

**CITY OF GALVESTON, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**



**Prepared by  
Finance Department**



**CITY OF GALVESTON, TEXAS**  
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# City of Galveston



P. O. Box 779 / Galveston, Texas 77553

January 25, 2006

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, 2005.

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, 2005 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, 2005 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
- Four Tax Reinvestment Zones (two with revenue) 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 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 94 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: Galveston Island's economy has grown significantly in recent years and promises to set new records in the 2005-2006 year. In particular, growth includes a diversity of industries including healthcare, life sciences/hospitality, offshore oil, maritime, services, retail, education and government. Based on the latest construction update from the Galveston Economic Development Partnership, development is planned and/or currently underway at the following levels:

- Over \$1.7 billion in new investment
- Over 1000 jobs being created or retained
- Over 3 million square feet of new/remodeled commercial space
- Over 3,800 new residential units in planned developments

The University of Texas Medical Branch (UTMB) is the island's largest employer and is in the process of investing over \$300 million into campus facilities. This investment includes a new Galveston National Laboratory, which will become one of two national biocontainment laboratories awarded by the National Institute of Allergy and Infectious Disease/National Institute of Health. In tandem with the increase of life science research at UTMB, the number of local biotechnology companies continues to grow (15 at current count).

Growing tourism in the area has had a positive impact on Galveston. A booming cruise industry, recent convention center and golf course developments, hotel expansions and development, the Schlitterbahn Water Park and Resort are the byproducts of this growth. Catering to both tourists and residents, new retail opportunities are occurring all over Galveston-expansion of the Galvez Mall; construction of Piazza Blanca (70,000 square foot retail plaza); new high-end stores such as Chico's in The Strand; new construction of CVS and Walgreen stores near 61<sup>st</sup> and Stewart Roads; and several prospects for the old K-Mart building.

The Port of Galveston has seen great success with the investment of over 35 million into the development of the cruiseship terminals. The Port of Galveston was ranked ninth in the United States and eighteenth in

the world as a premier cruise port for Caribbean destinations. Currently, Carnival Cruise Lines, Royal Caribbean, Princess Cruises and Celebrity Cruises all have ships based in Galveston. The Port of Galveston also promoted industrial growth on the Island through an expansion of the Foreign Trade Zone by 251 acres, a public-private partnership with Agrilliance, and a recently signed lease with BP who has proposed an LNG terminal on Pelican Island.

Funding of Major Capital Projects: During the fiscal year, the City continued a performance contract to replace all the existing water meters throughout the City. The project is on track and expected to be complete in February 2006. The new meters will enable consumption reads by a transmitted signal and are expected to increase accuracy as well as speed the overall billing process. 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 were used to re-lamp and refurbish one third of all traffic signals. Additionally, \$7.25 million of authorized but un-issued bonds were issued in December, 2005. Funds from the new issue will be used for the following projects: \$4.5 million of street and signal light improvements, \$2 million in park improvements, and \$500,000 in transportation system improvements.

On January 12, 2006 the City approved issuance of \$37.5 million in waterworks and sewer system revenue and refunding bonds. The bonds will be issued in February 2006. The Revenue bond proceeds will be used for a new water tower and pump station at Jamaica Beach, upgrade of the 30<sup>th</sup> Street Pump Station, 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.

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. 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 agency securities, money market mutual funds, and state local government pools. During the year, weighted average maturities of the investments ranged from one day to 182 days. Yields ranged from 1.454% to 3.948%. 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 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.

On September 20 Hurricane Rita made landfall just east of the Island. Damage to City property and infrastructure is estimated at \$0.8 million. Filings with the Federal Emergency Management Agency (FEMA) for Category A (debris clean up) and Category B (emergency preparation) have been submitted and reimbursement is expected in February 2006. Recovery of damage costs to City buildings, street and traffic control lighting and signage is estimated to be an additional \$.5 million and expected to be recovered materially between application to the insurance carrier, Texas Department of Transportation and FEMA.

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, 2005, the plan had a funding ratio of 95.9% of the actuarial value of the assets to the actuarial present value of accumulated plan benefits. The City has met the minimum recommended contribution for calendar year 2005.

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, 2005 for the Retirement Plan for Police and January 1, 2004 for the Galveston Firemen's Relief and Retirement Fund), the plans were 63.9% (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, 2004. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government reports.

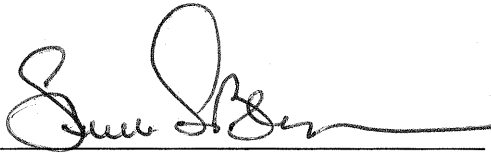
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal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

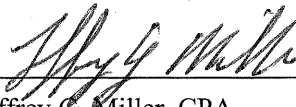
Other departments and offices of the City have also contributed directly or indirectly to the preparation of this report. We acknowledge their efforts in providing information and assistance during the preparation of this report. Finally, we acknowledge the Mayor and Council Members who have consistently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

Respectfully submitted,



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Steve LeBlanc  
City Manager



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Jeffrey G. Miller, CPA  
Director of Finance

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Galveston,  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2004

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.



