	755,000	66,869	3,471,092	139,545		
2023	795,000	34,781				
Total	\$ 20,471,124	\$ 9,769,837	\$ 44,388,474	\$ 23,249,789	\$ 910,000	\$ 160,328

The future minimum lease obligations and the net present value of minimum lease payments on Business-type activity capital leases, as of September 30, 2004, were as follows:

Fiscal year ending September 30	Business-type activities		
	Municipal Airport	Drainage Fund	Total
2005	\$ 70,631	\$ 57,087	\$ 127,718
2006	70,631	57,087	127,718
2007	70,631	57,087	127,718
2008	70,631	57,087	127,718
2009	70,631	57,088	127,719
2010	29,428		29,428
Total minimum payments	382,583	285,436	668,019
Less: Interest	(66,150)	(8,196)	(74,346)
Present value of minimum lease payments	316,433	277,240	593,673
Current Portion	49,611	54,409	104,020
Long Term Portion	\$ 266,822	\$ 222,831	\$ 489,653

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Discretely Presented Component Units

Governmental activities

Park Board of Trustees - Special Obligation Bonds

\$4,500,000 Industrial Development Corporation Bonds, Series 1999 due in annual installments of \$415,000 to \$545,000; average interest 4.3%. \$ 2,940,000

Business-type activities

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

\$13,700 Single Family Mortgage Revenue Bonds, Series 1991A due in annual installments of \$100,000 to \$355,000; interest at 8.5%. 1,335,000

Board of Trustees of the Galveston Wharves

\$8,500,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1977 due in annual installments; interest at 6.75%. 7,400,000

\$5,235,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998A due in annual installments; interest at 3.20% to 4.30%. 5,035,000

\$14,685,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998B due in annual installments; interest at 5.33% to 5.87%. 9,220,000

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

\$4,895,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1999 due 3,930,000

Total Revenue Bonds, Face Value 34,085,000

Less: Un-amortized Discount (87,543)

Total Revenue Bonds, Net \$ 33,997,457

Royal Carribean Cruises Ltd., payable from bonds issued during 2004; interest at 9% \$ 2,175,574

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5% 8,500,000

Total Notes Payable 10,675,574

\$ 44,673,031

Long-term Contracts - Waterworks System

On April 15, 2002, the City entered into a contract with Gulf Coast Water Authority (“GCWA”) whereby GCWA issued \$11,315,000 of Water System 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. The interest rate for the bonds ranges from 4.00% to 5.13%. Interest is payable on February 15 and August 15 of each year. The bonds mature between August 15, 2005 and August 15, 2022.

On May 1, 1998, the City signed a new contract with GCWA that would allow Galveston to begin receiving treated water from the Texas City plant upon completion of its expansion, which took place in August 2001. Terms of the contract included issuance of \$24,640,000 in GCWA Series 1998A revenue bonds dated July 1, 1998. The City pledged Waterworks Fund receipts to repay the bonds. The interest rate for the bonds ranges from 4.15% to 5.00%. Interest is payable on February 15 and August 15 of each year. The bonds mature between August 15, 2002 and August 15, 2022. Until the delivery date, the City will pay only its share of the interest on these bonds. After delivery date, the City will pay its prorated share of interest and principal, as well as its share of raw water and operating costs of the Texas City plant. The City will also continue to pay a prorated share of interest and principal on series 1981A and Series 1991 Mainland Project Bonds used to finance earlier improvements at the Texas City plant.

On July 15, 1997, the City entered into a contract with GCWA whereby GCWA issued \$11,000,000 of Water System Contract Revenue Bonds, Series 1997 to be used on Galveston’s behalf to build a new two mile pipeline to transport water across Galveston Bay to the City to repair an 80 year old pipeline already being used for that purpose, and to build a pipeline between Galveston Island and Pelican Island or to do certain improvements in other waterlines on the Island. The bonds will be repaid with pledged revenues from the City’s Waterworks Fund. The interest rate for the bonds ranges from 4.10% to 5.10%. Interest is payable on February 15 and August 15 of each year. The bonds mature between August 15, 2000 and August 15, 2017.

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

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

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

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

Capital Leases

Airport

The City of Galveston entered into a 20-year equipment lease-purchase agreement with Security Pacific National Bank-Security Pacific Equipment Leasing, Inc. on March 7, 1988, to cover the cost of constructing 21 new re-locatable airport hangars and an administration building. On May 1, 1990, the agreement was transferred and reassigned to General Electric Capital Public Finance Company through a refinancing agreement. Net of depreciation, the carrying value of the building is \$344,506 at September 30, 2004.

Governmental activities

On January 6, 1999, the City of Galveston entered into a \$1,200,276 five-year lease purchase agreement to purchase communication equipment for Emergency Management with Motorola. The lease is paid in annual payments of \$264,908. Net of depreciation, the carrying value of the equipment, at September 30, 2004, is \$338,270.

On February 17, 1999, the City of Galveston entered into a \$372,067 five-year lease purchase agreement with Kansas State Bank to purchase two pumpers for the Fire Department. The lease is paid in annual payments of \$84,937. Net of depreciation, the carrying value of the pumpers is \$348,534 at September 30, 2004.

On February 9, 2000, the City entered into a \$256,793 lease agreement for a Fujitsu F9600 PBX Business Communications System. This system is for telephone communications for city hall, traffic, garage, Island Transit and the 53rd Street police substation. The lease is paid at a rate of \$59,646 per year for five years until February 28, 2005. Net of depreciation, the carrying value of the Fujitsu equipment, at September 30, 2004, is \$17,120.

On February 25, 2000, the City entered into a \$231,455 five-year lease with option to purchase agreement with Kansas State Bank of Manhattan for the purchase of one fire pumper. The lease payment is being paid once a year at \$54,767. Net of depreciation, the carrying value of the pumper, at September 30, 2004, is \$198,353.

On October 1, 2001, the City entered into a \$900,000 five-year lease agreement with Government Capital Corporation to purchase a computer system for the police department. The lease payment is being paid semi-annually at \$107,367. The carrying value, net of depreciation, of the computer system is \$450,462 at September 30, 2004.

On September 14, 2001, the City entered into a \$157,837 five-year lease-purchase agreement with Banc One Leasing Corporation to purchase a gradall. The lease payments are being paid semi-annually at \$17,816. Net of depreciation, the carrying value of the gradall, at September 30, 2004, is \$146,075.

On October 5, 2001, the City entered into a \$434,316 five-year lease-purchase agreement with Suntrust Bank to purchase various equipment items. The lease payment is being paid semi-annually at \$97,882. The carrying value, net of depreciation, of the equipment is \$174,768 at September 30, 2004.

On November 28, 2001, the City entered into a \$720,000 five-year lease-purchase agreement with Suntrust Bank to purchase a ladder truck. The lease payment is being made annually at \$158,993. Net of depreciation, the carrying value of the equipment, at September 30, 2004, is \$647,800.

On July 11, 2003, the City entered into a \$572,740 three-year lease-purchase agreement with Bank One to purchase park and display meters. The lease payment is being paid semi-annually at \$99,161. At September 30, 2004, the carrying value, net of depreciation, of the equipment is \$219,269.

On January 5, 2004, the City entered into a \$95,720 three-year lease-purchase agreement with Baystone Financial Group to purchase bunker gear. The lease payment is being paid annually at \$34,476. At September 30, 2004, the carrying value, net of depreciation, of the equipment is \$83,755.

Prior Year Refunding of Debt

In prior years, the City defeased certain public improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2004, approximately \$1 million previously refunded Series 1990 Public Improvement Bonds outstanding are considered defeased.

9 FUND EQUITY

A. Reservations and Designations

Governmental Fund types balances were reserved for the following as of September 30, 2004:

	<u>General</u>	<u>Non Major Governmental Fund Types</u>
Fund Balance Reserved for:		
Encumbrances	\$ 387,810	\$
Prepaid items	92,751	
Retirement of long term debt		5,182,790
Total	<u>480,561</u>	<u>5,182,790</u>
Unreserved		
Designated for Emergencies *	1,526,310	
Undesignated	5,767,517	9,811,793
Totals	<u>\$ 7,774,388</u>	<u>\$ 14,994,583</u>

* City Ordinance established the reserve for emergencies in the General Fund in fiscal year 1997.

B. Deficit Fund Balance

The Grants and Government Contracts Special Revenue Fund was in a deficit fund balance position of \$64,424 as of September 30, 2004.

10 CONTINGENT LIABILITIES

Grants:

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

Litigation:

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

Arbitrage:

The City arbitrage reporting requirements are in compliance with Federal Regulations. The City does have an arbitrage rebate liability for Waterworks and Sewer System Revenue Bonds Series 2000 that will require payment on or before May 9, 2005. The City accrued \$65,000 for this liability as of September 30, 2004. No other arbitrage rebate liabilities are anticipated for fiscal year 2004.

Environmental Liability:

The City is aware of various sites contaminated by hazardous materials. The City purchased land in April 1995, which contained property that had been a City landfill at one time and other land adjacent to it that has been determined by the U.S. Environmental Protection Agency to be contaminated. The City is presently negotiating with the Texas Commission on Environmental Quality to determine the potential cost of cleaning up this property. Ultimately, the cost will depend on the use made of the property and estimates of liability for clean up could range from \$100,000 to several million dollars. The City is negotiating to use the land for a parking lot, in which case the liability should be approximately \$100,000. No amounts have been accrued for this potential liability as of September 30, 2004.

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

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

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 have deductibles of \$5,000 per occurrence except for Law Enforcement and Public Officials policies, which has deductibles per occurrence of \$10,000 and \$25,000, respectively.

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 Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for health care and all other liabilities.

Workers Compensation

The City is self-insured for workers compensation. A commercial policy issued by Midwest Employees Casualty Insurance Company pays for excess claims over \$500,000 per individual and \$1,900,000 aggregate retention.

All funds of the City participate in the program and make payments to the 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, 2004, and is based on requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The liability in the Insurance Fund is for the City's health plan.

The City's long-term worker's compensation liability is recorded in the General Long-term Debt Group for governmental funds and in the individual proprietary funds. Current liability amounts are recorded in all funds having incurred charges. The estimates of liability are based on current claims outstanding and the estimate of reserves based on industry experience.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Claim Payments</u>	<u>End of Year Accrual</u>
2003	\$ 753,446	\$ 529,130	\$ (895,394)	\$ 387,182
2004		387,182	(851,631)	322,965

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 \$125,000 for individual and \$3,100,000 in aggregate claims on an annual basis from Ace American Insurance Co.

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

<u>Fiscal Year</u>	<u>Beginning of Year Accrual</u>	<u>Current Year Estimates</u>	<u>Current Year Payments</u>	<u>End of Year Accrual</u>
2003	\$ 637,611	\$ 2,046,942	\$ (2,337,527)	\$ 347,026
2004	347,026	2,350,375	(2,422,377)	275,024

Board of Trustees of the Galveston Wharves

The Galveston Wharves is exposed to various risks of loss related to torts: theft of; damage to and destruction of assets; errors and omissions; and natural disasters, for which the Galveston Wharves carries commercial insurance. The Galveston Wharves is also exposed to the risk of loss resulting from operation of equipment, general, professional and law enforcement liability and workers' liability for which it carries commercial insurance. For the amounts deductible from the loss coverage amounts, the Galveston Wharves is self-insured. The Galveston Wharves has not significantly reduced insurance coverage for the past two years or had settlements that exceeded coverage amounts for the past three fiscal years.

The Galveston Wharves also provides for losses ranging from \$1 million to \$100 million by carrying excess/umbrella liability insurance coverage.

The Galveston Wharves provides all active, regular full-time employees with group life, medical and dental insurance coverage and flexible benefit program. Coverage is obtained through third party insurance carriers.

12 MAJOR CONTRACTS AND COMMITMENTS

As of September 30, 2004, the City has the following major contracts and commitments in force. The following is a summary of these commitments.

Emergency Medical Services Contract:

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical emergencies, and management and system evaluation. Operation and management is under control of the Health District. The City is responsible for operating deficits of this entity for up to \$250,000 per year. Effective March 2005, this deficit amount was reduced to \$225,000 per year.

Purchase of Electric Buses:

In July 2004, the City committed to purchase three electric buses from E-Bus for their transit operations. The total amount of the purchase was \$840,000. As of September 30, 2004, the buses were in the process of being inspected with an expected delivery date of no later than March 2005.

DISCRETELY PRESENTED COMPONENT UNITS:

Park Board of Trustees

Operating Leases

The Park Board is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Park Board's account groups.

The following is a schedule by years of future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year as of September 30, 2004.

Year Ending			25th &		
September 30	2504 Church		Seawall		Total
2005	\$ 87,600	\$	9,000	\$	96,600
2006	87,600				87,600
2007	87,600				87,600
2008	87,600				87,600
Later years	87,600				87,600
	<u>\$ 438,000</u>	<u>\$</u>	<u>9,000</u>	<u>\$</u>	<u>447,000</u>

Obligations to Concessionaire

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

In addition, the Park Board is required to budget \$60,000 annually for advertising and promotions to be used by the Director of Marketing for the contractor, subject to the approval of the Executive Director of the Park Board.

The amounts paid to or on behalf of the contractor may be increased every two years in accordance with incremental increases in the Consumer Price Index. Future payments to or on behalf of the contractor, excluding the effects of increases in the Consumer Price Index, if any, are as follows:

Year Ending September 30	Concession Contract	Advertising and Promotion	Total
2005	\$ 70,000	\$ 60,000	\$ 130,000
2006	70,000	60,000	130,000
2007	70,000	60,000	130,000
2008	70,000	60,000	130,000
2009	70,000	60,000	130,000
Totals	\$ 350,000	\$ 300,000	\$ 650,000

Board of Trustees of the Galveston Wharves

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 million Special Revenue Bonds and \$10,085,730 advanced 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 Revenue Refunding Bonds in the amount of \$8.5 million 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.

The outstanding balances of the 1977 and 1998 Special Revenue Bonds as of December 31, 2003 and 2002, was \$17 million and \$15,900,000, respectively. The Wharves have no obligation for the Special Revenue Bonds beyond the resources provided by the direct financing lease.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2003:

Minimum lease rental payments receivable	
Due within one year	\$ 3,098,731
Due after one year	<u>30,605,606</u>
	<u>33,704,337</u>
Unearned income, direct financing lease	
Due within one year	1,177,169
Due after one year	<u>11,817,100</u>
Net investment in direct financing lease	<u><u>\$ 20,710,068</u></u>

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

Combination Lease – Sales-Type/Operating

The Galveston Wharves leased its Container Terminal for an initial term of twenty years beginning July 21, 1997 and subject to certain conditions, the tenant has a right to extend the term of the lease for four additional consecutive renewal terms of five years each. Subject to certain lease conditions, the tenant has a right to purchase equipment specified in the lease at any time after the last day of the third lease year and before the last day of the fifteenth lease year.