*Carla E. Fudge*

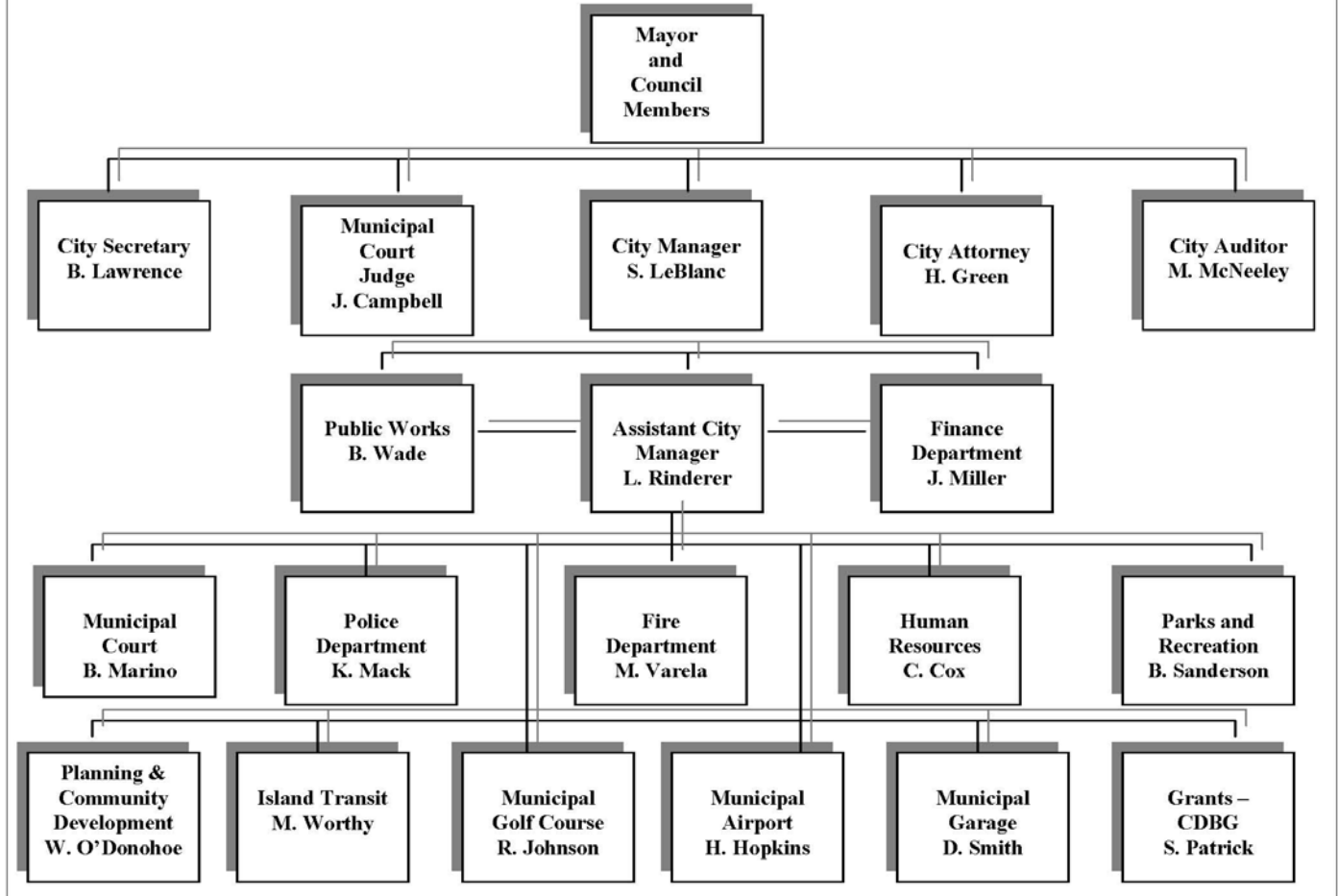
President

*Jeffrey R. Emer*

Executive Director



## City of Galveston, Texas Organizational Chart







# City of Galveston, Texas

Incorporated March 1839

Charter Adopted April 19, 1960

## Council – Manager Form of Government

City Council		City Council Appointees	
Mayor	Lyda Ann Thomas	City Manager	Steven J. LeBlanc
Mayor Pro Tem	Joe Jaworski	City Secretary	Barbara S. Lawrence
Council Member	Cornelia Harris Banks	City Attorney	Susie Green
Council Member	Barbara Roberts	Court Judge	John Campbell
Council Member	Danny Weber, Sr.	City Auditor	Mike McNeely
Council Member	Patricia Bolton-Legg		
Council Member	Jackie Cole		

### Departmental Directors (City Manager Appointees)

Airport  
Assistant City Manager #1  
Assistant City Manager #2/Public Works  
Emergency Management  
Finance  
Fire  
Grants  
Island Transit  
Municipal Court  
Municipal Garage  
Municipal Golf Course  
Parks and Recreation  
Personnel  
Planning and Housing  
Police

Hud N. Hopkins  
Lloyd Rinderer  
Brandon E. Wade, PE  
Charlie Kelly  
Jeffrey G. Miller, CPA  
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



## ***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, as of and for the year ended September 30, 2005, which collectively comprise the City of Galveston, Texas' basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Galveston, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Park Board of Trustees of the City of Galveston, Texas, a discretely presented component unit of the City of Galveston, Texas, of which, reflects 72% of total assets and 53% of total revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and 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, 2005, 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 18, 2006, on our consideration of the City of Galveston, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, budgetary comparison information, and pension system information on pages 17 through 27 and 94 through 99, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Galveston, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, 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 nonmajor fund financial statements 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.

A handwritten signature in black ink that reads "Mull-Lainson, P.C." in a cursive, flowing script.

January 18, 2006  
Houston, Texas

# City of Galveston, Texas

## Management's Discussion and Analysis

**September 30, 2005**

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, 2005. 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 2004. 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 \$119.1 million (net assets). Of these assets, unrestricted cash and cash equivalents decreased \$2.3 million or 7.5% over the prior year.
- Total assets, excluding component units, were \$287.2 million at September 30, 2005, increasing 4.8% over the previous fiscal year. Total liabilities, excluding component units, were \$168.1 million at September 30, 2005, increasing 2.1% over September 30, 2004.
- The ratio of total assets to total liabilities for governmental activities was 1.5 times; for business type activities the ratio was 2 times.
- The fund balance of the General Fund increased from \$7.8 million to \$9.4 million, a 20.5% increase. The ending balance represents 27.3% of the \$34.2 million in expenditures. Total undesignated and unreserved fund balance was \$7.3 million, or 21.1% of expenditures.
- Business-type assets increased \$7.3 million over the last fiscal year. Unrestricted cash and cash equivalents amounted to \$4.0 million, an increase of \$.9 million over the prior year.

### **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, planning and community development, and transportation. The business-type activities of the City include 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 30-33 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 eighteen 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 and Island Transit fund 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 34-39 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, insurance and construction support. Because all of these services predominantly benefit governmental rather than business-type functions, the largest portion of the amounts has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the waterworks services and 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 42-49 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 50-51 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 52-91 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information beginning on page 94. 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 \$119.1 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (83.8%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the citizenry; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Galveston, Texas  
 Net Assets (in thousands)  
 September 30, 2005

TABLE A-1

With comparative totals for September 30, 2004

	Governmental activities		Business - type activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 54,684	\$ 52,994	\$ 50,371	\$ 54,379	\$ 105,055	\$ 107,373
Capital assets	81,010	76,675	101,123	89,931	182,133	166,606
Total assets	135,694	129,669	151,494	144,310	287,188	273,979
					-	
Current liabilities	8,428	7,372	5,129	7,585	13,557	14,957
Long term liabilities	85,004	85,659	69,554	63,951	154,558	149,610
Total liabilities	93,432	93,031	74,683	71,536	168,115	164,567
Net assets:						
Invested in capital assets, net of related debt	29,356	23,872	70,442	64,284	99,798	88,156
Restricted	4,894	4,921	3,301	6,367	8,195	11,288
Unrestricted	8,012	7,845	3,069	2,123	11,081	9,968
Total net assets	\$ 42,262	\$ 36,638	\$ 76,811	\$ 72,774	\$ 119,073	\$ 109,412

An additional portion of the City's net assets (6.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$11.1 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 \$136.6 million, comprising 90.4% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$22.9 million and \$41.3 million, respectively, which is 84.3% of total net assets compared to 86.6% for 2004. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 46.3% 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 63.9% and 36.1% respectively. Expenses were split between governmental activities and business-type activities 65.2% and 34.8% respectively. Net assets increased \$5.6 million, or 15.4% from the prior period for governmental activities and \$4.0 million or 5.5% for business-type activities, and 8.8% overall.