The base rent for the initial twenty year term will be \$500,000 for the first year and \$1 million per year for the first five years of the initial term; thereafter, at the beginning of each five year term the base rent will be increased based upon an escalation factor. The tenant will provide property and liability insurance for losses and damages incurred on the premises or through operating the leased facilities and equipment at the tenant's expense.

As the lessee has the right to acquire equipment at no cost during the initial term of the lease, the Galveston Wharves is reflecting the portion of the lease payments to be applied to the equipment as a sales-type lease and the portion of the lease payment to be applied to ground rent as an operating lease. Based upon the lease payments to be received over the initial term of the lease, the present value of the sales-type lease was determined to be \$8,905,200 and the aggregate amount of the operating lease payments were determined to be \$10,594,800.

The Galveston Wharves in accounting for the sales-type lease reflects the following accounts as of December 31, 2003

Lease payments receivable, current	\$	647,631
Lease payments receivable, long-term		3,415,121
Total		<u>4,062,752</u>
Unrealized income		<u>(737,922)</u>
Net investment in sales-type lease	\$	<u><u>3,324,830</u></u>

Unearned income is amortized and charged to operations over the term of the sales-type lease employing a method that reflects a constant periodic rate of return on the investment in the lease. The amount of unearned income from the sales-type lease recognized was \$253,602 in 2003.

Future Minimum Lease Payments Receivable – Sales-Type Lease

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2004	\$ 647,631
2005	598,737
2006	542,920
2007	488,081
2008	423,564
2009	404,576
2010	385,580
2011	366,588
2012	205,075
	<u>\$ 4,062,752</u>

Railroad Facilities

In 1987, the Galveston wharves contracted with a separate independent entity to provide all railroad services. In 1997, an amendment to the lease agreement extended the lease period to October 2027, increased the annual basic rental from \$79,112 to \$88,359 and increased the lessee's minimum gross volume required to obligate the lessee to pay the annual lease payment from \$2,250,000 to \$2,512,987. For each year that the payment is suspended, the term of the lease is extended one year. Additionally, the lease amendment required the lessee to perform specific repairs and replacement to defined tracks and related facilities within thirty-six months of the effective date of the amendment.

The Galveston Wharves also receives car rental revenue on a per-car basis.

Advance Facilities 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, 2003 and 2002, the amount deferred to future years was approximately \$5.1 million and \$5.3 million, respectively. These amounts are presented as deferred revenues and rentals on the face of the financial statements.

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2003, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Fiscal Year	Future Lease Payments
2004	\$ 2,943,542
2005	2,720,334
2006	2,776,151
2007	2,577,440
2008	2,486,936
After 2008	17,283,331
Total	<u>\$ 30,787,734</u>

13 EMPLOYEE RETIREMENT BENEFITS

A. Plan Descriptions

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 469 employees, Firemen's Relief and Retirement Fund (FRRF) covers 105 employees, and City Employees' Retirement Plan for Police (PERF) covers 153 employees. The City Employees' Retirement Plan for City Employees and the City Employees' Retirement Plan for Police were created by ordinances dated 1949, and 1981, respectively. Subsequent ordinances assign the authority to establish and amend benefit provisions to the Board of Trustees of each plan.

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

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

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

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

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

The Firemen's Relief and Retirement Fund
8610 Seawall Boulevard
Galveston, Texas 77554

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

B. 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. All plans adopted GASB No. 25 and No. 27.

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

	Employees' Retirement Plan	Firemen's Retirement Plan	Police Retirement Plan
Contribution Rates:			
City	6.00%	13.50%	6.00%
Plan Members	6.00%	12.00%	10.00%
Annual Pension Costs (thousands)	\$847	\$652	\$695
Contributions made (thousands)	\$847	\$652	\$695
Actuarial valuation date	01/01/04	01/01/04	01/01/03
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level dollar amount	Level percentage of projected payroll, open	Level percentage of projected payroll, closed
Amortization period	30 Closed	37.6 Open	30 Open
Asset valuation method	Smoothed market value with a five year averaging period	Smoothed market value with a five year averaging period	Market Value
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increase	5.25%	4.50%	3.00%
Inflation rate	3.25%	3.25%	3.25%

C. Board of Trustees of the Galveston Wharves

Plan Description

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

Basis of Accounting

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

Annual Pension Cost – Unaudited

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

	January 1, 2003	January 1, 2002	January 1, 2001
Actuarial value of plan assets	\$ 5,932,540	\$ 7,114,778	\$ 7,793,714
Actuarial accrued liability	<u>7,359,447</u>	<u>7,087,542</u>	<u>7,390,846</u>
Total funding excess (deficit)	<u>\$ (1,426,907)</u>	<u>\$ 27,236</u>	<u>\$ 402,868</u>
Annual covered payroll	<u>\$ 2,512,512</u>	<u>\$ 2,258,320</u>	<u>\$ 2,562,341</u>
Ratio-over (under) funded to covered payroll	<u>-57%</u>	<u>1%</u>	<u>16%</u>

Annual required contributions for years requiring contributions are determined as part of the year’s end actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include an eight percent per annum investment rate of return after administrative expenses and projected salary increases averaging 4.6 percent per year. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a four-year period. Actuarial required contributions contributed to the Plan by the Galveston Wharves during 2003 were \$355,156. At December 31, 2003 The Plan had an unfunded actuarial liability of \$1,426,907.

Defined Contribution Plan

Park Board of Trustees

The Galveston Park Board contributes to the Galveston Park Board Defined Contribution Plan (PBDCP), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Any employee of the Galveston Park Board is eligible to participate in the plan upon attaining the age of twenty-one (21) years and twelve (12) months employment. Mandatory employee contributions vest immediately while contributions made by the Park Board vest upon a graduating scale from twenty percent (20%) after two years of service to 100% after seven (7) years of service. An employee who leaves the employment of the Park Board is entitled to his or her accumulated contributions and the Park Board's accumulated contributions to the extent that vesting rights have been attained. Employees participating in the plan must contribute three percent (3%) of covered compensation while the Park Board is required to contribute five percent (5%) of each eligible employee's covered compensation up to \$30,000 or twenty-five percent (25%) of total salary, whichever is less. If in any year the Park Board makes a contribution that is less than five percent (5%) the employees may reduce their contributions proportionately. If the Park Board makes no contribution, the employees do not have to contribute.

During the year the Galveston Park Board's required and actual contributions amounted to \$77,404, which was five percent (5%) of \$1,488,140, its current-year covered payroll. Employees' required and actual contributions amounted to \$47,063. Total current year payroll was \$2,806,645.

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

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

Deferred Compensation Plan

City of Galveston

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

Park Board of Trustees

The Park Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees to contribute a portion of their salary, before federal taxes, to a retirement account. The Park Board's aim in establishing this tax-favored plan 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 amendments to Section 457 of the Internal Revenue Code effective January 15, 1997, The Plan assets are protected by a trust arrangement from claims on the employer and from any use by the employer other than paying benefits to employees and their beneficiaries in accordance with The Plan. Consequently, pursuant to Government Accounting Standards Board Statement No. 32, The Plan assets are no longer reflected as assets of the Park Board.

Investments for Park Board employees are managed by Public Employee Benefit Services Corporation (PEBSCO) or ICMA Retirement Trust. The participants make a choice of several investment options or a combination thereof.

14 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
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Net Assets

Discretely Presented Component Units

September 30, 2004

(in thousands)

	<i>Governmental activity type</i>		
	Park Board of Trustees of the City of Galveston	Non-major component units	Total
ASSETS			
Cash and temporary investments	\$ 3,159	\$ 176	\$ 3,335
Receivables (net of allowance for uncollectibles)	1,263		1,263
Other assets	102		102
Capital assets (net of accumulated depreciation):	322,581	241	322,822
Total Assets	<u>327,106</u>	<u>417</u>	<u>327,523</u>
LIABILITIES			
Accounts payable and other current liabilities	530	241	771
Non-current liabilities:			
Due within one year	563		563
Due in more than one year	2,190		2,190
Total liabilities	<u>3,283</u>	<u>241</u>	<u>3,524</u>
NET ASSETS			
Invested in capital assets, net of related debt	322,334		322,334
Restricted for:			
Debt service	575		575
Other projects	332		332
Unrestricted	583	176	759
Total net assets	<u>\$ 323,823</u>	<u>\$ 176</u>	<u>\$ 323,999</u>

December 31, 2003

(in thousands)

	<i>Business activity type</i>		
	Board of Trustees of the Galveston Wharves	Non-major component units	Total
ASSETS			
Cash and temporary investments	\$ 13,313	\$ 1,439	\$ 14,752
Receivables (net of allowance for uncollectibles)	2,115	146	2,261
Other assets	2,466	981	3,446
Net investment in direct financing and capital leases	24,035		24,035
Capital assets (net of accumulated depreciation):	60,959	120	61,079
Total Assets	<u>102,887</u>	<u>2,686</u>	<u>105,573</u>
LIABILITIES			
Accounts payable and other current liabilities	12,378	65	12,443
Non-current liabilities:			
Due within one year	3,648	110	3,758
Due in more than one year	38,480	1,225	39,705
Total liabilities	<u>54,506</u>	<u>1,400</u>	<u>55,906</u>
NET ASSETS			
Invested in capital assets, net of related debt	31,648		31,648
Restricted for:			
Debt service	4,512	44	4,555
Unrestricted	12,222	1,242	13,464
Total net assets	<u>\$ 48,382</u>	<u>\$ 1,286</u>	<u>\$ 49,667</u>

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Discretely Presented Component Units - Government activity type

Statement of Activities
For the Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Unit				
Park Board of Trustees of the City of Galveston	\$ 22,518	\$ 4,582	\$ 796	
Total component units	<u>\$ 22,518</u>	<u>\$ 4,582</u>	<u>\$ 796</u>	

General revenues:
Taxes:
Property tax
Sales tax
Hotel tax
Unrestricted investment earnings
Miscellaneous
Capital asset contributions
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

Discretely Presented Component Units - Business activity type

Statement of Activities
For the Year Ended December 31, 2003

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Unit				
Board of Trustees of the Galveston Wharves	\$ 15,780	\$ 13,832	\$ 32	\$ 701
Non-major component units	235	121		
Total component units	<u>\$ 16,015</u>	<u>\$ 13,954</u>	<u>\$ 32</u>	<u>701</u>

General revenues:
Unrestricted investment earnings
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

CITY OF GALVESTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Exhibit 12

Net (Expense) Revenue and Changes in Net Assets

<u>Park Board of Trustees</u>	<u>Non Major Component Units</u>	<u>Totals</u>
\$ (17,139)	\$	\$ (17,139)
<u>(17,139)</u>	<u></u>	<u>(17,139)</u>
	210	210
829		829
4,239		4,239
22		22
480		480
<u>55,915</u>		<u>55,915</u>
<u>61,484</u>	<u>210</u>	<u>61,694</u>
44,345	210	44,555
279,478	(34)	279,444
<u>\$ 323,823</u>	<u>\$ 176</u>	<u>\$ 323,999</u>

Net (Expense) Revenue and Changes in Net Assets

<u>Board of Trustees of the Galveston Wharves</u>	<u>Non-major Component Units</u>	<u>Total</u>
\$ (1,215)	\$	\$ (1,215)
<u>(1,215)</u>	<u>(114)</u>	<u>(1,329)</u>
	25	1,472
<u>1,447</u>	<u>25</u>	<u>1,472</u>
232	(89)	143
48,150	1,374	49,524
<u>\$ 48,382</u>	<u>\$ 1,286</u>	<u>\$ 49,667</u>



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GALVESTON, TEXAS
COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

General Fund

	Budgeted Amounts		Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 10,729,488	\$ 10,729,488	\$ 10,767,293	\$ 37,805
Sales and use taxes	10,370,056	10,370,056	10,362,894	(7,162)
Franchise fees	4,795,913	4,795,913	4,841,443	45,530
Licenses and permits	983,318	983,318	1,179,514	196,196
Intergovernmental	17,611	17,611		(17,611)
Charges for services	1,993,774	1,993,774	1,969,991	(23,783)
Payments in lieu of taxes	551,364	551,364	567,848	16,484
Fines and forfeitures	1,727,752	1,727,752	1,539,303	(188,449)
Earnings on investments	76,266	76,266	97,860	21,594
Other	537,458	537,458	551,484	14,026
Total revenues	<u>31,783,000</u>	<u>31,783,000</u>	<u>31,877,630</u>	<u>94,630</u>
Expenditures:				
Current:				
General government	4,257,744	4,257,744	4,116,227	141,517
Public safety	21,302,448	21,302,448	20,967,030	335,418
Public works and streets	3,030,268	3,030,268	2,728,158	302,110
Culture and recreation	1,378,648	1,378,648	1,371,223	7,425
Planning and community development	1,538,892	1,538,892	1,461,270	77,622
Transportation system	675,000	675,000	658,049	16,951
Total expenditures	<u>32,183,000</u>	<u>32,183,000</u>	<u>31,301,957</u>	<u>881,043</u>
Revenues over (under) expenditures	(400,000)	(400,000)	575,673	975,673
Other financing sources (uses):				
Transfers in	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	
Revenues and other financing sources over (under) expenditures and other financing (uses)	200,000	200,000	1,175,673	975,673
Fund balances at beginning of year	<u>6,657,266</u>	<u>6,657,266</u>	<u>6,657,266</u>	
Fund balances at end of year	<u>\$ 6,857,266</u>	<u>\$ 6,857,266</u>	<u>\$ 7,832,939</u>	<u>\$ 975,673</u>

See Notes to Financial Statements.

Exhibit 13

Island Transit Fund			
Budgeted Amounts			
Original	Final	Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
2,187,500	2,187,500	2,431,043	243,543
608,000	608,000	608,861	861
<u>290,000</u>	<u>290,000</u>	<u>34,268</u>	<u>(255,732)</u>
<u>3,085,500</u>	<u>3,085,500</u>	<u>3,074,172</u>	<u>(11,328)</u>
<u>3,083,597</u>	<u>3,083,597</u>	<u>2,918,527</u>	<u>165,070</u>
<u>3,083,597</u>	<u>3,083,597</u>	<u>2,918,527</u>	<u>165,070</u>
1,903	1,903	155,645	153,742
1,903	1,903	155,645	153,742
<u>194,337</u>	<u>194,337</u>	<u>194,337</u>	
<u>\$ 196,240</u>	<u>\$ 196,240</u>	<u>\$ 349,982</u>	<u>\$ 153,742</u>

A. Legal Compliance – Budgets

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

1. 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.
2. At least seven days prior to the beginning of the fiscal year, the budget is legally enacted by formal approval of the City Council.
3. 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 and the Rosenberg Library Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Fund and Enterprise Funds.
5. Budgets are adopted and accounted for on a basis consistent with generally accepted accounting principles (GAAP), with the following exceptions:
 - a. Initial proceeds and capital outlay amounts related to capital lease purchases are not presented for budgeting purposes. Subsequent lease payments are included in the budgetary process.
 - b. 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.
 - c. Capital and planning grant activities in the Island Transit Special Revenue Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above.
6. Budgeted amounts are reported herein as amended throughout the year. There was one budget amendment during FY 2004.
7. Appropriation balances lapse at year end and may be re-appropriated by City Council. Obligations outstanding at yearend through purchase orders, contracts and other commitments are re-appropriated in the subsequent year.
8. During the fiscal year the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager shall have authority, without Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City. Expenditures may not exceed appropriations at the department category level, as established by policy of the City Council. The legal level of control is at the department category level. Details of expenditures exceeding appropriations follow:

B. Excess of expenditures over appropriations

General Fund

The Emergency Medical Services Department was over budget by \$12,133 primarily due to costs associated with Mardi Gras.