**City of Galveston, Texas**  
**Changes in Net Assets (in thousands)**  
**For the Fiscal Year Ended September 30, 2005**  
**With comparative totals for fiscal year ended September 30, 2004**

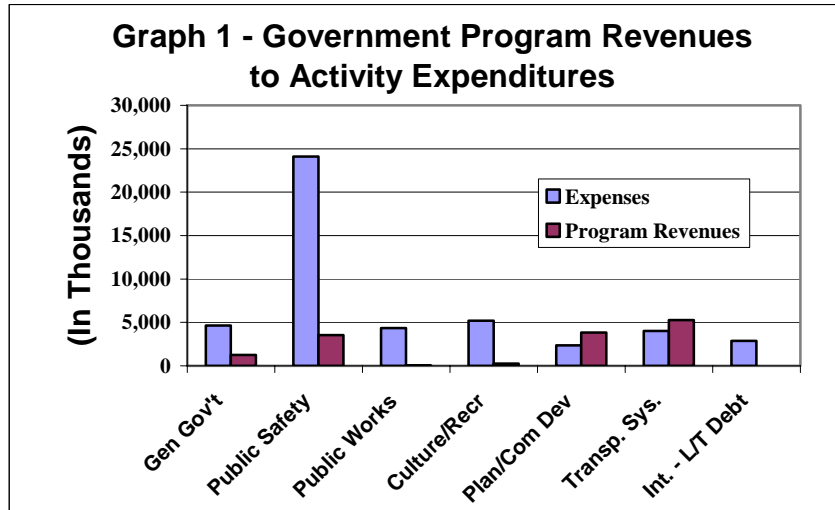
**TABLE A-2**

	Governmental activities		Business - type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$ 6,566	\$ 7,063	\$ 28,174	\$ 24,290	\$ 34,740	\$ 31,353
Operating grants and contributions	5,039	4,998			5,039	4,998
Capital grants and contributions	2,556	3,426	1,178	5,482	3,734	8,908
General revenues:						
Property taxes	13,838	13,215			13,838	13,215
Sales taxes	14,425	13,689			14,425	13,689
Hotel occupancy taxes	3,418	2,966			3,418	2,966
Franchise fees	4,880	4,841			4,880	4,841
Payments in lieu of taxes	596	568			596	568
Other	1,394	898	467	55	1,861	953
Total revenues	52,712	51,664	29,819	29,827	82,531	81,491
Expenses:						
General government	4,662	3,626			4,662	3,626
Public safety	24,111	20,638			24,111	20,638
Public works	4,331	4,997			4,331	4,997
Culture and recreation	5,211	1,419			5,211	1,419
Planning and community dev	2,375	4,225			2,375	4,225
Transportation system	4,032	6,580			4,032	6,580
Interest on long-term debt	2,866	3,208			2,866	3,208
Waterworks system			10,958	10,012	10,958	10,012
Sewer system			7,921	7,249	7,921	7,249
Sanitation services			3,376	3,077	3,376	3,077
Drainage utility			1,085	638	1,085	638
Airport			932	934	932	934
Golf Course			1,010	1,091	1,010	1,091
Total Expenses	47,588	44,693	25,282	23,001	72,870	67,694
Increase (decrease) in net assets before transfers	5,124	6,971	4,537	6,826	9,661	13,797
Transfer in (out)	500	600	(500)	(600)		
Change in net assets	5,624	7,571	4,037	6,226	9,661	13,797
Net assets at beginning of year	36,638	29,067	72,774	66,548	109,412	95,615
Net assets at end of year	\$ 42,262	\$ 36,638	\$ 76,811	\$ 72,774	\$ 119,073	\$ 109,412

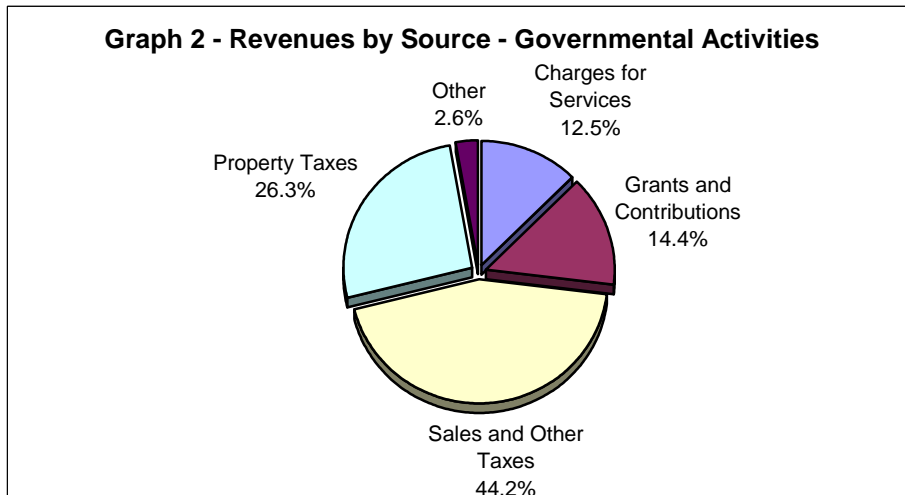
Table A-2 above reflects that:

- The cost of all governmental activities for the fiscal year was \$47.5 million, an increase of \$2.8 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 50.5% of governmental activities compared to 46.1% in 2004. Public Works expenses for streets and traffic decreased 13.1% compared to the prior year.
- 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 \$37.2 million, an increase over the previous year of \$1.9 million. Taxes and franchise fees contributed 70.5% of governmental activities revenue compared to 68.3% in fiscal year 2004.
- The second largest source of revenue is from governments and organizations that subsidize certain programs with grants and contributions. \$7.6 million was received in 2005 versus \$8.4 million in 2004.
- Charges for services account for 12.4% of governmental activities and decreased \$.5 million in fiscal 2005 to \$6.6 million. The decrease is attributable to declines in court fine collections.

Graph 1 below presents the cost of each of the City’s major governmental functions, as well as the associated program revenues. Total expenses were \$47.5 million. Program revenues provided \$14.1 million, for a net cost of services of \$33.4 million. The net cost of providing public safety was \$20.6 million or 61.3% of the net cost of governmental activities, an increase from 58.8% of net cost of governmental activities in 2004. 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 (27.3%), hotel taxes (6.5%), franchise fees (9.3%), and payments in lieu of taxes received from business-type activities (1.1%) comprise a total 44.2% of the total revenues. The City’s property taxes contributed an additional 26.3% of total revenues.



**Business-type activities.** Business-type activities increased the City’s net assets by \$4.0 million, or 5.5%. Business-type net assets accounted for 64.5% of the City’s total net assets. Revenues derived from charges for services account for 94.4% of business-type program revenues.