C. Revenue and Expenditure/Expenses Analysis in Comparison to Budget

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

	General Fund			GAAP Basis
	Budgetary Basis	Encumbrances	Unbudgeted Activities	
Revenues	\$ 31,877,630	\$	\$	\$ 31,877,630
Expenditures	<u>31,301,957</u>	<u>106,873</u>	<u>168,033</u>	<u>31,576,863</u>
Revenues over (under) expenditures	575,673	(106,873)	(168,033)	300,767
Other financing sources (uses)	<u>600,000</u>	<u></u>	<u>216,355</u>	<u>816,355</u>
Revenues and other financing sources over (under) expenditures and other financing (uses)	1,175,673	(106,873)	48,322	1,117,122
Fund balance at beginning of year	<u>6,657,266</u>	<u></u>	<u></u>	<u>6,657,266</u>
Fund balance at end of year	<u>\$ 7,832,939</u>	<u>\$ (106,873)</u>	<u>\$ 48,322</u>	<u>\$ 7,774,388</u>
	Major Governmental Fund - Island Transit			
	Budgetary Basis	Unbudgeted Activities		GAAP Basis
Revenues	\$ 3,074,172	\$ 47,200	\$ 3,121,372	
Expenditures	<u>2,918,527</u>	<u>236,000</u>	<u>3,154,527</u>	
Revenues over (under) expenditures	155,645	(188,800)	(33,155)	
Other financing sources (uses)	<u></u>	<u>2,812</u>	<u>2,812</u>	
Revenues and other financing sources over (under) expenditures and other financing (uses)	155,645	(185,988)	(30,343)	
Fund balance at beginning of year	<u>194,337</u>	<u></u>	<u>194,337</u>	
Fund balance at end of year	<u>\$ 349,982</u>	<u>\$ (185,988)</u>	<u>\$ 163,994</u>	

CITY OF GALVESTON, TEXAS

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

January 1, 2004*

Unaudited

Exhibit 15

Page 1 of 2

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
Employees' Retirement Plan for City Employees (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2002	\$ 44,687	\$ 38,132	\$ (6,555)	117.2%	\$ 12,258	53.5%
1/1/2003	\$ 33,118	\$ 35,037	\$ 1,919	94.5%	\$ 13,474	14.2%
1/1/2004	\$ 37,568	\$ 36,426	\$ (1,142)	103.1%	\$ 14,117	-8.1%

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
Firemen's Relief and Retirement Fund (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2000	\$ 24,590	\$ 27,011	\$ 2,421	91.0%	\$ 4,181	57.9%
1/1/2002	\$ 26,400	\$ 32,527	\$ 6,127	81.2%	\$ 4,388	139.6%
1/1/2004	\$ 26,957	\$ 34,723	\$ 7,766	77.6%	\$ 4,814	161.3%

SCHEDULES OF FUNDING PROGRESS						
(dollar amounts in thousands)						
Employees' Retirement Plan for Police (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2001	\$ 25,427	\$ 27,024	\$ 1,597	94.1%	\$ 6,009	26.6%
1/1/2002	\$ 24,469	\$ 29,763	\$ 5,294	82.2%	\$ 6,484	81.6%
1/1/2003	\$ 21,013	\$ 31,607	\$ 10,594	66.5%	\$ 6,803	155.7%

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
 December 31, 2003
 Unaudited

Exhibit 15
Page 2 of 2

THREE YEAR TREND INFORMATION

(dollar amounts in thousands)

Retirement Plan	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement Plan for City Employees	12/31/2001	\$ 721	100%	\$ -
	12/31/2002	\$ 718	100%	\$ -
	12/31/2003	\$ 1,176	87%	\$ 147
Firemen's Retirement and Retirement Fund	12/31/2001	\$ 577	100%	\$ -
	12/31/2002	\$ 616	100%	\$ -
	12/31/2003	\$ 652	100%	\$ -
Employees' Retirement Plan for Police	12/31/2001	\$ 326	100%	\$ -
	12/31/2002	\$ 362	100%	\$ -
	12/31/2003	\$ 695	100%	\$ -

I

The net pension obligation as of December 31, 2003, was effectively brought to zero by the City's biweekly contributions made through July 22, 2004. The plan expects to report a zero net pension obligation on its January 1, 2005 GASB Statement No. 27 disclosures.



GENERAL FUND



CITY OF GALVESTON, TEXAS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2004 AND 2003

Exhibit A-1

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and temporary investments	\$ 4,195,100	\$ 3,566,619
Receivables (net of allowance for uncollectibles):		
Taxes		
Property, including penalty and interest	1,192,730	1,156,608
Sales	1,872,173	1,760,946
Municipal court fines	730,345	414,010
Accounts	1,681,666	1,565,785
Investment earnings	699	309
Due from other funds	1,122,385	857,068
Due from other governments	90,245	17,000
Prepaid expenses	92,751	53,929
Total assets	<u><u>\$ 10,978,094</u></u>	<u><u>\$ 9,392,274</u></u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Salaries and benefits payable	\$ 772,930	\$ 659,232
Accounts payable and other current liabilities	304,686	517,226
Due to other governments	230,378	246,020
Deferred revenue	1,895,712	1,312,530
Total liabilities	<u><u>3,203,706</u></u>	<u><u>2,735,008</u></u>
 FUND BALANCES:		
Reserved for:		
Encumbrances	387,810	494,680
Prepaid expenses	92,751	53,929
Flagship hotel repairs		43,914
Unreserved		
Designated for emergencies	1,526,310	1,326,310
Undesignated	5,767,517	4,738,433
Total fund balances	<u><u>7,774,388</u></u>	<u><u>6,657,266</u></u>
Total liabilities and fund balances	<u><u>\$ 10,978,094</u></u>	<u><u>\$ 9,392,274</u></u>

CITY OF GALVESTON, TEXAS

GENERAL FUND

SCHEDULE OF EXPENDITURES, BUDGET

AND ACTUAL ON BUDGETARY BASIS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit A-2

Page 1 of 4

	2004			2003
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
General government:				
Legislative:				
Personal services	\$ 139,379	\$ 139,378	\$ 1	\$ 143,592
Materials and supplies	13,661	13,322	339	8,893
Contractual services	157,093	136,213	20,880	120,738
Other charges	14,121	9,800	4,321	11,032
Capital outlay	14,565	14,565		
	<u>338,819</u>	<u>313,278</u>	<u>25,541</u>	<u>284,255</u>
Judicial:				
Personal services	416,900	400,448	16,452	384,972
Materials and supplies	9,000	8,220	780	12,913
Contractual services	100,530	57,318	43,212	85,260
Other charges		1,090	(1,090)	100
	<u>526,430</u>	<u>467,076</u>	<u>59,354</u>	<u>483,245</u>
Executive:				
Personal services	308,907	295,040	13,867	264,027
Materials and supplies	12,850	9,396	3,454	12,207
Contractual services	78,081	67,311	10,770	142,847
Other charges	533,750	536,986	(3,236)	560,779
Capital outlay	13,820	13,812	8	17,372
	<u>947,408</u>	<u>922,545</u>	<u>24,863</u>	<u>997,232</u>
City Auditor:				
Personal services	26,780	22,727	4,053	22,914
Materials and supplies	100	60	40	
Contractual services	3,879	3,879		3,137
	<u>30,759</u>	<u>26,666</u>	<u>4,093</u>	<u>26,051</u>
Finance:				
Personal services	787,069	784,803	2,266	810,400
Materials and supplies	8,678	7,506	1,172	13,687
Contractual services	282,679	268,167	14,512	234,659
Other charges	635,955	634,643	1,312	(31,457)
	<u>1,714,381</u>	<u>1,695,119</u>	<u>19,262</u>	<u>1,027,289</u>

CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS - Continued
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit A-2
Page 2 of 4

	2004			2003
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Legal:				
Personal services	\$ 290,642	\$ 290,641	\$ 1	\$ 228,075
Materials and supplies	20,941	19,568	1,373	16,592
Contractual services	30,264	28,782	1,482	27,121
Capital outlay		(716)	716	
	<u>341,847</u>	<u>338,275</u>	<u>3,572</u>	<u>271,788</u>
Personnel:				
Personal services	168,182	168,183	(1)	139,587
Materials and supplies	12,120	11,665	455	12,489
Contractual services	34,758	34,758		39,984
Other charges	3,640	3,595	45	546,064
	<u>218,700</u>	<u>218,201</u>	<u>499</u>	<u>738,124</u>
Taxation:				
Tax collections				
Central Appraisal District	139,400	135,067	4,333	104,286
	<u>139,400</u>	<u>135,067</u>	<u>4,333</u>	<u>104,286</u>
Total general government	<u>4,257,744</u>	<u>4,116,227</u>	<u>141,517</u>	<u>3,932,270</u>
Public safety:				
Police:				
Personal services	10,882,154	10,824,603	57,551	10,638,426
Materials and supplies	272,760	240,914	31,846	179,619
Contractual services	1,307,316	1,245,289	62,027	1,206,958
Other charges	81,825	43,821	38,004	39,787
Capital outlay	719,842	610,535	109,307	805,466
	<u>13,263,897</u>	<u>12,965,162</u>	<u>298,735</u>	<u>12,870,256</u>

CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS - Continued
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit A-2
Page 3 of 4

	2004		Variance with	2003
	Final Budget	Actual (Budgetary Basis)	Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Special events - Beach Party:				
Contractual services	250,000	250,000		323,666
Fire:				
Personal services	6,481,549	6,481,550	(1)	6,212,223
Materials and supplies	82,879	91,326	(8,447)	143,579
Contractual services	326,723	326,723		289,823
Other charges	9,850	7,764	2,086	738
Capital outlay	301,044	286,344	14,700	431,175
	7,202,045	7,193,707	8,338	7,077,538
Emergency medical service:				
Contractual services	215,000	215,733	(733)	162,149
Other services		11,400	(11,400)	
	215,000	227,133	(12,133)	162,149
Emergency management:				
Personal services	63,453	35,954	27,499	63,071
Materials and supplies	2,347	2,347		1,943
Contractual services	29,149	27,337	1,812	211,772
Other charges		(11,167)	11,167	6,699
Capital outlay	276,557	276,557		276,556
	371,506	331,028	40,478	560,041
Total public safety	21,302,448	20,967,030	335,418	20,993,650
Public works and streets:				
Personal services	1,729,868	1,577,933	151,935	1,317,541
Materials and supplies	942,080	811,414	130,666	925,562
Contractual services	337,528	327,971	9,557	329,364
Other charges	20,792	10,840	9,952	244,703
Capital outlay				49,848
Total public works and streets	3,030,268	2,728,158	302,110	2,867,018

CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS - Continued
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit A-2
Page 4 of 4

	2004			2003
	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Actual (Budgetary Basis)
Parks and Recreation				
Personal services	\$ 882,906	\$ 882,162	\$ 744	\$ 846,187
Materials and supplies	145,056	128,080	16,976	127,901
Contractual services	190,804	190,806	(2)	180,179
Other	1,000	413	587	11,695
Capital outlay	158,882	169,762	(10,880)	152,701
Total culture and recreation	<u>1,378,648</u>	<u>1,371,223</u>	<u>7,425</u>	<u>1,318,663</u>
Planning and community development				
Personal services	1,024,634	968,260	56,374	789,729
Materials and supplies	33,226	23,810	9,416	26,808
Contractual services	479,032	467,362	11,670	490,686
Other charges	2,000	1,838	162	1,306
Capital outlay				30,866
Total planning and community development	<u>1,538,892</u>	<u>1,461,270</u>	<u>77,622</u>	<u>1,339,395</u>
Transportation system				
Materials and supplies	1,412	1,412		
Contractual services	553,588	544,435	9,153	603,075
Capital outlay	120,000	112,202	7,798	146,882
Total transportation system	<u>675,000</u>	<u>658,049</u>	<u>16,951</u>	<u>749,957</u>
Total expenditures	<u>\$ 32,183,000</u>	<u>\$ 31,301,957</u>	<u>\$ 881,043</u>	<u>\$ 31,200,953</u>



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

Moody Civic Center – to account for receipt and expenditures designated for special projects.

Street Improvements – to account for receipts and expenditures for street resurfacing projects.

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

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

DEBT SERVICE FUNDS

Debt Service Fund - To account for the accumulation of resources for 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 and payment of Hotel Occupancy Bonds principal, interest and related costs.

CAPITAL PROJECTS FUNDS

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

Public Improvements – to account for capital outlay for general governmental purposes.

Public Safety Improvements – to account for capital outlay for police, fire and emergency purposes.

Drainage and Street Improvements – to account for capital outlay for improving drains and streets financed by Industrial Development Corporation.

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

Capital Projects – City Hall – to account for capital outlay for City Hall building improvements.

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.

CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
September 30, 2004

Special Revenue Funds

	Rosenberg Library	Industrial Development Corporation	Parks and Recreation Improvement	Moody Civic Center
ASSETS				
Cash and temporary investments	\$ 40,741	\$ 864,665	\$ 374,421	\$ 13,924
Receivables (net of allowance for uncollectibles):				
Property taxes	90,702			
Accounts		1,657		
Investment earnings		95	42	
Notes				
Due from other governments		601,843		
Prepaid expenses				
Total assets	\$ 131,443	\$ 1,468,260	\$ 374,463	\$ 13,924
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Salaries payable	\$	\$	\$	\$
Accounts payable and other current liabilities	3,870	224,846		
Due to other funds				
Due to other governments				
Deferred revenue	90,702			
Advances payable				
Total liabilities	94,572	224,846		
FUND BALANCES:				
Reserved for:				
Debt service				
Industrial Development Corporation Bonds		261,578		
Hotel Occupany Tax Bonds				
Other bonded debt				
Unreserved	36,871	981,836	374,463	13,924
Total fund balances	36,871	1,243,414	374,463	13,924
Total liabilities and fund balances	\$ 131,443	\$ 1,468,260	\$ 374,463	\$ 13,924

<i>Debt Service Funds</i>				
Street Improvements	Grants and Government Contract Programs	Project Specific Programs	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund
\$ 19,213	\$ 70,158	\$ 1,299,498	\$ 2,581,616	\$ 2,340,816
			106,905	
	874,907	23,154		
	8,380	143	291	
	15,526			
	1,448,962	605,167		
	2,750			
<u>\$ 19,213</u>	<u>\$ 2,420,683</u>	<u>\$ 1,927,962</u>	<u>\$ 2,688,812</u>	<u>\$ 2,340,816</u>
\$	\$ 17,478	\$	\$	\$
	329,291	596,432	1,511	
	2,456			
	2,112,824	345,513	106,905	
	23,058			
	<u>2,485,107</u>	<u>941,945</u>	<u>108,416</u>	
			1,219,000	
				2,340,816
			1,361,396	
<u>19,213</u>	<u>(64,424)</u>	<u>986,017</u>		
<u>19,213</u>	<u>(64,424)</u>	<u>986,017</u>	<u>2,580,396</u>	<u>2,340,816</u>
<u>\$ 19,213</u>	<u>\$ 2,420,683</u>	<u>\$ 1,927,962</u>	<u>\$ 2,688,812</u>	<u>\$ 2,340,816</u>

CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
September 30, 2004

Capital Projects Funds

	Public Improvements	Public Safety Improvements	Drainage and Street Improvements	Sewer Improvements
ASSETS				
Cash and temporary investments	\$ 1,000	\$ 14,432	\$ 439,325	\$ 1,195,481
Receivables (net of allowance for uncollectibles):				
Property taxes				
Accounts				
Investment earnings			50	135
Notes				
Due from other governments				
Prepaid expenses				
Total assets	<u>\$ 1,000</u>	<u>\$ 14,432</u>	<u>\$ 439,375</u>	<u>\$ 1,195,616</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Salaries payable	\$	\$	\$	\$
Accounts payable and other current liabilities			553	5,080
Due to other funds				
Due to other governments				
Deferred revenue				
Advances payable				
Total liabilities			<u>553</u>	<u>5,080</u>
FUND BALANCES:				
Reserved for:				
Debt service				
Industrial Development Corporation Bonds				
Hotel Occupany Tax Bonds				
Other bonded debt				
Unreserved	1,000	14,432	438,822	1,190,536
Total fund balances	<u>1,000</u>	<u>14,432</u>	<u>438,822</u>	<u>1,190,536</u>
Total liabilities and fund balances	<u>\$ 1,000</u>	<u>\$ 14,432</u>	<u>\$ 439,375</u>	<u>\$ 1,195,616</u>

Exhibit B-1
Page 2 of 2

<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$ 5,856,431	\$	\$ 15,111,721
		197,607
		899,718
2,914		12,050
		15,526
	1,749,459	4,405,431
		2,750
<u>\$ 5,859,345</u>	<u>\$ 1,749,459</u>	<u>\$ 20,644,803</u>
\$ 2,282	\$ 861	\$ 20,621
151,837	890,961	2,204,381
	642,427	642,427
		2,456
	101,333	2,757,277
		23,058
<u>154,119</u>	<u>1,635,582</u>	<u>5,650,220</u>
		1,480,578
		2,340,816
		1,361,396
<u>5,705,226</u>	<u>113,877</u>	<u>9,811,793</u>
<u>5,705,226</u>	<u>113,877</u>	<u>14,994,583</u>
<u>\$ 5,859,345</u>	<u>\$ 1,749,459</u>	<u>\$ 20,644,803</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES

NON MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	<i>Special Revenue Funds</i>			
	Rosenberg Library	Industrial Development Corporation	Parks and Recreation Improvement	Moody Civic Center
REVENUES				
Property tax	\$ 1,210,848	\$	\$	\$
Sales tax		3,326,568		
Hotel occupancy taxes				
Fees and fines				
Intergovernmental				
Charges for services				
Investment earnings	3,305	25,603	4,991	193
Miscellaneous				
Total revenues	<u>1,214,153</u>	<u>3,352,171</u>	<u>4,991</u>	<u>193</u>
EXPENDITURES				
Current:				
General government				
Public Safety				
Culture and recreation	1,169,303	832,194	86,444	
Planning and community development				
Transportation system				
Debt Service:				
Principal				
Interest and other charges				
Capital Outlay:				
General government				
Public safety				
Public works				
Culture and recreation			249,556	
Planning and community development				
Transportation system				
Total expenditures	<u>1,169,303</u>	<u>832,194</u>	<u>336,000</u>	<u></u>
Revenues over (under) expenditures	<u>44,850</u>	<u>2,519,977</u>	<u>(331,009)</u>	<u>193</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of asset			500,000	
Transfers in				
Transfers out		(2,670,306)		
Total other financing sources and uses		<u>(2,670,306)</u>	<u>500,000</u>	
Net change in fund balances	44,850	(150,329)	168,991	193
Fund balances at beginning of year	(7,979)	1,393,743	205,472	13,731
Fund balances at end of year	<u>\$ 36,871</u>	<u>\$ 1,243,414</u>	<u>\$ 374,463</u>	<u>\$ 13,924</u>

Street Improvements	Grants and Government Contract Programs	Project Specific Programs	Debt Service Funds	
			Debt Service Fund	Hotel Occupancy Tax Debt Service Fund
\$	\$	\$	\$ 1,208,819	\$
		225,558		2,046,090
	2,379,757	136,792		
	204,998	57,351		
266	2,974	21,786	39,514	17,233
	632,333	9,712		
<u>266</u>	<u>3,220,062</u>	<u>451,199</u>	<u>1,248,333</u>	<u>2,063,323</u>
		117,068		
	299,159	87,066		
	1,266	63		
	2,911,863	18,884		
		3,280		
			1,173,322	300,000
			1,550,600	1,510,814
		110,664		
		38,000		
		125,343		
	12,545			
	<u>3,224,833</u>	<u>500,368</u>	<u>2,723,922</u>	<u>1,810,814</u>
266	<u>(4,771)</u>	<u>(49,169)</u>	<u>(1,475,589)</u>	<u>252,509</u>
			1,318,525	
			<u>1,318,525</u>	
266	(4,771)	(49,169)	(157,064)	252,509
18,947	(59,653)	1,035,186	2,737,460	2,088,307
<u>\$ 19,213</u>	<u>\$ (64,424)</u>	<u>\$ 986,017</u>	<u>\$ 2,580,396</u>	<u>\$ 2,340,816</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND
BALANCES

NON MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	<i>Capital Projects Funds</i>			
	<u>Public Improvements</u>	<u>Public Safety Improvements</u>	<u>Drainage and Street Improvements</u>	<u>Sewer Improvements</u>
REVENUES				
Property tax	\$	\$	\$	\$
Sales tax				
Hotel occupancy taxes				
Fees and fines				
Intergovernmental				
Charges for services				
Investment earnings		200	3,667	26,111
Miscellaneous				
Total revenues		<u>200</u>	<u>3,667</u>	<u>26,111</u>
EXPENDITURES				
Current:				
General government				
Public safety				
Culture and recreation				
Planning and community development				
Transportation system				
Debt Service:				
Principal			31,504	
Interest and other charges			4,128	
Capital Outlay:				
General government				
Public safety				
Public works			388,195	3,404,852
Culture and recreation				
Planning and community development				
Transportation system				
Total expenditures			<u>423,827</u>	<u>3,404,852</u>
Revenues over (under) expenditures		<u>200</u>	<u>(420,160)</u>	<u>(3,378,741)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of asset				
Transfers in			482,639	869,142
Transfers out				
Total other financing sources and uses			<u>482,639</u>	<u>869,142</u>
Net change in fund balances		200	62,479	(2,509,599)
Fund balances at beginning of year	1,000	14,232	376,343	3,700,135
Fund balances at end of year	<u>\$ 1,000</u>	<u>\$ 14,432</u>	<u>\$ 438,822</u>	<u>\$ 1,190,536</u>

<u>Capital Projects - City Hall</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$	\$	\$	\$ 2,419,667
			3,326,568
			2,046,090
			225,558
		3,426,381	5,942,930
			262,349
494	68,630		214,967
	300		642,345
<u>494</u>	<u>68,930</u>	<u>3,426,381</u>	<u>15,080,474</u>
			117,068
			386,225
			2,089,270
			2,930,747
			3,280
			1,504,826
			3,065,542
11			110,675
			38,000
	1,160,503		5,078,893
	1,653,619		1,903,175
			12,545
	154,533	3,317,037	3,471,570
<u>11</u>	<u>2,968,655</u>	<u>3,317,037</u>	<u>20,711,816</u>
<u>483</u>	<u>(2,899,725)</u>	<u>109,344</u>	<u>(5,631,342)</u>
			500,000
			2,670,306
(66,964)			(2,737,270)
<u>(66,964)</u>			<u>433,036</u>
(66,481)	(2,899,725)	109,344	(5,198,306)
66,481	8,604,951	4,533	20,192,889
<u>\$</u>	<u>\$ 5,705,226</u>	<u>\$ 113,877</u>	<u>\$ 14,994,583</u>

CITY OF GALVESTON, TEXAS

SPECIAL REVENUE FUNDS

Exhibit B-3

ISLAND TRANSIT FUND

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Budgetary Basis Actual		Actual
Revenues				
Intergovernmental-Federal	\$ 1,347,500	\$ 1,582,560	\$ 235,060	\$ 1,457,959
Intergovernmental-State	350,000	358,483	8,483	348,475
Intergovernmental-Local	490,000	490,000		550,000
Fare box revenues	265,000	240,839	(24,161)	220,625
Charges for services	343,000	368,022	25,022	341,063
Other	290,000	34,268	(255,732)	63,778
Total operating revenues	3,085,500	3,074,172	(11,328)	2,981,900
Expenditures				
Current				
Transportation system:				
Transit system:				
Personal services	1,203,531	1,174,992	28,539	1,190,351
Materials and supplies	214,630	214,630		216,909
Contractual services	71,915	71,915		43,795
Other charges	56,584	56,584		52,500
Total transit system expenditures	1,546,660	1,518,121	28,539	1,503,555
Maintenance:				
Personal services	748,778	694,049	54,729	665,460
Materials and supplies	226,383	216,233	10,150	180,096
Contractual services	61,163	59,796	1,367	14
Other charges	(4,400)	(33,214)	28,814	(15,795)
Total maintenance expenditures	1,031,924	936,864	95,060	829,775
Administration:				
Personal services	256,147	256,148	(1)	223,398
Materials and supplies	73,278	66,022	7,256	42,281
Contractual services	145,572	117,803	27,769	87,301
Other charges	30,016	23,569	6,447	23,834
Total administration expenditures	505,013	463,542	41,471	376,814
Total transportation system	3,083,597	2,918,527	165,070	2,710,144
Revenues and other sources over (under) expenditures	\$ 1,903	155,645	\$ 153,742	\$ 271,756
Fund balance at beginning of year (budgetary basis)		194,337		
Fund balance at end of year (budgetary basis)		\$ 349,982		

CITY OF GALVESTON, TEXAS

SPECIAL REVENUE FUNDS

ROSENBERG LIBRARY FUND

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit B-4

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
Revenues:				
Property taxes - current	\$ 1,169,303	\$ 1,170,979	\$ 1,676	\$ 1,061,783
Property taxes - MUD #29 contract				(23,295)
Property taxes - delinquent		39,869	39,869	33,955
Interest income		3,305	3,305	862
Total revenues	1,169,303	1,214,153	44,850	1,073,305
Expenditures:				
Current:				
Culture and recreation				
Payments to Rosenberg Library	1,169,303	1,169,303		1,085,155
Revenues over (under) expenditures		44,850	44,850	(11,850)
Fund balance (deficit) at beginning of year	(7,979)	(7,979)		3,871
Fund balance (deficit) at end of year	\$ (7,979)	\$ 36,871	\$ 44,850	\$ (7,979)

CITY OF GALVESTON, TEXAS

DEBT SERVICE FUND

Exhibit B-5

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE-BUDGET AND ACTUAL**

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE ACTUAL TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>2004</u>			<u>2003</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Property taxes	\$ 1,153,167	\$ 1,208,819	\$ 55,652	\$ 1,354,166
Earnings on investments	125,000	39,514	(85,486)	56,380
Other revenues				79,854
Total revenues	<u>1,278,167</u>	<u>1,248,333</u>	<u>(29,834)</u>	<u>1,490,400</u>
Expenditures:				
Principal retirement	1,173,322	1,173,322		1,154,500
Interest and fiscal agent fees	<u>1,498,370</u>	<u>1,550,600</u>	<u>(52,230)</u>	<u>1,569,142</u>
Total expenditures	<u>2,671,692</u>	<u>2,723,922</u>	<u>(52,230)</u>	<u>2,723,642</u>
Revenues over (under) expenditures	(1,393,525)	(1,475,589)	(82,064)	(1,233,242)
Other financing sources:				
Operating transfers in:				
Industrial Development Corporation	<u>1,318,525</u>	<u>1,318,525</u>		<u>1,320,080</u>
Revenues and other financing sources over (under) expenditures and other financing (uses)	(75,000)	(157,064)	(82,064)	86,838
Fund balance at beginning of year	<u>2,737,460</u>	<u>2,737,460</u>		<u>2,650,622</u>
Fund balance at end of year	<u>\$ 2,662,460</u>	<u>\$ 2,580,396</u>	<u>\$ (82,064)</u>	<u>\$ 2,737,460</u>

OTHER ENTERPRISE FUNDS

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

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

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

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

Golf Course – to account for the provision of a municipal golf course including but not limited to administration, operations, maintenance, financing and related debt services.