**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, 2005*

*With comparative totals for fiscal year ended September 30, 2004*

	<u>Expenses</u>	<u>Program Revenues</u>	<u>2005 Net Revenue (Cost) of Services</u>	<u>2004 Net Revenue (Cost) of Services</u>
Program:				
Waterworks system	\$ 10,958	\$ 11,230	\$ 272	\$ 93
Sewer system	7,921	9,409	1,488	3,885
Sanitation services	3,376	3,932	556	529
Drainage utility	1,085	1,826	741	349
Airport	932	2,043	1,111	1,829
Golf Course	1,010	912	(98)	87
Totals	<u>\$ 25,282</u>	<u>\$ 29,352</u>	<u>\$ 4,070</u>	<u>\$ 6,773</u>

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$23.4 million, or 92.3% of all the expenses of business-type activities. Related revenues of those funds totaled \$26.4 million, or 90.0% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$25.8 million and expenses were \$21.0 million. The Waterworks and Sewer system operating revenues were up \$2.5 million compared to the prior year. A rate increase, effective October 1, 2004 along with increases in meter accuracy (with the remetering project) and higher consumption (lack of rainfall) all contributed to revenue increases. Sewer system capital grants and contributions were down \$3.1 million compared to the 2004 year.

The net excess of program revenues over expenses for the four public utility related funds was \$3.1 million compared to \$4.9 million in 2004. In total, enterprise fund excess revenues over expenses were \$4.1 million in 2005 compared to \$6.8 million in 2004. As indicated above, the decrease in the current year is largely due to a \$4.3 million decrease in capital grants and contributions.

Table A-4 shows business-type activities revenues by source. Charges for services account for 94.5% of the total, with capital grants and contributions accounting for 4.0%.

**City of Galveston, Texas**  
**Revenues by Source- Business Type Activities**  
*(in thousands)*

**TABLE A-4**

**For the Fiscal Year Ended September 30, 2005**  
**With comparative totals for fiscal year ended September 30, 2004**

	2005		2004	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 28,174	94.5%	\$ 24,291	81.4%
Capital grants and contributions	1,178	4.0%	5,482	18.4%
Other	467	1.6%	54	0.2%
Totals	\$ 29,819	100%	\$ 29,827	100%

**Financial Analysis of the Government's Funds**

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

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

The following is of note relating to governmental funds:

- Total assets of the General Fund grew from \$11.0 million in fiscal 2004 to \$12.5 million in fiscal 2005. Cash and temporary investments reflect \$6.0 million or 47.9% of total assets with net receivables reporting \$5.6 million, or 45.0% of the total. Sales and property taxes along with franchise fees account for 86.7% of net receivables.
- No significant change in overall General Fund liabilities occurred. Liabilities were 3.2 million in 2005. Deferred revenue from property taxes accounted for approximately 42.7% of General Fund liabilities compared to 59% for fiscal year 2004.
- General Fund revenues reflect a \$753 thousand variance over the budget. Property and sales tax revenues increased \$1.0 million over the prior year. General Fund expenditures were \$543 thousand under budgeted amounts.
- The General Fund's unreserved undesignated fund balance increased \$1.5 million in 2005 to \$7.3 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 \$1.5 million in 2004 to \$1.7 million in 2005. However, hurricane Rita absorbed \$200 thousand, netting a reserve balance of \$1.5 million as of September 30, 2005. A \$200 thousand increase per year in the emergency fund balance is required by ordinance. A \$400 thousand increase has been provided in the 2005-2006 budget.
- Other governmental non-major funds (16 separate funds) have cash and investments totaling \$15.9 million, comprising 80.0 % of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$227 thousand to \$2.8 million at the end of 2005.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$24.8 million. Of this amount, \$9.1 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Included in this figure is \$1.8 million

in unreserved special revenue funds. Reserves are reported for operations (\$1.0 million), capital project (\$6.3 million), debt service (\$5.7 million) or restricted use (\$2.7 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 \$136.6 million, which comprises 90.3% of the total assets of all proprietary funds. Unrestricted net assets (deficit) of those two funds are (\$.5) million and \$1.6 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 2005 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 2005 sets General Fund revenue and expenditures at \$33.6 million (exclusive of budget transfers), a 4.6% 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 4.1% and 5.0%, respectively in 2005 over prior year collections. The primary reason is growth in property values brought on by an increase of 6.8% 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 operation of two convention centers, and an increase in tourism, new construction and increased traffic in connection with the growing cruise ship industry.

During the year, total revenues were \$753 thousand higher than budgetary estimates. Major variances between budget and actual revenues include a \$397 thousand increase in sales and use taxes and a \$391 thousand increase in licenses and permits. Both increases are due to residential construction and improvements occurring on the City's West-end.

General Fund expenditures were \$543 thousand under the budget estimate with general government, public works and streets, and planning and community development 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 net expenditures over revenue of 301 thousand. Operating results resulted in a positive variance to budget amounting to \$121 thousand for the 2005 year.

## Capital Asset and Debt Administration

### City of Galveston, Texas

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

TABLE A-5

September 30, 2005

With comparative totals for September 30, 2004

	Governmental activities		Business - type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,716	\$ 2,716	\$ 1,916	\$ 1,916	\$ 4,632	\$ 4,632
Infrastructure	27,595	26,227	61,831	51,217	89,427	77,444
Buildings	34,854	35,450	18,887	18,489	53,740	53,939
Equipment and furniture	9,948	9,899	3,746	2,695	13,694	12,593
Construction in progress	5,897	2,384	14,743	15,615	20,640	18,000
Totals	\$ 81,010	\$ 76,676	\$ 101,123	\$ 89,932	\$ 182,133	\$ 166,608

As shown in Table A-5, at the end of 2004, the City had invested \$182.1 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 \$81.0 million in capital assets, while business-type activities have invested in \$101.1 million of capital assets.

Total infrastructure assets comprise 49.0% of the total capital assets. The City's Island-wide remetering project, valued at \$10 million, was 82% complete as of September 30, 2005. 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 \$95.7 million. Of this amount, \$17.2 million was comprised of debt backed by the full faith and credit of the government and \$39.7 million was comprised of special assessment debt for which the government is liable in the event of a deficiency in the amount of hotel tax revenue collected. The remainder of the City's debt (\$38.9 million) represents bonds secured solely by specified revenue sources (\$18.7 million) and certificates of obligation (\$20.1 million).

### City of Galveston, Texas

Outstanding Debt (in thousands)

TABLE A-6

September 30, 2005

With comparative totals for September 30, 2004

	Governmental activities		Business - type activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 17,184	\$ 17,599	\$	\$	\$ 17,184	\$ 17,599
Special obligation bonds	39,670	40,910			39,670	40,910
Contracts payable			42,830	44,388	42,830	44,388
Revenue bonds			18,735	20,471	18,735	20,471
Certificates of obligation	19,324	19,324	820	910	20,144	20,234
Notes payable			7,490		7,490	
Capital lease obligations	1,072	1,559	627	594	1,699	2,153
Deferred bond costs			(1,887)	(2,008)	(1,887)	(2,008)
Total debt	77,250	79,392	68,616	66,363	145,866	143,747
Compensated absences	6,890	5,707	938	873	7,828	6,580
Claims and judgments	864	561		112	864	673
Totals	\$ 85,004	\$ 85,660	\$ 69,554	\$ 67,348	\$ 154,558	\$ 151,000

The City's total debt increased \$3.6 million or 2.4% during the current fiscal year. Notes payable increased \$7.5 million, representing the SECO loan in connection for a citywide remetering project. Compensated



absences increase \$1.2 million in the 2005 year. Principal payments on existing debt reduced bonded debt by \$3.5 million.

The City maintains an “A-” rating from Standard & Poor’s and an “A2” rating from Moody’s for its general obligation debt and certificates of obligation.

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

### **Economic Factors and Next Year’s Budgets and Rates**

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 2005 was up 5.4% compared to prior year. The City anticipates the continuation of increased sales tax collections, and has budgeted for a 5.0% increase for fiscal year ending September 30, 2005.

The property tax rate was kept the same for fiscal year 2005 at 54.17 cents per \$100 of valuation for all funds. The rate for the General Fund (Maintenance and operation) decreased slightly. Additional revenue of \$832 thousand is expected in 2006 due to increases by some 7.3% in property appraisals and new development for the year.

Waterworks, Sewer System and Drainage utility rates were increased effective October 1, 2005. Water rates increased a total of 16.35% and the Sewer System rates were increased 13.22% in order to provide funding for debt service in connection with the 2006 revenue bond. The bond proceeds will be used for system expansion on the Island’s West-end as well as upgrade several intercity facilities. Municipal drainage rates increased from \$5.00 to \$7.00 per month for single-family and from \$42 to \$58.80 per acre per month for commercial accounts. A pay as you go plan has been adopted for drainage projects, beginning with four engineering field studies.

New businesses and construction new to the Island for calendar year 2005 total approximately \$216 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 10.1%, which is an increase from a rate of 9.6% a year ago. This compares unfavorably to the state’s average unemployment rate of about 6.0% and the national average rate of about 4.9%. 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 2006 fiscal year.

Subsequent to year end, Moody’s Investors Service upgraded the City’s Water and Sewer system parity debt rating from Baa1 to Baa2

### **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.

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## ***BASIC FINANCIAL STATEMENTS***

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2005**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and temporary investments	\$ 24,254,315	\$ 4,021,793	\$ 28,276,108
Receivables (net of allowance for uncollectibles)	10,778,163	4,966,819	15,744,982
Internal Balances	(450,059)	450,059	
Due from component unit		241,128	241,128
Due from primary government			
Inventories	321,297	113,560	434,857
Prepays	457,904	30,927	488,831
Restricted assets:			
Cash and temporary investments		10,662,959	10,662,959
Investments with trustee		11,222,321	11,222,321
Net investment in direct financing and capital leases - current			
Net investment in direct financing and capital leases - long term			
Long term receivable from component unit	19,323,672		19,323,672
Contractual rights to water supply, net of amortization		18,661,007	18,661,007
Capital assets not being depreciated	8,612,383	16,659,313	25,271,696
Capital assets (net of accumulated depreciation)	72,397,284	84,464,027	156,861,311
Total assets	<u>135,694,959</u>	<u>151,493,913</u>	<u>287,188,872</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	4,368,445	2,532,665	6,901,110
Unearned revenues	2,770,056	58,567	2,828,623
Advances from other governments	7,532		7,532
Due to primary government			
Accrued interest	769,003	532,370	1,301,373
Long term payable to primary government			
Customer deposits		2,004,190	2,004,190
Net pension obligation	513,458		513,458
Non-current liabilities:			
Due within one year	2,338,464	2,714,745	5,053,209
Due in more than one year	82,665,399	66,839,406	149,504,805
Total liabilities	<u>93,432,357</u>	<u>74,681,943</u>	<u>168,114,300</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	29,356,120	70,441,907	99,798,027
Restricted for:			
Capital projects			
Debt service	4,894,204	3,301,106	8,195,310
Other			
Unrestricted	8,012,278	3,068,957	11,081,235
Total net assets	<u>\$ 42,262,602</u>	<u>\$ 76,811,970</u>	<u>\$ 119,074,572</u>

See Notes to Financial Statements

*Exhibit 1*

<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>
\$ 2,945,223	\$ 6,642,773
1,667,035	2,945,032
62,000	
12,024	
107,963	415,706
622,547	22,487,221
	2,520,299
	19,116,253
923,102	18,570,770
317,448,742	51,177,196
<u>323,788,636</u>	<u>123,875,250</u>
686,943	3,564,654
	4,607,125
241,127	
	1,000,054
	19,323,672
798,320	9,997,028
1,875,655	34,512,673
<u>3,602,045</u>	<u>73,005,206</u>
317,702,830	33,896,121
399,328	
574,765	6,774,404
331,679	
1,177,989	10,199,519
<u>320,186,591</u>	<u>\$ 50,870,044</u>

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
Governmental activities:				
General government	\$ 4,662,321	\$ 1,253,683	\$	\$
Public safety	24,110,503	2,451,449	1,090,530	
Public works and traffic	4,331,625	25,752		
Culture and recreation	5,210,558	39,822	95,268	115,571
Planning and community development	2,374,787	2,272,918	1,558,601	
Transportation system	4,031,799	521,983	2,294,933	2,440,149
Interest on long-term debt	2,866,391			
Total governmental activities	<u>47,587,984</u>	<u>6,565,607</u>	<u>5,039,332</u>	<u>2,555,720</u>
Business-type activities:				
Waterworks system	10,956,372	11,229,501		
Sewer system	7,920,787	9,409,161		
Sanitation services	3,375,991	3,932,120		
Drainage utility	1,085,200	1,816,049		9,725
Airport	932,435	874,962		1,167,942
Golf course	1,010,417	912,291		
Total business-type activities	<u>25,281,202</u>	<u>28,174,084</u>		<u>1,177,667</u>
Total primary government	<u>\$ 72,869,186</u>	<u>\$ 34,739,691</u>	<u>\$ 5,039,332</u>	<u>\$ 3,733,387</u>
<b>Component Units</b>				
Governmental activities	\$ 22,683,534	\$ 4,447,737	\$ 321,708	\$
Business-type activities	16,436,286	15,811,213		1,295,345
Total component units	<u>\$ 39,119,820</u>	<u>\$ 20,258,950</u>	<u>\$ 321,708</u>	<u>\$ 1,295,345</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
\$ (3,408,638)	\$	\$ (3,408,638)		
(20,568,524)		(20,568,524)		
(4,305,873)		(4,305,873)		
(4,959,897)		(4,959,897)		
1,456,732		1,456,732		
1,225,266		1,225,266		
(2,866,391)		(2,866,391)		
<u>(33,427,325)</u>		<u>(33,427,325)</u>		
	273,129	273,129		
	1,488,374	1,488,374		
	556,129	556,129		
	740,574	740,574		
	1,110,469	1,110,469		
	(98,126)	(98,126)		
	<u>4,070,549</u>	<u>4,070,549</u>		
<u>(33,427,325)</u>	<u>4,070,549</u>	<u>(29,356,776)</u>		
			\$ (17,914,089)	\$
				<u>670,272</u>
			<u>\$ (17,914,089)</u>	<u>\$ 670,272</u>
13,838,149		13,838,149	222,805	
14,424,663		14,424,663	876,147	
3,418,086		3,418,086	4,886,497	
4,879,699		4,879,699		
596,461		596,461		
	19,900	19,900		
753,269	447,048	1,200,317	64,126	532,440
641,345		641,345		
			8,052,608	
500,000	(500,000)			
<u>39,051,672</u>	<u>(33,052)</u>	<u>39,018,620</u>	<u>14,102,183</u>	<u>532,440</u>
5,624,347	4,037,497	9,661,844	(3,811,906)	1,202,712
36,638,255	72,774,473	109,412,728	323,998,497	49,667,332
<u>\$ 42,262,602</u>	<u>\$ 76,811,970</u>	<u>\$ 119,074,572</u>	<u>\$ 320,186,591</u>	<u>\$ 50,870,044</u>