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2004

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
ASSETS			
Current assets:			
Cash and temporary investments	\$ 537,446	\$ 113,659	\$ 219,372
Receivables (net of allowance for uncollectibles)			
Accounts	676,217	297,096	52,141
Investment earnings	254	8	24
Inventories			
Prepaid expenses			
Restricted assets to be used to pay current portion of long term liabilities	183,867		
Total current assets	<u>1,397,784</u>	<u>410,763</u>	<u>271,537</u>
Non-current assets:			
Deferred charges	19,443		
Capital assets, net of depreciation where applicable	1,607,987	615,037	5,038,045
Total non-current assets	<u>1,627,430</u>	<u>615,037</u>	<u>5,038,045</u>
Total assets	<u>3,025,214</u>	<u>1,025,800</u>	<u>5,309,582</u>
LIABILITIES			
Current Liabilities:			
Salaries payable	41,208	3,752	8,754
Accounts payable and other current liabilities	305,639	18,747	8,980
Deferred revenue	6,425		33,209
Compensated absences	12,980	2,720	
Bonds, notes and loans payable		54,409	49,611
Current portion of long term liabilities payable from restricted assets	100,501		
Total current liabilities	<u>466,753</u>	<u>79,628</u>	<u>100,554</u>
Non-current liabilities:			
Contracts, bonds, and capital leases payable	820,000	222,831	266,822
Compensated absences	135,274	57,445	39,298
Claims and judgments	36,696		16,931
Total non-current liabilities	<u>991,970</u>	<u>280,276</u>	<u>323,051</u>
Total liabilities	<u>1,458,723</u>	<u>359,904</u>	<u>423,605</u>
NET ASSETS			
Invested in capital assets, net of related debt	864,486	392,206	4,771,223
Unrestricted	702,005	273,690	114,754
Total net assets	<u>\$ 1,566,491</u>	<u>\$ 665,896</u>	<u>\$ 4,885,977</u>

Exhibit C-1

<u>Golf Course</u>	<u>Total</u>
\$ 17,354	\$ 887,831
	1,025,454
	286
30,850	30,850
19,692	19,692
	<u>183,867</u>
<u>67,896</u>	<u>2,147,980</u>
	19,443
<u>2,592,315</u>	<u>9,853,384</u>
<u>2,592,315</u>	<u>9,872,827</u>
<u>2,660,211</u>	<u>12,020,807</u>
14,906	68,620
10,807	344,173
	39,634
	15,700
	104,020
	<u>100,501</u>
<u>25,713</u>	<u>672,648</u>
	1,309,653
101,705	333,722
6,300	59,927
<u>108,005</u>	<u>1,703,302</u>
<u>133,718</u>	<u>2,375,950</u>
2,592,315	8,620,230
(65,822)	1,024,627
<u>\$ 2,526,493</u>	<u>\$ 9,644,857</u>

CITY OF GALVESTON, TEXAS

**COMBINING STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET ASSETS - NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	Sanitation Services	Drainage Utility	Airport
OPERATING REVENUES			
Charges for services	\$ 3,605,326	\$ 746,312	\$ 813,314
Other	985	33,411	39,999
Total operating revenues	<u>3,606,311</u>	<u>779,723</u>	<u>853,313</u>
OPERATING EXPENSES			
Personal services	1,358,005	337,037	352,746
Materials and supplies	41,974	13,143	76,087
Contractual services	1,106,317	221,744	88,843
Other charges	89,287	52,792	128,167
Administrative service charge	160,000	36,000	41,000
Depreciation	378,262	2,319	238,828
Total operating expenses	<u>3,133,845</u>	<u>663,035</u>	<u>925,671</u>
Operating income (loss)	<u>472,466</u>	<u>116,688</u>	<u>(72,358)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest earned	6,488	430	6,484
Interest expense	(33,300)		(24,434)
Gain (loss) on retirement of capital asset	(129,756)		
Total nonoperating revenues (expenses)	<u>(156,568)</u>	<u>430</u>	<u>(17,950)</u>
Income (loss) before operating transfers and capital contributions	315,898	117,118	(90,308)
Capital contributions		206,425	1,909,920
Operating transfers in (out)	(200,000)		
Change in net assets	<u>115,898</u>	<u>323,543</u>	<u>1,819,612</u>
Net assets at beginning of year	1,450,593	342,353	3,066,365
Net assets at end of year	<u>\$ 1,566,491</u>	<u>\$ 665,896</u>	<u>\$ 4,885,977</u>

Exhibit C-2

<u>Golf Course</u>	<u>Total</u>
\$ 918,099	\$ 6,083,051
9,758	84,153
<u>927,857</u>	<u>6,167,204</u>
569,927	2,617,715
227,336	358,540
205,180	1,622,084
36,951	307,197
	237,000
75,892	695,301
<u>1,115,286</u>	<u>5,837,837</u>
<u>(187,429)</u>	<u>329,367</u>
40	13,442
	(57,734)
	(129,756)
<u>40</u>	<u>(174,048)</u>
(187,389)	155,319
250,876	2,367,221
1,004,000	804,000
<u>1,067,487</u>	<u>3,326,540</u>
1,459,006	6,318,317
<u>\$ 2,526,493</u>	<u>\$ 9,644,857</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	Sanitation Services	Drainage Utility	Airport
Cash flows from operating activities:			
Cash received from customers	\$ 3,488,330	\$ 775,054	\$ 870,086
Cash payments to suppliers for goods and services	(1,102,410)	(306,861)	(81,885)
Cash payments to employees	(1,337,999)	(339,088)	(355,356)
Administrative service charge	(160,000)		(41,000)
Net cash provided by (used for) operating activities	<u>887,921</u>	<u>129,105</u>	<u>391,845</u>
Cash flows from noncapital and related financing activities:			
Due from other funds	(474,505)		
Interfund transfers	(200,000)		
Net cash provided by (used for) noncapital and related financing activities	<u>(674,505)</u>		
Cash flows from capital and related financing activities:			
Proceeds from capital leases		285,436	
Payments for capital acquisitions	(524,161)	(442,086)	(2,602,993)
Principal payments on long term contracts	(90,000)		
Principal paid on capital leases		(8,196)	(46,197)
Interest paid on capital leases			(24,434)
Contributed capital		206,425	1,909,920
Net cash provided by (used for) capital and related financing activities	<u>(614,161)</u>	<u>41,579</u>	<u>(763,704)</u>
Cash flows from investing activities:			
Interest on investments	7,578	421	6,497
Net increase (decrease) in equity in pooled cash and investments	(393,167)	171,105	(365,362)
Cash and temporary investments, beginning of year	<u>1,114,480</u>	<u>(57,446)</u>	<u>584,734</u>
Cash and temporary investments, end of year	<u>\$ 721,313</u>	<u>\$ 113,659</u>	<u>\$ 219,372</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$ 537,446	\$ 113,659	\$ 219,372
Restricted	183,867		
Cash and temporary investments, end of year	<u>\$ 721,313</u>	<u>\$ 113,659</u>	<u>\$ 219,372</u>

Exhibit C-3
Page 1 of 2

Golf Course		Totals	
\$ 927,748		\$ 6,061,218	
(485,994)		(1,977,150)	
(582,879)		(2,615,322)	
		(201,000)	
(141,125)		1,267,746	
(832,457)		(1,306,962)	
1,004,000		804,000	
171,543		(502,962)	
		285,436	
(263,980)		(3,833,220)	
		(90,000)	
		(54,393)	
		(24,434)	
250,876		2,367,221	
(13,104)		(1,349,390)	
40		14,536	
17,354		(570,070)	
		1,641,768	
\$ 17,354		\$ 1,071,698	
\$ 17,354		\$ 887,831	
		183,867	
\$ 17,354		\$ 1,071,698	

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS - Continued
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 472,466	\$ 116,688	\$ (72,358)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	378,262	2,319	238,828
(Increase) decrease in accounts receivable	(32,952)	(4,669)	(4,566)
Decrease in interfund receivable			
(Increase) decrease in deferred charges	5,545		
(Increase) decrease in inventory and prepaid			208,880
Increase (decrease) in salaries and benefits payable	16,443	(8,716)	2,287
Increase (decrease) in accounts payable	73,545	16,815	2,332
Increase (decrease) in interfund payable	(33,300)		
Increase (decrease) in in customer deposits			21,339
Increase (decrease) in estimated liability claims	(18,215)		(9,450)
Increase (decrease) in compensated absences payable	26,127	6,668	4,553
Total adjustments	<u>415,455</u>	<u>12,417</u>	<u>464,203</u>
Net cash provided by operating activities	<u>\$ 887,921</u>	<u>\$ 129,105</u>	<u>\$ 391,845</u>

Exhibit C-3
Page 2 of 2

<u>Golf Course</u>	<u>Totals</u>
\$ (187,429)	\$ 329,367
75,892	695,301
(108)	(42,295)
	5,545
(9,037)	199,843
1,091	11,105
(7,490)	85,202
	(33,300)
	21,339
(1,406)	(29,071)
(12,638)	24,710
<u>46,304</u>	<u>938,379</u>
<u>\$ (141,125)</u>	<u>\$ 1,267,746</u>

CITY OF GALVESTON, TEXAS
WATERWORKS SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit C-4

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services:				
Water sales	\$ 10,485,904	\$ 9,825,881	\$ (660,023)	\$ 9,455,478
Tap fees	211,000	267,121	56,121	161,808
Other	25,500	11,910	(13,590)	75,329
Total operating revenues	<u>10,722,404</u>	<u>10,104,912</u>	<u>(617,492)</u>	<u>9,692,615</u>
OPERATING EXPENSES:				
Personal services	1,550,905	1,478,278	72,627	1,286,960
Materials and supplies	566,983	566,982	1	423,074
Contractual services	428,032	619,156	(191,124)	654,621
Other charges	344,061	150,373	193,688	166,471
Surface water contract	5,339,786	5,290,001	49,785	5,155,941
Administrative service charge	503,000	503,000		420,900
Depreciation	1,195,662	1,195,662		1,107,251
Total operating expenses	<u>9,928,429</u>	<u>9,803,452</u>	<u>124,977</u>	<u>9,215,218</u>
Operating income (loss)	<u>793,975</u>	<u>301,460</u>	<u>(492,515)</u>	<u>477,397</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest earned	90,000	25,202	(64,798)	204,753
Interest expense	(170,138)	(167,373)	2,765	(182,673)
Gain (loss) on retirement of capital asset		4,600	4,600	
Amortization of bond issuance costs	(111,088)	(115,113)	(4,025)	(118,429)
Total nonoperating revenues (expenses)	<u>(191,226)</u>	<u>(252,684)</u>	<u>(61,458)</u>	<u>(96,349)</u>
Income (loss) before operating transfers	602,749	48,776	(553,973)	381,048
Operating transfer in (out)	(200,000)	(1,208,032)	(1,008,032)	(200,000)
Change in net assets	402,749	(1,159,256)	(1,562,005)	181,048
Net assets at beginning of year	23,802,094	23,802,094		23,621,046
Net assets at end of year	<u>\$ 24,204,843</u>	<u>\$ 22,642,838</u>	<u>\$ (1,562,005)</u>	<u>\$ 23,802,094</u>

CITY OF GALVESTON, TEXAS
SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit C-5

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services:				
Sewer charges	\$ 8,327,913	\$ 7,805,928	\$ (521,985)	\$ 7,302,741
Tap fees	48,000	62,985	14,985	32,727
Waste hauler fees	114,000	133,762	19,762	90,105
Other	10,000	17,032	7,032	21,174
Total operating revenues	<u>8,499,913</u>	<u>8,019,707</u>	<u>(480,206)</u>	<u>7,446,747</u>
OPERATING EXPENSES:				
Personal services	3,171,164	2,524,738	646,426	2,904,034
Materials and supplies	1,228,360	1,028,198	200,162	948,780
Contractual services	923,535	844,095	79,440	917,817
Other charges	252,439	245,716	6,723	200,417
Administrative service charge	307,000	307,000		386,600
Depreciation	1,403,000	1,420,339	(17,339)	1,263,319
Total operating expenses	<u>7,285,498</u>	<u>6,370,086</u>	<u>915,412</u>	<u>6,620,967</u>
Operating income (loss)	<u>1,214,415</u>	<u>1,649,621</u>	<u>435,206</u>	<u>825,780</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest earned	90,000	140,813	50,813	131,742
Interest expense	(978,043)	(949,483)	28,560	(689,012)
Gain (loss) on retirement of capital asset		380	380	(56,921)
Amortization of bond issuance costs	(47,392)	(42,887)	4,505	(39,473)
Total nonoperating revenues (expenses)	<u>(935,435)</u>	<u>(851,177)</u>	<u>84,258</u>	<u>(653,664)</u>
Income (loss) before operating transfers and capital contributions	278,980	798,444	519,464	172,116
Capital contributions		3,114,357	3,114,357	731,755
Operating transfer in (out)	(200,000)	(195,968)	4,032	(200,000)
Change in net assets	78,980	3,716,833	3,637,853	703,871
Net assets at beginning of year	36,121,218	36,121,218		35,417,347
Net assets at end of year	<u>\$ 36,200,198</u>	<u>\$ 39,838,051</u>	<u>\$ 3,637,853</u>	<u>\$ 36,121,218</u>

CITY OF GALVESTON, TEXAS
SANITATION SERVICES ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit C-6

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services	\$ 3,700,000	\$ 3,605,326	\$ (94,674)	\$ 3,549,914
Other	2,000	985	(1,015)	2,291
Total operating revenues	3,702,000	3,606,311	(95,689)	3,552,205
OPERATING EXPENSES:				
Personal services	1,563,076	1,358,005	205,071	1,151,341
Materials and supplies	46,350	41,974	4,376	30,234
Contractual services	1,174,325	1,106,317	68,008	1,033,903
Other charges	101,578	89,287	12,291	54,972
Administrative service charge	160,000	160,000		200,000
Depreciation	378,262	378,262		364,385
Total operating expenses	3,423,591	3,133,845	289,746	2,834,835
Operating income (loss)	278,409	472,466	194,057	717,370
NON-OPERATING REVENUES (EXPENSES):				
Interest earned		6,488	6,488	5,656
Interest expense		(33,300)	(33,300)	(11,558)
Gain (loss) on retirement of capital asset		(129,756)	(129,756)	
Total nonoperating revenues (expenses)		(156,568)	(156,568)	(5,902)
Income (loss) before operating transfers:	278,409	315,898	37,489	711,468
Operating transfer in (out)	(200,000)	(200,000)		(200,000)
Changes in net assets	78,409	115,898	37,489	511,468
Net assets at beginning of year	1,450,593	1,450,593		939,125
Net assets at end of year	\$ 1,529,002	\$ 1,566,491	\$ 37,489	\$ 1,450,593

CITY OF GALVESTON, TEXAS
DRAINAGE UTILITY ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit C-7

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services	\$ 846,957	\$ 746,312	\$ (100,645)	\$ 733,659
Other	6,000	33,411	27,411	15,162
Total operating revenues	<u>852,957</u>	<u>779,723</u>	<u>(73,234)</u>	<u>748,821</u>
OPERATING EXPENSES:				
Personal services	388,404	337,037	51,367	514,599
Materials and supplies	21,966	13,143	8,823	15,693
Contractual services	223,355	221,744	1,611	207,644
Other charges	108,260	52,792	55,468	6,206
Administrative service charge	36,000	36,000		35,000
Depreciation		2,319	(2,319)	
Total operating expenses	<u>777,985</u>	<u>663,035</u>	<u>114,950</u>	<u>779,142</u>
Operating income (loss)	<u>74,972</u>	<u>116,688</u>	<u>41,716</u>	<u>(30,321)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest earned	<u>300</u>	<u>430</u>	<u>130</u>	<u>197</u>
Income (loss) before capital contributions	75,272	117,118	41,846	(30,124)
Capital contributions		206,425	206,425	
Changes in net assets	<u>75,272</u>	<u>323,543</u>	<u>248,271</u>	<u>(30,124)</u>
Net assets at beginning of year	342,353	342,353		372,477
Net assets at end of year	<u>\$ 417,625</u>	<u>\$ 665,896</u>	<u>\$ 248,271</u>	<u>\$ 342,353</u>

CITY OF GALVESTON, TEXAS

AIRPORT ENTERPRISE FUND

SCHEDULE OF REVENUES, EXPENSES AND

CHANGES IN NET ASSETS - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit C-8