**CITY OF GALVESTON, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2005**

	<u>General Fund</u>	<u>Island Transit</u>	<u>Other Governmental Funds</u>
<b>ASSETS</b>			
Cash and temporary investments	\$ 6,010,173	\$	\$ 15,857,636
Receivables, net of allowance for uncollectibles	5,646,504	932,489	3,947,709
Due from other funds	683,189		
Inventories		216,159	
Prepays	200,997		
Total assets	<u>\$ 12,540,863</u>	<u>\$ 1,148,648</u>	<u>\$ 19,805,345</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable and other current liabilities	\$ 1,520,954	232,856	\$ 1,027,454
Due to other funds		683,189	
Due to other governments	294,264		726,589
Deferred revenue	1,354,085	116,705	2,769,166
Advances from other governments			7,532
Total liabilities	<u>3,169,303</u>	<u>1,032,750</u>	<u>4,530,741</u>
<b>FUND BALANCES:</b>			
Reserved for:			
Inventories		216,159	
Encumbrances	392,768	222,696	
Prepaid expenses	200,997		
Capital projects			6,272,523
Debt service			5,663,207
Other purposes			1,203,042
Unreserved, designated for emergencies	1,525,226		
Unreserved, reported:			
General fund	7,252,569		
Special revenue funds		(322,957)	2,135,832
Total fund balances	<u>9,371,560</u>	<u>115,898</u>	<u>15,274,604</u>
Total liabilities and fund balances	<u>\$ 12,540,863</u>	<u>\$ 1,148,648</u>	<u>\$ 19,805,345</u>

See Notes to Financial Statements



*Exhibit 3*

**Total  
Governmental  
Funds**

\$	21,867,809
	10,526,702
	683,189
	216,159
	200,997
\$	<u>33,494,856</u>

\$	2,781,264
	683,189
	1,020,853
	4,239,956
	7,532
	<u>8,732,794</u>

	216,159
	615,464
	200,997
	6,272,523
	5,663,207
	1,203,042
	1,525,226
	7,252,569
	1,812,875
	<u>24,762,062</u>
\$	<u>33,494,856</u>

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**CITY OF GALVESTON, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005**

**Exhibit 4**

Total fund balance, governmental funds \$ 24,762,062

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. 80,014,715

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 1,353,186  
Municipal Court receivables 116,714  
Long term receivable from component unit 19,323,672

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 1,606,469

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 (76,178,024)  
Capital lease obligations (1,071,718)  
Compensated absences (6,559,164)  
Accrued interest (769,003)  
Net pension obligation (513,458)

Net assets of governmental activities in the Statement of Net Assets \$ 42,085,451

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, 2005**

	<u>General Fund</u>	<u>Island Transit</u>	<u>Other Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 11,183,399	\$	\$ 2,700,243
Sales and use taxes	10,918,183		3,506,480
Hotel occupancy taxes			3,418,086
Franchise fees	4,879,699		
Fines and forfeitures	2,133,166		197,183
Licenses and permits	1,313,886		
Intergovernmental	807,481	2,819,360	3,668,172
Charges for services	2,109,980	486,210	836,548
Payments in lieu of taxes	596,461		
Investment earnings	244,597		438,082
Miscellaneous	513,755	28,757	180,828
Total revenues	<u>34,700,607</u>	<u>3,334,327</u>	<u>14,945,622</u>
<b>EXPENDITURES</b>			
Current:			
General government	4,514,748		110,096
Public safety	21,906,718		291,277
Public works and traffic	2,732,340		
Culture and recreation	1,295,013		2,271,915
Planning and community development	1,624,416		2,142,515
Transportation	713,368	3,383,030	5,628
Debt Service:			
Principal	779,263		1,557,520
Interest and other charges	55,514		2,921,672
Capital Outlay	595,813		5,893,948
Total expenditures	<u>34,217,193</u>	<u>3,383,030</u>	<u>15,194,571</u>
Revenues over (under) expenditures	483,414	(48,703)	(248,949)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from capital leases	349,786		
Proceeds from sale of capital asset	264,022	607	
Transfers in	600,000		
Transfers out	(100,000)		
Total other financing sources and (uses)	<u>1,113,808</u>	<u>607</u>	
Net change in fund balances	1,597,222	(48,096)	(248,949)
Fund balances at beginning of year	7,774,338	163,994	15,523,553
<b>Fund balances at end of year</b>	<u>\$ 9,371,560</u>	<u>\$ 115,898</u>	<u>\$ 15,274,604</u>

See Notes to Financial Statements

*Exhibit 5*

**Total  
Governmental  
Funds**

\$	13,883,642
	14,424,663
	3,418,086
	4,879,699
	2,330,349
	1,313,886
	7,295,013
	3,432,738
	596,461
	682,679
	723,340
	<u>52,980,556</u>
	4,624,844
	22,197,995
	2,732,340
	3,566,928
	3,766,931
	4,102,026
	2,336,783
	2,977,186
	6,489,761
	<u>52,794,794</u>
	185,762
	349,786
	264,629
	600,000
	(100,000)
	<u>1,114,415</u>
	1,300,177
	23,461,885
\$	<u>24,762,062</u>

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**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, 2005**

*Exhibit 6*

Net change in fund balances - total governmental funds: \$ 1,300,177

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 \$8,470,834 exceeded depreciation of \$4,078,486 in the current period. 4,392,346

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 (45,493)  
Municipal Court revenue (541,631)

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 2,336,783  
Proceeds from capital lease (349,786)  
Interest accretion 130,296

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 (19,129)  
Change in accrued compensated absences (1,069,379)  
Change in net pension obligation (513,458)

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. 3,621

**Change in net assets of governmental activities** \$ 5,624,347

See Notes to Financial Statements

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2005**

	<b>Business-type Activities</b>		
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>
<b>ASSETS</b>			
Current Assets:			
Cash and temporary investments	\$ 1,303,691	\$ 1,344,648	\$ 1,373,454
Receivables (net of allowance for uncollectibles):			
Accounts	1,807,334	1,858,313	1,542,300
Inventories	69,416		44,144
Prepays	16,167	8,859	5,907
Due from other funds			
Restricted cash and temporary investments:			
Customer deposits	1,002,092	1,002,092	
Bond covenant accounts	553,602	3,242,370	123,128
Capital improvements	218,773	4,491,750	29,152
Investments with trustee	11,222,321		
Total current assets	<u>16,193,396</u>	<u>11,948,032</u>	<u>3,118,085</u>
Non-current assets:			
Contractual rights to water supply	18,661,007		
Capital assets (net of depreciation)	37,957,382	51,798,915	11,367,043
Total non-current assets	<u>56,618,389</u>	<u>51,798,915</u>	<u>11,367,043</u>
Total assets	<u>72,811,785</u>	<u>63,746,947</u>	<u>14,485,128</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and other current liabilities	762,628	1,152,678	617,359
Customer deposits	1,002,098	1,002,092	
Unearned revenue			58,567
Due to other funds	7,453	79,279	90,425
Accrued interest	248,399	274,595	9,376
Non-current liabilities due within one year	1,755,757	672,120	286,868
Total current liabilities	<u>3,776,335</u>	<u>3,180,764</u>	<u>1,062,595</u>
Non-current liabilities due in more than one year	46,093,322	19,239,713	1,506,371
Total liabilities	<u>49,869,657</u>	<u>22,420,477</u>	<u>2,568,966</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	23,135,200	36,730,512	10,576,195
Restricted for debt service	305,203	2,967,775	28,128
Unrestricted	(498,275)	1,628,183	1,311,839
Total net assets	<u>\$ 22,942,128</u>	<u>\$ 41,326,470</u>	<u>\$ 11,916,162</u>

Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds

Total net assets per government-wide financial statements

See Notes to Financial Statements



*Exhibit 7*

<b>Total</b>	<b>Governmental Activities Internal Service Funds</b>
\$ 4,021,793	\$ 2,386,506
5,207,947	251,461
113,560	105,138
30,933	256,907
	543,842
2,004,184	
3,919,100	
4,739,675	
11,222,321	
31,259,513	3,543,854
18,661,007	
101,123,340	994,952
119,784,347	994,952
151,043,860	4,538,806
2,532,665	632,403
2,004,190	
58,567	
177,157	366,685
532,370	
2,714,745	24,000
8,019,694	1,023,088
66,839,406	1,104,882
74,859,100	2,127,970
70,441,907	994,952
3,301,106	
2,441,747	1,415,884
\$ 76,184,760	\$ 2,410,836
627,210	
\$ 76,811,970	

**CITY OF GALVESTON, TEXAS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<b>Business-type Activities</b>		
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>
<b>REVENUES</b>			
Charges for services	\$ 11,222,582	\$ 9,385,842	\$ 7,460,838
Miscellaneous	6,925	23,319	74,594
Total operating revenues	<u>11,229,507</u>	<u>9,409,161</u>	<u>7,535,432</u>
<b>OPERATING EXPENSES</b>			
Personal services	1,415,292	2,608,514	3,143,059
Materials and supplies	610,431	1,152,724	419,057
Contractual services	378,756	827,619	1,558,638
Other charges	160,705	264,778	291,611
Surface water contract	5,336,826		
Administrative service charge	503,000	307,000	237,000
Depreciation and amortization	2,301,132	1,896,234	684,805
Total operating expenses	<u>10,706,142</u>	<u>7,056,869</u>	<u>6,334,170</u>
Operating income (loss)	<u>523,365</u>	<u>2,352,292</u>	<u>1,201,262</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest earned	225,006	178,080	48,783
Interest expense	(160,527)	(833,196)	(56,407)
Gain (loss) on retirement of capital asset	19,900		
Amortization of bond issuance costs	(108,454)	(8,757)	
Total non-operating revenue (expenses)	<u>(24,075)</u>	<u>(663,873)</u>	<u>(7,624)</u>
Income (loss) before contributions and transfers	499,290	1,688,419	1,193,638
Capital contributions			1,177,667
Transfers in			100,000
Transfers (out)	(200,000)	(200,000)	(200,000)
Change in net assets	<u>299,290</u>	<u>1,488,419</u>	<u>2,271,305</u>
Net assets at beginning of year	22,642,838	39,838,051	9,644,857
Net assets at end of year	<u>\$ 22,942,128</u>	<u>\$ 41,326,470</u>	<u>\$ 11,916,162</u>

Change in net assets, per above

Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds.

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

See Notes to Financial Statements

*Exhibit 8*

<b>Total</b>	<b>Governmental Activities Internal Service Funds</b>
\$ 28,069,262	\$ 10,831,008
104,838	33,508
28,174,100	10,864,516
7,166,865	1,884,476
2,182,212	2,298,614
2,765,013	6,471,863
717,094	346,530
5,336,826	
1,047,000	
4,882,171	103,455
24,097,181	11,104,938
4,076,919	(240,422)
451,869	70,003
(1,050,130)	(372)
19,900	
(117,211)	
(695,572)	69,631
3,381,347	(170,791)
1,177,667	
100,000	
(600,000)	
4,059,014	(170,791)
72,125,746	2,581,627
\$ 76,184,760	\$ 2,410,836
4,059,014	
(21,517)	
\$ 4,037,497	

**CITY OF GALVESTON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<b>Business-type Activities</b>		
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 11,511,738	\$ 9,037,912	\$ 6,998,034
Cash payments to suppliers for goods and services	(5,897,722)	(1,949,437)	(2,198,737)
Cash payments to employees	(1,409,886)	(2,482,726)	(3,040,605)
Administrative service charge	(503,000)	(307,000)	(237,000)
Other operating revenues	6,919	23,893	41,225
Net cash provided by (used for) operating activities	<u>3,708,049</u>	<u>4,322,642</u>	<u>1,562,917</u>
<b>Cash flows from noncapital and related financing activities:</b>			
Due from other funds	7,453	79,279	82,642
Interfund transfers in			100,000
Interfund transfers out	(200,000)	(200,000)	(200,000)
Net cash provided by (used for) noncapital and related financing activities	<u>(192,547)</u>	<u>(120,721)</u>	<u>(17,358)</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from issuance of note payable	3,745,197	3,745,197	
Proceeds from issuance of capital lease			210,950
Payments for capital acquisitions	(4,942,550)	(7,814,060)	(1,023,920)
Principal paid on revenue bonds	(113,400)	(1,622,724)	(90,000)
Principal payments on long term contracts	(1,558,439)		
Principal paid on capital leases			(177,218)
Interest paid on revenue bonds	(168,042)	(895,684)	(32,712)
Interest paid on capital leases			(25,053)
Bond issuance costs			(2,243)
Net cash provided by (used for) capital and related financing activities	<u>(3,037,234)</u>	<u>(6,587,271)</u>	<u>(1,140,196)</u>
<b>Cash flows from investing activities:</b>			
Investment with trustee	342,016		
Interest on investments	224,597	177,865	48,673
Net cash provided by (used for) investing activities	<u>566,613</u>	<u>177,865</u>	<u>48,673</u>
Net increase (decrease) in equity in cash and temporary investments	1,044,881	(2,207,485)	454,036
Cash and temporary investments, beginning of year	<u>2,033,277</u>	<u>12,288,345</u>	<u>1,071,698</u>
<b>Cash and temporary investments, end of year</b>	<u>\$ 3,078,158</u>	<u>\$ 10,080,860</u>	<u>\$ 1,525,734</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$ 1,303,691	\$ 1,344,648	\$ 1,373,454
Restricted	<u>1,774,467</u>	<u>8,736,212</u>	<u>152,280</u>
<b>Cash and temporary investments, end of year</b>	<u>\$ 3,078,158</u>	<u>\$ 10,080,860</u>	<u>\$ 1,525,734</u>