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services:				
Building rental	\$ 182,670	\$ 161,197	\$ (21,473)	\$ 177,891
Hangar rental	73,430	70,945	(2,485)	72,232
Terminal space rental	53,380	52,642	(738)	51,184
Land lease rental	455,134	476,339	21,205	467,710
Oil company receipts	57,526	52,191	(5,335)	57,516
Other	5,000	39,999	34,999	5,133
Total operating revenues	<u>827,140</u>	<u>853,313</u>	<u>26,173</u>	<u>831,666</u>
OPERATING EXPENSES:				
Personal services	304,118	352,746	(48,628)	324,571
Materials and supplies	85,814	76,087	9,727	84,203
Contractual services	80,630	88,843	(8,213)	90,774
Other charges	107,181	128,167	(20,986)	113,479
Administrative service charge	41,000	41,000		35,000
Depreciation	170,000	238,828	(68,828)	205,061
Total operating expenses	<u>788,743</u>	<u>925,671</u>	<u>(136,928)</u>	<u>853,088</u>
Operating income (loss)	<u>38,397</u>	<u>(72,358)</u>	<u>(110,755)</u>	<u>(21,422)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest earned	8,700	6,484	(2,216)	7,886
Interest expense	(24,500)	(24,434)	66	(27,612)
Total nonoperating revenues (expenses)	<u>(15,800)</u>	<u>(17,950)</u>	<u>(2,150)</u>	<u>(19,726)</u>
Income (loss) before capital contributions	22,597	(90,308)	(112,905)	(41,148)
Capital contributions		1,909,920	1,909,920	630,000
Changes in net assets	<u>22,597</u>	<u>1,819,612</u>	<u>1,797,015</u>	<u>588,852</u>
Net assets at beginning of year	3,066,365	3,066,365		2,477,513
Net assets at end of year	<u>\$ 3,088,962</u>	<u>\$ 4,885,977</u>	<u>\$ 1,797,015</u>	<u>\$ 3,066,365</u>

CITY OF GALVESTON, TEXAS

GOLF COURSE ENTERPRISE FUND

SCHEDULE OF REVENUES, EXPENSES AND

CHANGES IN NET ASSETS - BUDGET AND ACTUAL

FOR THE YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Exhibit C-9

	2004		Variance with Final Budget - Positive (Negative)	2003
	Final Budget	Actual		Actual
OPERATING REVENUES:				
Charges for sales and services	\$ 1,186,000	\$ 918,099	\$ (267,901)	\$ 944,541
Other		9,758	9,758	1,670
Total operating revenues	<u>1,186,000</u>	<u>927,857</u>	<u>(258,143)</u>	<u>946,211</u>
OPERATING EXPENSES:				
Personal services	598,324	569,927	28,397	594,833
Materials and supplies	247,550	227,336	20,214	234,171
Contractual services	233,125	205,180	27,945	234,470
Other charges	37,001	36,951	50	22,036
Depreciation	70,000	75,892	(5,892)	69,112
Total operating expenses	<u>1,186,000</u>	<u>1,115,286</u>	<u>70,714</u>	<u>1,154,622</u>
Operating income (loss)		<u>(187,429)</u>	<u>(187,429)</u>	<u>(208,411)</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest earned		<u>40</u>	<u>40</u>	
Income (loss) before operating transfers and capital contributions		(187,389)	(187,389)	(208,411)
Capital contributions		250,876	250,876	
Operating transfer in		1,004,000	1,004,000	150,000
Changes in net assets		<u>1,067,487</u>	<u>1,067,487</u>	<u>(58,411)</u>
Net assets at beginning of year	<u>1,459,006</u>	<u>1,459,006</u>		<u>1,517,417</u>
Net assets at end of year	<u>\$ 1,459,006</u>	<u>\$ 2,526,493</u>	<u>\$ 1,067,487</u>	<u>\$ 1,459,006</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.

Insurance – to account for City insurance costs and financing through charges to user departments.

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

CITY OF GALVESTON, TEXAS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2003

	<u>Central Garage</u>	<u>Insurance</u>	<u>Central Services</u>
ASSETS			
Current Assets:			
Cash and temporary investments	\$ 432,407	\$ 1,438,420	\$ 51,010
Receivables (net of allowance for uncollectibles)			
Accounts	116,182	38,309	
Investment earnings	49	189	
Due from other governments			
Inventories	191,701		8,805
Prepaid Expenses		169,201	6,224
Total current assets	<u>740,339</u>	<u>1,646,119</u>	<u>66,039</u>
Non-Current Assets:			
Capital assets, net of depreciation where applicable	<u>194,430</u>		<u>789,004</u>
Total assets	<u>934,769</u>	<u>1,646,119</u>	<u>855,043</u>
LIABILITIES			
Current Liabilities:			
Salaries payable	22,962	4,484	16,599
Accounts payable and other current liabilities	86,537	161,111	26,126
Current portion of long term liabilities		275,024	29,646
Total current liabilities	<u>109,499</u>	<u>440,619</u>	<u>72,371</u>
Non-Current Liabilities:			
Non-current portion of long term liabilities	<u>112,906</u>	<u>33,889</u>	<u>85,018</u>
Total liabilities	<u>222,405</u>	<u>474,508</u>	<u>157,389</u>
NET ASSETS			
Invested in capital assets, net of related debt	194,430		764,523
Unrestricted	517,934	1,171,611	(66,869)
Total net assets	<u>\$ 712,364</u>	<u>\$ 1,171,611</u>	<u>\$ 697,654</u>

Exhibit D-1

Totals	
2004	2003
\$ 1,921,837	\$ 989,445
154,491	155,557
238	33
	8,833
200,506	129,896
175,425	153,248
<u>2,452,497</u>	<u>1,437,012</u>
<u>983,434</u>	<u>817,214</u>
<u>3,435,931</u>	<u>2,254,226</u>
44,045	31,810
273,774	308,446
304,670	408,330
<u>622,489</u>	<u>748,586</u>
<u>231,813</u>	<u>203,663</u>
<u>854,302</u>	<u>952,249</u>
958,953	736,430
1,622,676	565,547
<u>\$ 2,581,629</u>	<u>\$ 1,301,977</u>

CITY OF GALVESTON, TEXAS**INTERNAL SERVICE FUNDS****COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS****FOR THE YEAR ENDED SEPTEMBER 30, 2004****WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

	<u>Central Garage</u>	<u>Insurance</u>	<u>Central Services</u>
REVENUES			
Charges for services	\$ 2,725,089	\$ 5,785,384	\$ 1,550,121
Miscellaneous	48,326	3,648	29,597
Total operating revenues	<u>2,773,415</u>	<u>5,789,032</u>	<u>1,579,718</u>
OPERATING EXPENSES			
Personal services	773,903	139,838	559,492
Materials and supplies	1,200,717	2,602	319,239
Contractual services	291,924	104,109	564,309
Other charges	280,938		35,361
Insurance policies in force		3,329,517	
Insurance claims and expenses		999,114	
Uninsured claims		224,223	
Depreciation	13,545		112,232
Total operating expenses	<u>2,561,027</u>	<u>4,799,403</u>	<u>1,590,633</u>
Operating income (loss)	<u>212,388</u>	<u>989,629</u>	<u>(10,915)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	5,951	17,690	1,288
Interest expense			(3,343)
Gain on retirement of capital asset			
Total non-operating revenues (expenses)	<u>5,951</u>	<u>17,690</u>	<u>(2,055)</u>
Income (loss) before transfers	<u>218,339</u>	<u>1,007,319</u>	<u>(12,970)</u>
Transfers in			66,964
Change in net assets	<u>218,339</u>	<u>1,007,319</u>	<u>53,994</u>
Net assets at beginning of year	<u>494,025</u>	<u>164,292</u>	<u>643,660</u>
Net assets at end of year	<u>\$ 712,364</u>	<u>\$ 1,171,611</u>	<u>\$ 697,654</u>

Exhibit D-2

Totals	
2004	2003
\$ 10,060,594	\$ 9,700,837
81,571	330,498
<u>10,142,165</u>	<u>10,031,335</u>
1,473,233	1,399,126
1,522,558	1,383,087
960,342	993,964
316,299	275,271
3,329,517	2,472,970
999,114	2,117,152
224,223	275,257
125,777	104,852
<u>8,951,063</u>	<u>9,021,679</u>
<u>1,191,102</u>	<u>1,009,656</u>
24,929	15,859
(3,343)	(6,640)
	19,530
<u>21,586</u>	<u>28,749</u>
1,212,688	1,038,405
66,964	
<u>1,279,652</u>	<u>1,038,405</u>
<u>1,301,977</u>	<u>263,572</u>
<u>\$ 2,581,629</u>	<u>\$ 1,301,977</u>

CITY OF GALVESTON, TEXAS

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Central Garage</u>	<u>Insurance</u>	<u>Central Services</u>
Cash flows from operating activities:			
Cash received from customers	\$ 2,781,115	\$ 5,791,231	\$ 1,579,718
Cash payments to suppliers for goods and services	(1,885,836)	(4,724,952)	(970,519)
Cash payments to employees	(738,547)	(122,994)	(516,865)
Other operating revenue			
Net cash provided by (used for)			
operating activities	<u>156,732</u>	<u>943,285</u>	<u>92,334</u>
Cash flows from noncapital and related financing activities:			
Interfund transfers			66,964
Cash flows from capital and and related financing activities:			
Proceeds from sale of capital assets			
Payment for capital acquisitions	(138,682)		(153,318)
Principal paid on capital leases			(56,304)
Interest paid on capital leases			(3,343)
Net cash provided by (used for) capital and			
related financing activities	<u>(138,682)</u>		<u>(212,965)</u>
Cash flows from investing activities:			
Interest on investments	<u>5,935</u>	<u>17,501</u>	<u>1,288</u>
Net increase (decrease) in cash and temporary investments	23,985	960,786	(52,379)
Cash and temporary investments, beginning of year	408,422	477,634	103,389
Cash and temporary investments, end of year	<u>\$ 432,407</u>	<u>\$ 1,438,420</u>	<u>\$ 51,010</u>
Reconciliation of operating income (loss)			
to net cash provided by (used for) by operating activities			
Operating income (loss)	<u>\$ 212,388</u>	<u>\$ 989,629</u>	<u>\$ (10,915)</u>
Adjustments to reconcile operating			
income to net cash provided by (used for)			
operating activities:			
Depreciation expense	13,545		112,232
Decrease (increase) in accounts receivable	7,701	(2,199)	
Decrease in deposits			
Decrease (increase) in inventory and prepaid items	(70,263)	(20,360)	(2,163)
Increase (decrease) in salaries payable	5,385	(2,468)	4,061
Increase (decrease) in accounts payable	(25,580)	31,497	(30,246)
Increase (decrease) in compensated absences	16,414	(4,812)	19,200
Increase (decrease) in claims payable	(2,858)	(48,002)	165
Total adjustments	<u>(55,656)</u>	<u>(46,344)</u>	<u>103,249</u>
Net cash provided by (used for)			
operating activities	<u>\$ 156,732</u>	<u>\$ 943,285</u>	<u>\$ 92,334</u>

Exhibit D-3

Totals	
2004	2003
\$ 10,152,064	\$ 9,705,909
(7,581,307)	(7,237,167)
(1,378,406)	(2,083,067)
	330,498
1,192,351	716,173
66,964	
	19,530
(292,000)	(243,564)
(56,304)	(53,006)
(3,343)	(6,640)
(351,647)	(283,680)
24,724	10,893
932,392	443,386
989,445	546,059
\$ 1,921,837	\$ 989,445
\$ 1,191,102	\$ 1,009,656
125,777	104,852
5,502	5,072
	81,513
(92,786)	(57,245)
6,978	1,128
(24,329)	(90,870)
30,802	(16,274)
(50,695)	(321,659)
1,249	(293,483)
\$ 1,192,351	\$ 716,173



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, 2003.

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

CITY OF GALVESTON, TEXAS**FIDUCIARY FUNDS****STATEMENT OF FIDUCIARY NET ASSETS****DECEMBER 31, 2003****WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2002***Exhibit E-1*

	<u>Pension Trust Funds</u>	<u>Agency Fund *</u>	<u>2003</u>	<u>2002</u>
ASSETS				
Cash and temporary investments	\$ 3,504,054	\$ 342,581	\$ 3,846,635	\$ 5,460,620
Investments, at fair value:				
Government and corporate bonds	26,805,255		26,805,255	27,272,244
Common stock	50,753,714		50,753,714	38,827,966
Receivables:				
Investment earnings	160,390		160,390	284,295
Loans to participants	162,212		162,212	112,198
Contributions	351,994		351,994	
Due from other governments				55,041
Prepaid benefits	168,087		168,087	352,605
Total assets	<u>81,905,706</u>	<u>342,581</u>	<u>82,248,287</u>	<u>72,364,969</u>
LIABILITIES				
Accounts payable and other current liabilities	106,059	12,772	118,831	91,923
Refunds payable and others		329,809	329,809	255,624
Total liabilities	<u>106,059</u>	<u>342,581</u>	<u>448,640</u>	<u>347,547</u>
NET ASSETS				
Held in trust for benefits and other purposes	<u>\$ 81,799,647</u>	<u>\$</u>	<u>\$ 81,799,647</u>	<u>\$ 72,017,422</u>

* as of September 30, 2004

CITY OF GALVESTON, TEXAS
PENSION TRUST FUNDS
COMBINING STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2003
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2002

	City of Galveston Employees' Retirement Plan for City Employees	City of Galveston Firemen's Relief and Retirement	City of Galveston Employees' Retirement Plan for Police
ASSETS			
Cash and temporary investments	\$ 1,347,628	\$ 1,144,529	\$ 1,011,897
Investments, at fair value:			
Government and corporate bonds	10,542,263	7,141,855	9,121,137
Common stock	18,788,670	18,878,689	13,086,355
Receivables:			
Interest and Dividends	30,192	15,030	115,168
Loans to participants			162,212
Contributions	351,994		
Due from other governments			
Prepaid benefits			168,087
Total assets	<u>31,060,747</u>	<u>27,180,103</u>	<u>23,664,856</u>
LIABILITIES			
Accounts payable	<u>48,827</u>	<u>23,837</u>	<u>33,395</u>
Total liabilities	<u>48,827</u>	<u>23,837</u>	<u>33,395</u>
NET ASSETS			
Held in trust for benefits and other purposes	<u>\$ 31,011,920</u>	<u>\$ 27,156,266</u>	<u>\$ 23,631,461</u>

Exhibit E-2

<u>2003</u>	<u>2002</u>
\$ 3,504,054	\$ 5,177,373
26,805,255	27,272,244
50,753,714	38,827,966
160,390	284,295
162,212	112,198
351,994	
	55,041
168,087	352,605
<u>81,905,706</u>	<u>72,081,722</u>
106,059	64,300
<u>106,059</u>	<u>64,300</u>
<u>\$ 81,799,647</u>	<u>\$ 72,017,422</u>

CITY OF GALVESTON, TEXAS

PENSION TRUST FUNDS

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2002

	City of Galveston Employees' Retirement Plan for City Employees	City of Galveston Firemen's Relief and Retirement	City of Galveston Employees' Retirement Plan for Police
ADDITIONS			
Contributions:			
Employer	\$ 1,028,576	\$ 651,799	\$ 379,709
Plan members	703,327	580,463	731,454
Total contributions	<u>1,731,903</u>	<u>1,232,262</u>	<u>1,111,163</u>
Investment earnings:			
Net appreciation of investments	3,837,093	4,081,982	2,987,531
Interest	158,285	326,914	588,432
Dividends	667,792	214,565	163,804
Investment activity expense	(163,510)	(161,550)	(161,463)
Total net investment earnings	<u>4,499,660</u>	<u>4,461,911</u>	<u>3,578,304</u>
Total additions	<u>6,231,563</u>	<u>5,694,173</u>	<u>4,689,467</u>
DEDUCTIONS			
Benefits	2,725,074	1,813,392	2,072,703
Refunds of contributions			
Administrative	102,673	60,523	58,613
Total deductions	<u>2,827,747</u>	<u>1,873,915</u>	<u>2,131,316</u>
Change in net assets	3,403,816	3,820,258	2,558,151
Net assets at beginning of year	27,608,104	23,336,008	21,073,310
Net assets at end of year	<u>\$ 31,011,920</u>	<u>\$ 27,156,266</u>	<u>\$ 23,631,461</u>

Exhibit E-3

<u>2003</u>	<u>2002</u>
\$ 2,060,084	\$ 1,670,563
2,015,244	1,931,529
<u>4,075,328</u>	<u>3,602,092</u>
10,906,606	(16,316,185)
1,073,631	1,679,746
1,046,161	627,487
(486,523)	(533,967)
<u>12,539,875</u>	<u>(14,542,919)</u>
<u>16,615,203</u>	<u>(10,940,827)</u>
6,611,169	5,292,675
	102,855
221,809	227,072
<u>6,832,978</u>	<u>5,622,602</u>
9,782,225	(16,563,429)
72,017,422	88,580,851
<u>\$ 81,799,647</u>	<u>\$ 72,017,422</u>



***CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL
FUNDS***



CITY OF GALVESTON, TEXAS
COMPARATIVE SCHEDULE OF CAPITAL ASSETS
USED BY GOVERNMENTAL ACTIVITIES - BY SOURCE
SEPTEMBER 30, 2004

Exhibit F-1

	2004	2003
Capital assets:		
Land	\$ 2,715,806	\$ 1,673,302
Buildings	37,797,911	8,496,576
Improvements other than buildings	3,813,563	3,507,824
Infrastructures	70,701,882	66,420,856
Equipment	6,147,810	5,155,699
Licensed vehicle	12,620,062	13,429,187
Construction in progress	2,323,535	14,730,991
Total capital assets	<u>136,120,569</u>	<u>113,414,435</u>
Investments in capital assets from:		
General Fund revenue	\$ 116,471,967	\$ 87,241,733
Federal grants	10,602,680	13,330,334
Donations	3,372,527	1,130,000
Capital assets acquired before July 1, 1956		11,712,368
State	61,956	
Park Board	29,666	
Capital bond proceeds	4,853,717	
Capital-Industrial Development Corp.	728,056	
Total investment in capital assets	<u>\$ 136,120,569</u>	<u>\$ 113,414,435</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF CHANGES IN CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES
BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Exhibit F-2

	Capital assets 09/30/03	Adjustments	Additions	(Deletions)	Capital assets 09/30/04	Land
General Government:						
Executive	\$ 43,260	\$	\$ 13,814	\$	\$ 57,074	\$
Finance	1,056,855	(958,913)			97,942	
Flagship hotel	4,155,755	(12,642)		(4,143,113)		
Judicial			99,678		99,678	
Legislative	532,388	(29,070)			503,318	39,827
Legal			9,284		9,284	
Personnel	15,308				15,308	
Garage	606,868	(582,538)			24,330	24,330
Internal service	48,004	(48,004)				
Other - unclassified	84,125				84,125	84,125
Total General Government	6,542,563	(1,631,167)	122,776	(4,143,113)	891,059	148,282
Public Safety:						
Police	3,560,960		404,415	(95,796)	3,869,579	
Communications	2,151,357		39,924		2,191,281	
Fire	3,990,499		154,306		4,144,805	3,152
EMS	196,352			(87,906)	108,446	
Emergency management	31,048				31,048	
Total Public Safety	9,930,216		598,645	(183,702)	10,345,159	3,152
Public Works and Streets						
Streets	44,051,547		3,352,932		47,404,479	
Traffic control	15,680,136		1,057,565		16,737,701	
Total Public Works And Streets	59,731,683		4,410,497		64,142,180	
Culture and recreation	19,100,708		22,268,413		41,369,121	2,556,752
Housing	77,456				77,456	
Planning and community development	286,563		30,866	(20,729)	296,700	
Transportation system	6,832,467		957,490	(1,778,439)	6,011,518	7,620
Trolley	10,912,779		2,074,612		12,987,391	
Total Capital Assets	\$ 113,414,435	\$ (1,631,167)	\$ 30,463,299	\$ (6,125,998)	\$ 136,120,569	\$ 2,715,806

Buildings	Improvements other than buildings	Infrastructure	Equipment	Licensed Vehicles	Construction in progress	Total Capital Assets
\$	\$	\$	\$ 26,024 97,942	\$ 31,048	\$	\$ 57,072 97,942
			99,678			99,678
444,926	18,565		9,284			503,318
				15,308		9,284
						15,308
						24,330
						84,125
444,926	18,565		232,928	46,356		891,057
841,512	186,595		794,620	2,046,853		3,869,580
648,215	75,883		2,191,281	3,262,976		2,191,281
22,729	4,860		154,579	80,857		4,144,805
				31,048		108,446
						31,048
1,512,456	267,338		3,140,480	5,421,734		10,345,160
706,268	119,011	44,980,917	668,851	926,947	2,485	47,404,479
130,361	1,518,725	14,843,325	44,289	201,001		16,737,701
836,629	1,637,736	59,824,242	713,140	1,127,948	2,485	64,142,181
34,432,249	1,614,638	104,217	2,024,552	390,262	246,453	41,369,122
36,103	41,353					77,456
				296,700		296,700
405,671	151,031	73,423	36,710	5,337,063		6,011,518
129,877	82,902	10,700,000			2,074,612	12,987,391
\$ 37,797,911	\$ 3,813,563	\$ 70,701,882	\$ 6,147,810	\$ 12,620,063	\$ 2,323,535	\$ 136,120,569



UNAUDITED STATISTICAL SECTION

CITY OF GALVESTON, TEXAS
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works and Streets</u>	<u>Culture and Recreation</u>	<u>Planning and Community Development</u>	<u>Transportation System</u>
1995	\$ 2,359,599	\$ 12,600,909	\$ 4,906,846	\$ 2,516,368	\$ 2,371,822	\$ 1,202,718
1996	2,064,842	11,886,837	5,279,023	1,800,224	2,619,320	921,937
1997	2,236,073	11,517,481	6,096,608	1,954,131	2,400,092	301,628
1998	2,368,826	12,474,926	5,221,263	1,823,792	3,441,887	402,600
1999	3,210,409	14,638,579	3,912,071	1,981,478	3,735,695	3,046,353
2000	4,328,701	18,822,739	2,923,468	2,084,407	2,555,148	2,210,209
2001	4,499,673	19,856,393	2,822,852	2,244,369	2,376,734	4,181,645
2002	4,116,072	20,249,089	2,723,007	2,498,975	4,259,301	3,780,732
2003	3,988,181	19,784,935	2,807,218	3,102,454	4,353,386	3,870,762
2004	4,213,164	20,297,811	2,777,669	3,363,044	4,394,758	3,703,654

Includes all Governmental Fund Types

- (1) Categories have been allocated to functional expenditures for fiscal years 2000 and 2001
- (2) Other Activities includes self insurance claims and judgments.

<u>Inter- governmental</u>	<u>Capital Outlay</u>	<u>Pension and Fringe Benefits (1)</u>	<u>Other Activities (1)(2)</u>	<u>Debt Service</u>	<u>Total</u>
\$ 852,714	\$	\$ 3,512,696	\$ 1,162,486	\$ 2,492,789	\$ 33,978,947
578,048		2,574,860	2,802,198	2,905,950	33,433,239
611,695		2,470,563	2,670,931	2,614,686	32,873,888
641,847		2,473,598	2,971,631	2,645,353	34,465,723
694,563	1,319,117	1,951,528	2,986,886	2,663,325	40,140,004
743,417	2,474,572			2,631,986	38,774,647
781,368	2,461,694			2,374,011	41,598,739
776,488	4,457,737			2,573,742	45,435,144
	21,006,276			5,568,977	64,482,189
	28,812,375			5,549,182	73,111,657

CITY OF GALVESTON
GENERAL GOVERNMENT REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Sales and Use Taxes</u>	<u>Franchise Fees</u>	<u>Licenses and Permits</u>	<u>Inter-governmental</u>
1995	\$ 8,758,805	\$ 9,402,017	\$ 3,480,667	\$ 270,795	\$ 3,552,354
1996	9,094,969	10,129,964	3,621,658	375,492	3,383,254
1997	9,289,272	10,030,302	3,845,031	424,449	3,046,876
1998	9,671,598	10,530,429	3,772,582	459,177	4,070,571
1999	9,313,827	11,396,831	4,361,024	398,011	7,031,295
2000	9,863,934	12,201,729	4,518,987	462,939	5,051,429
2001	10,636,480	12,802,191	5,472,040	461,130	6,456,727
2002	11,660,813	12,757,465	4,680,349	970,458	6,700,290
2003	12,147,194	13,339,761	4,824,484	882,048	8,212,693
2004	13,186,960	13,689,462	4,841,443	1,179,514	8,421,167

Exhibit II

<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Earnings on Investments</u>	<u>Other</u>	<u>Total</u>
\$ 1,591,598	\$ 983,491	\$ 539,199	\$ 632,561	\$ 29,211,487
1,763,794	1,184,788	832,792	403,666	30,790,377
1,696,991	1,347,405	655,797	1,395,012	31,731,135
1,790,317	1,591,543	635,976	945,719	33,467,912
1,628,048	1,682,468	547,181	1,467,525	37,826,210
2,796,569	1,757,325	478,547	987,007	38,118,466
2,920,992	1,665,389	835,654	1,442,479	42,693,082
2,615,043	1,919,174	654,678	1,696,133	43,654,403
2,692,018	1,835,900	716,787	7,433,637	52,084,522
2,841,201	1,764,861	395,202	4,841,764	51,161,574

CITY OF GALVESTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total current tax levy</u>	<u>Current tax collections</u>	<u>Percent of current levy collected</u>	<u>Delinquent tax collections</u>	<u>Total tax collections</u>
1995	\$ 8,833,162	\$ 8,425,318	95.4%	\$ 394,212	\$ 8,819,530
1996	8,931,302	8,515,541	95.3%	505,473	9,021,014
1997	9,211,093	8,877,425	96.4%	390,828	9,268,253
1998	9,496,924	9,225,231	97.1%	421,153	9,646,384
1999	9,583,462	9,169,794	95.7%	373,059	9,542,853
2000	9,652,260	9,450,127	97.9%	261,835	9,711,962
2001	10,627,198	10,233,447	96.3%	327,631	10,561,078
2002	11,798,824	11,214,542	95.0%	410,797	11,625,339
2003	12,227,748	11,707,895	95.7%	452,687	12,160,582
2004	13,168,877	12,608,244	95.7%	520,100	13,128,344

Exhibit III

<u>Percent of total tax collections to current levy</u>	<u>Outstanding delinquent taxes by tax year</u>	<u>Percent of delinquent taxes to current tax levy</u>
99.8%	\$ 2,445,605	27.7%
101.0%	2,381,265	26.7%
100.6%	2,487,505	27.0%
101.6%	2,568,093	27.0%
99.6%	1,293,883	13.5%
100.6%	1,459,760	15.1%
99.4%	1,502,877	14.1%
98.5%	1,448,171	12.3%
99.5%	1,387,220	11.3%
99.7%	1,438,646	10.9%

CITY OF GALVESTON, TEXAS
ASSESSED AND ACTUAL VALUE OF TAXABLE AND NONTAXABLE PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year	Tax Year	Real Property	Personal Property	Total Value	Exemptions*
1995	1994	\$ 1,513,426,407	\$ 270,758,648	\$ 1,784,185,055	\$ 163,502,660
1996	1995	1,555,952,645	233,265,992	1,789,218,637	167,157,796
1997	1996	1,617,891,554	238,449,582	1,856,341,136	178,093,125
1998	1997	1,686,337,630	231,850,167	1,918,187,797	186,163,134
1999	1998	1,712,403,966	217,292,758	1,929,696,724	188,376,774
2000	1999	1,786,250,158	222,790,255	2,009,040,413	195,430,697
2001	2000	1,906,082,465	241,140,604	2,147,223,069	210,953,229
2002	2001	2,115,860,748	260,088,183	2,375,948,931	223,055,537
2003	2002	2,186,679,405	257,828,683	2,444,508,088	237,044,410
2004	2003	2,459,047,930	281,968,701	2,741,016,631	253,742,483

* This category includes only exemptions which reduce taxable property liability. Separately, the Central Appraisal District reports \$971 million in totally tax-exempt property (non-profit, school district, city, county, etc.).

All assessments are at 100% of market value.
Source: Central Appraisal District

Exhibit IV

Net Assessed Value

\$ 1,620,682,395
1,622,060,841
1,678,248,011
1,732,024,663
1,741,319,950
1,813,609,716
1,936,269,840
2,152,893,394
2,207,463,678
2,487,274,148

CITY OF GALVESTON, TEXAS
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>City of Galveston</u>				<u>Total</u>
		<u>General Fund (1)</u>	<u>Pension Fund</u>	<u>Library Fund</u>	<u>Debt Service Fund</u>	
1995	1994	\$ 0.2480	\$ 0.1885	\$ 0.0500	\$ 0.0615	\$ 0.5480
1996	1995	0.2469	0.1885	0.0500	0.0615	0.5469
1997	1996	0.2472	0.1885	0.0500	0.0615	0.5472
1998	1997	0.2472	0.1885	0.0500	0.0615	0.5472
1999	1998	0.4255		0.0500	0.0739	0.5494
2000	1999	0.4271		0.0500	0.0728	0.5499
2001	2000	0.4314		0.0500	0.0672	0.5486
2002	2001	0.4421		0.0500	0.0638	0.5559
2003	2002	0.4421		0.0500	0.0628	0.5549
2004	2003	0.4424		0.0500	0.0493	0.5417

(1) Contains the Pension Fund beginning fiscal year 1999.

Exhibit V

<u>Galveston I.S.D.</u>	<u>Junior College</u>	<u>Navigation District No. 1</u>	<u>Galveston County</u>	<u>Total millage</u>
\$ 1.5000	\$ 0.1775	\$ 0.0292	\$ 0.4650	\$ 2.7197
1.5000	0.1775	0.0322	0.4850	2.7416
1.5000	0.1775	0.0342	0.5075	2.7664
1.5000	0.1878	0.0396	0.5200	2.7946
1.5200	0.1878	0.0400	0.5200	2.8172
1.5200	0.1978	0.0400	0.5450	2.8527
1.5200	0.1978	0.0406	0.5450	2.8520
1.5200	0.1952	0.0406	0.5654	2.8771
1.5700	0.1952	0.0420	0.5939	2.9560
1.5600	0.1952	0.0420	0.6276	2.9665

CITY OF GALVESTON, TEXAS
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population (2)</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt (1)</u>	<u>Less Amount Available in Debt Service Fund</u>	<u>Less Debt Payable From Enterprise Revenues</u>
1995	63,859	\$ 1,620,682,395	\$ 8,903,859	\$ 1,174,740	\$ 1,685,000
1996	63,859	1,622,060,841	7,828,829	911,830	1,460,000
1997	63,859	1,678,248,011	6,758,861	693,357	1,225,000
1998	63,859	1,732,024,663	5,655,241	764,338	980,000
1999	63,859	1,741,319,950	4,595,817	825,189	720,000
2000	57,247	1,813,609,716	7,100,808	746,296	450,000
2001	57,013	1,936,269,840	18,871,931	1,258,121	170,000
2002	57,601	2,152,893,394	18,334,425	1,528,664	
2003	57,905	2,207,463,678	17,983,514	2,737,460	
2004	57,905	2,487,274,148	17,599,221	2,580,396	

Notes: (1) Includes all long-term general obligation debt.
(2) Bureau of Census figures 1990 and 2000.

Exhibit VI

<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capita</u>
\$ 6,044,119	0.37%	95
5,456,999	0.34%	85
4,840,504	0.29%	76
3,910,903	0.23%	61
3,050,628	0.18%	48
5,904,512	0.33%	103
17,443,810	0.90%	306
16,805,761	0.78%	292
15,246,054	0.69%	263
15,018,825	0.60%	259

CITY OF GALVESTON, TEXAS
COMPUTATION OF DIRECT AND OVERLAPPING
GENERAL OBLIGATION DEBT
September 30, 2004

Exhibit VII

<u>Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Galveston (1)</u>	<u>Amount Applicable to City of Galveston</u>
City of Galveston	\$ 15,018,827 (2)	100.00%	\$ 15,018,827
Galveston Independent School District	86,360,791	100.00%	86,360,791
Galveston County	209,324,000 (2)	14.84%	<u>31,063,682</u>
Total direct and overlapping debt			<u><u>\$ 132,443,300</u></u>

(1) Percentage will remain the same until annexation of Pirate's Beach is complete.

(2) Includes bond accretion.

CITY OF GALVESTON, TEXAS**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR***Exhibit VIII***GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES****LAST TEN FISCAL YEARS**

Fiscal Year	Principal (1)	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to Total General Governmental Expenditures
1995	\$ 998,503	\$ 235,487	\$ 1,233,990	\$ 33,978,947	3.63%
1996	834,968	408,685	1,243,653	33,433,239	3.72%
1997	858,620	413,343	1,271,963	32,873,888	3.87%
1998	799,424	486,499	1,285,923	34,465,723	3.73%
1999	927,151	625,436	1,552,587	40,140,004	3.87%
2000	735,332	565,458	1,300,790	38,774,647	3.35%
2001	375,252	963,748	1,339,000	41,598,739	3.22%
2002	375,252	514,748	890,000	45,435,144	1.96%
2003	350,911	1,054,300	1,405,211	64,482,189	2.18%
2004	384,293	1,080,478	1,464,771	73,111,657	2.00%

(1) General obligation bonds reported in the Enterprise Funds, Tax Reinvestment Zone, and Industrial Development Corporation have been excluded.

(2) Excludes advance refunding escrow.

CITY OF GALVESTON, TEXAS
REVENUE BOND COVERAGE
WATER AND SEWER BONDS
LAST TEN FISCAL YEARS

Fiscal Year	Operating and Nonoperating Revenues	Direct Operating Expenses	Adjustments to Direct Operating Expenses (1)	Net Revenue Available For Debt Service
1995	\$ 15,862,047	\$ 12,600,053	\$ -	\$ 3,261,994
1996	15,727,889	14,076,621	4,222,052	5,873,320
1997	16,455,009	12,304,032	4,245,198	8,396,175
1998	16,822,624	12,198,874	4,713,739	9,337,489
1999	17,355,863	14,133,470	2,876,754	6,099,147
2000	18,277,247	14,445,017	2,719,964	6,552,194
2001	17,964,816	16,038,067	2,271,659	4,198,408
2002	17,482,247	15,985,708	3,685,247	5,181,786
2003	17,475,857	16,236,181	2,770,570	4,010,246
2004	18,295,614	16,173,538	2,616,001	4,738,077

(1) Depreciation expense

Exhibit IX

Debt service requirements

<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
\$ 880,000	\$ 565,964	\$ 1,445,964	2.26
930,000	514,884	1,444,884	4.06
990,000	458,972	1,448,972	5.79
1,120,000	331,466	1,451,466	6.43
1,077,459	368,050	1,445,509	4.22
1,310,549	1,045,753	2,356,302	2.78
1,448,032	851,017	2,299,049	1.83
1,311,010	690,667	2,001,677	2.59
1,511,737	784,542	2,296,279	1.75
1,622,962	1,116,856	2,739,818	1.73

CITY OF GALVESTON, TEXAS

WATERWORKS AND SEWER SYSTEM ENTERPRISE FUNDS

Exhibit X

COMBINED SCHEDULE OF NET REVENUES AVAILABLE FOR DEBT SERVICE

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

	<u>Waterworks System</u>	<u>Sewer System</u>	<u>Total Waterworks & Sewer System</u>
Operating revenues	\$ 10,104,912	\$ 8,019,707	\$ 18,124,619
Nonoperating revenues	29,802	141,193	170,995
Adjusted revenues	<u>10,134,714</u>	<u>8,160,900</u>	<u>18,295,614</u>
Operating expenses	9,803,452	6,370,086	16,173,538
Less items excluded for purpose of computing net revenues available for debt service			
Depreciation and amortization	<u>(1,195,662)</u>	<u>(1,420,339)</u>	<u>(2,616,001)</u>
Adjusted expenses	<u>8,607,790</u>	<u>4,949,747</u>	<u>13,557,537</u>
Net revenues available for debt service	<u>\$ 1,526,924</u>	<u>\$ 3,211,153</u>	<u>\$ 4,738,077</u>
Net revenue requirements pursuant to City of Galveston Water and Sewer System Revenue Bond Ordinances -Series 1989, 1993 and 2000 and 2003			
125% times average annual current revenue bond debt service	<u>\$ 326,275</u>		
125% times average annual current revenue bond debt service		<u>\$ 3,003,014</u>	
			<u>\$ 3,329,289</u>

CITY OF GALVESTON, TEXAS
TEN LARGEST TAXPAYERS
September 30, 2004

Exhibit XI

<u>Taxpayer</u>	<u>2003 Assessed Valuation</u>	<u>Percentage of total assessed valuation</u>
Centerpoint Energy Inc.	\$ 44,585,790	1.92%
Fertitta Hospitality Inc.	25,416,210	1.10%
Southwestern Bell Telephone Co.	19,845,390	0.86%
American National Insurance Co.	13,725,270	0.59%
Newpark Shipbuilding	13,324,280	0.57%
MBP Corporation	10,988,650	0.47%
Walmart Realty Co. #504	10,097,150	0.44%
Sealy Smith Foundation	9,567,320	0.41%
Eighteen Seventy Strand Corp.	9,205,240	0.40%
Dawn on the Sea Wall Partnership	<u>8,835,450</u>	<u>0.38%</u>
Total	<u>\$ 165,590,750</u>	<u>7.14%</u>
 Total assessed value	 <u>\$ 2,317,793,407</u>	

Source: Galveston Central Appraisal District

CITY OF GALVESTON, TEXAS
NEW CONSTRUCTION AND PROPERTY VALUE
LAST TEN FISCAL YEARS

Fiscal year	New Construction Permits (1)			
	Commercial		Residential	
	Number of units	Value	Number of units	Value
1995	11	\$ 12,555,000	106	\$ 11,462,918
1996	6	5,209,500	78	15,558,989
1997	73	25,385,404	566	46,332,902
1998	22	44,394,700	202	26,440,094
1999	29	11,487,244	101	14,816,984
2000	19	5,667,417	159	26,478,271
2001	31	18,661,750	171	28,849,987
2002	31	53,858,013	153	21,274,383
2003	38	58,215,610	154	24,848,796
2004	88	370,198,838	219	47,760,211

* Assessed values on tax rolls prior to exemptions

** Over age 65; veteran's exemptions; 20% homestead exemption

*** Non Taxable property includes properties owned by government agencies,
non-profits, and religious organizations

**** Statistics not available from Central Appraisal District

Source: (1) City Planning Department
(2) Galveston Central Appraisal District

Property Value * (2)

Commercial	Residential	Exemptions**	Nontaxable ***
\$ 356,435,565	\$ 1,604,072,097	\$ 163,502,660	****
299,238,470	1,269,046,324	166,189,812	872,488,152
362,971,294	1,196,480,316	176,349,300	908,007,854
352,271,783	1,242,618,342	185,007,563	917,125,717
367,640,830	1,310,973,122	192,155,736	936,064,551
368,068,760	1,310,980,332	195,402,715	981,643,856
380,455,091	1,409,138,702	210,953,229	980,533,832
400,505,347	1,577,716,296	223,055,537	979,642,112
404,608,547	1,675,076,631	238,108,229	970,562,108
431,992,059	1,883,520,866	253,742,483	980,260,858

CITY OF GALVESTON, TEXAS
HISTORICAL WATER CONSUMPTION
LAST TEN FISCAL YEARS

Fiscal Year	Estimated City Population (1)	Water Usage (Millions of Gallons)			
		Number of Customers	Average Day Usage	Peak Day Usage	Peak Month Usage
1995	63,859	20,208	16.200	23.400	659.000
1996	63,859	20,473	14.700	24.400	706.100
1997	63,859	21,148	16.333	21.279	625.761
1998	63,859	20,116	14.026	22.750	500.611
1999	63,859	20,698	15.314	22.957	622.868
2000	57,247	21,003	17.192	24.272	657.125
2001	57,013	20,579	15.610	23.714	612.826
2002	57,601	18,432	12.440	16.150	500.500
2003	57,905	20,689	14.100	16.840	505.200
2004	57,905	18,419	13.480	17.900	555.700

- (1) Years 1995-99 based on 1994 U.S. Census update.
Year 2000 based on 2000 Census.
Years 2001, 2002, 2003 and 2004 based on Texas State Data Center, Texas A&M University

Exhibit XIII

<u>Total Usage</u>	<u>Operating Revenue</u>
5,923.900	\$ 9,130,903
5,366.100	9,310,005
5,945.359	9,792,137
5,119.522	9,399,966
5,496.860	10,035,831
6,292.100	10,948,771
5,698.000	9,648,928
4,623.100	9,927,095
4,931.500	9,692,615
5,015.900	10,104,912

CITY OF GALVESTON, TEXAS
NUMBER OF EMPLOYEES IN GOVERNMENT SERVICE
LAST TEN FISCAL YEARS

Exhibit XIV

<u>Fiscal Year</u>	<u>Civil Service</u>	<u>Non-Civil Service</u>	<u>Total</u>
1995	268	466	734
1996	258	475	733
1997	258	431	689
1998	258	387	645
1999	255	441	696
2000	258	498	756
2001	270	513	783
2002	255	514	769
2003	267	497	764
2004	278	523	801

CITY OF GALVESTON, TEXAS
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

Exhibit XV

<u>Fiscal Year</u>	<u>Population</u>	<u>Per Capita Income</u>	<u>Median Age</u>	<u>School Enrollment (4)</u>	<u>Unemployment (5)</u>
1995	63,859	(1) \$ 12,399	(1) 32.5	(1) 10,805	9.7%
1996	63,859	(1) 12,399	(1) 32.5	(1) 11,279	10.4%
1997	63,859	(1) 12,399	(1) 32.5	(1) 10,034	10.5%
1998	63,859	(1) 12,399	(1) 32.5	(1) 10,855	8.6%
1999	63,859	(1) 12,399	(1) 32.5	(1) 9,800	8.5%
2000	57,247	(2) 17,769	(2) 35.5	(2) 9,266	7.7%
2001	57,013	(3) 17,769	(2) 35.5	(2) 9,005	7.8%
2002	57,601	(3) 17,769	(2) 35.5	(2) 9,191	9.3%
2003	57,905	(3) 17,769	(2) 35.5	(2) 9,619	10.3%
2004	57,905	(3) 17,769	(2) 35.5	(2) 9,841	9.6%

Source:

- (1) U.S. 1994 Census update
- (2) U.S. 2000 Census
- (3) Texas State Data Center, Texas A & M University
- (4) Galveston Independent School District
- (5) Texas Workforce Commission

Date of Incorporation	March 1839
Date of adoption of City Charter	April 19, 1960
Form of Government	Council-Manager
Area	264.66 square miles

City of Galveston facilities and services

Miles of streets:

Paved	270
Unpaved	18
Underground storm drains	75

Number of street lights: 3,812

Police Protection:

Number of stations	3
Number of police officers	170
Number of patrol units	58
Number of law violations	
Physical arrests	9,094
Traffic tickets issued	43,435
Parking violations issued	47,116

Fire Protection:

Number of stations	6
Number of firefighters	109
Number of fire calls answered	7,657
Number of inspections conducted	1,154

Parks and Recreation:

Number of community centers	1
Number of parks	16
Number of acres in parks	277
Municipal golf course	1
Number of tennis courts	15
Number of athletic fields	28
Number of cemeteries	7

Water System:

Miles of water main	317
Number of service connections	22,000
Number of fire hydrants	1,931
Daily average consumption in gallons	13,648,765
Maximum capacity in gallons	33,000,000

Sewer System:

Miles of sanitary sewers	182
Number of treatment plants	4
Average daily flow in gallons	10,215,000
Maximum daily capacity of plants in gallons	14,500,000

Number of City employees at September 30, 2004:

Civil Service	278
Non-Civil Service	523

Facilities and services not included in the reporting entity

Education:

Colleges	3
High Schools	
Schools	2
Teachers	223
Enrollment	2,682
Elementary/Middle Schools	
Schools	14
Teachers	501
Enrollment	7,159

Rosenberg Public Library:

Materials	
Total material circulates	225,607
Catalogued units	187,608
Utilization:	
Total active borrowers	19,160
Total library visits	244,506
Library programs conducted	1,363
Total attendance at library programs conducted	32,032
Computer laboratory usage (hours)	61,349

Galveston Wharves:

Number of piers	25
Number of warehouses	7
Channel depth in feet	40
Docking capacity (number of ships)	20

Hospitals:

Number of hospitals	6
Number of beds	795

<u>Year</u>	<u>Population</u>	<u>Percentage increase (decrease)</u>
1838	580	
1850	4,177	620%
1860	7,307	75%
1870	13,818	89%
1880	22,248	61%
1890	29,084	31%
1900	37,789	30%
1910	36,981	(2)%
1920	44,255	20%
1930	52,938	20%
1940	60,862	15%
1950	66,568	9%
1960	65,662	(1)%
1970	61,813	(6)%
1980	61,902	0%
1990	59,070	(5)%
2000	57,247	(3)%