See Notes to Financial Statements

*Exhibit 9*  
*Page 1 of 2*

**Governmental  
Activities  
Internal Service  
Funds**

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\$ 10,368,844  
(8,424,579)  
(1,488,929)

90,256  

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545,592

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(114,975)

(24,481)

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(139,456)

58,533  

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58,533

464,669  

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1,921,837

\$ 2,386,506

\$ 2,386,506

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\$ 2,386,506

**CITY OF GALVESTON**  
**STATEMENT OF CASH FLOWS - Continued**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<b>Business-type Activities</b>		
	<b>Waterworks System</b>	<b>Sewer System</b>	<b>Other Enterprise Funds</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 523,365	\$ 2,352,292	\$ 1,201,262
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	2,301,132	1,896,234	684,805
(Increase) decrease in accounts receivable	294,609	(346,728)	(511,480)
Decrease in assets held with trustee			
(Increase) decrease in deferred charges			16,458
(Increase) decrease in inventory and prepaid	221,094	1,141	5,009
Increase (decrease) in salaries and benefits payable	13,770	20,569	258,220
Increase (decrease) in accounts payable	375,354	374,396	(52,595)
Increase (decrease) in in customer deposits	(5,453)	(1,202)	2,475
Increase (decrease) in estimated liability claims	(27,489)	(80,229)	(53,627)
Increase (decrease) in compensated absences payable	11,667	106,169	12,390
Total adjustments	<u>3,184,684</u>	<u>1,970,350</u>	<u>361,655</u>
<b>Net cash provided by (used for) operating activities</b>	<u><u>\$ 3,708,049</u></u>	<u><u>\$ 4,322,642</u></u>	<u><u>\$ 1,562,917</u></u>

See Notes to Financial Statements

**Governmental  
Activities  
Internal Service  
Funds**

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\$ (240,422)

103,455  
(72,766)  
(200,608)

24,677  
33,990  
280,250

564,202  
52,814

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786,014

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\$ 545,592

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2005**

*Exhibit 10*

	<b>Pension Trust Funds *</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and temporary investments	\$ 3,095,690	\$ 253,471
Investments, at fair value:		
Government and corporate bonds	28,026,931	
Mutual funds	4,151,196	
Common stock	51,563,813	
Receivables:		
Investment earnings	160,355	
Loans to participants	153,516	
Contributions	193,061	75
Due from other governments		
Prepaid benefits	187,612	
Total assets	<u>87,532,174</u>	<u>253,546</u>
<b>LIABILITIES</b>		
Accounts payable and other current liabilities	141,397	14,336
Refunds payable and others		239,210
Total liabilities	<u>141,397</u>	<u>253,546</u>
<b>NET ASSETS</b>		
Held in trust for benefits and other purposes	<u>\$ 87,390,777</u>	<u>\$</u>

\* as of December 31, 2004

See Notes to Financial Statements



**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

*Exhibit 11*

	<b>Pension Trust Funds</b>
	<u>                    </u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$      1,997,491
Plan members	2,341,455
Total contributions	<u>          4,338,946</u>
Investment earnings:	
Net appreciation of investments	6,359,272
Interest	1,535,908
Dividends	899,633
Investment activity expense	(547,894)
Total net investment earnings	<u>          8,246,919</u>
Total additions	<u>         12,585,865</u>
 <b>DEDUCTIONS</b>	
Benefits	6,739,634
Administrative	255,102
Total deductions	<u>          6,994,736</u>
Change in net assets	5,591,129
Net assets at beginning of year	81,799,648
Net assets at end of year	<u><u>          \$     87,390,777</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, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

#### **Blended Component Units**

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, 2005.

##### 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, 2004.

**Discretely Presented Component Units**

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

Following are the City's discretely presented governmental 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 Zones Ten, Eleven, Twelve, Thirteen, and Fourteen (the "Tax Zones") were established to provide funds for development and improvement projects within a specific geographic areas of the City. Property tax receipts over undeveloped assessments (base value) provide funding for the projects. The City appoints the Board members who operate and account for the Tax Zone activity consistent with the State Statute for the economic benefit of the City. The City accounts for the Tax Zones and separate audited reports are not available.

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

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

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

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

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

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

**Related Organizations and Jointly Governed Organizations**

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

**B. Government-wide and Fund Financial Statements**

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

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

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

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

**C. Measurement Focus and Basis of Accounting**

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

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

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

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

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues for the General Fund are property taxes, sales and use taxes, franchise taxes, permit fees 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 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**

Cash and Temporary 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

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, 2005. The allowance for enterprise fund charges for services is 20% of total outstanding charges as of September 30, 2005.

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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as prepaid items.

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.

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:

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



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.

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.

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.

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**

### **Credit Risk**

The primary stated objective of the City of Galveston's adopted Investment Policy is the safety of principal and avoidance of principal loss. Credit risk within the City's portfolio among the authorized investments approved by the City's adopted Investment Policy is represented only in time and demand deposits, repurchase agreements, commercial paper, municipal obligations, and non-rated SEC registered money market mutual funds. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the US Government, its agencies or instrumentalities.

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

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

By policy and state law commercial paper must be rated A1/P1 or equivalent by two nationally recognized rating agencies and is policy restricted to a maximum maturity of six (6) months.

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

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

As of September 30, 2005,

- investment in the State Treasurer's local government investment pool represented 52.94 % of the total portfolio,
- holdings in a non-rated money market mutual fund represented 9.45 % of the total portfolio,
- fully collateralized bank deposits represented 16.06 % of the total portfolio, and
- holding in US Government securities rated AAA represented 21.55 % of the total portfolio.

### **Concentration of Credit Risk**

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

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

As of September 30, 2005,

- holdings in one local government investment pool represented 52.9 % of the total portfolio,
- holdings in a non-rated money market mutual fund represented 9.45 % of the total portfolio.

### **Interest Rate Risk**

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

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

As of September 30, 2005, the portfolio contained:

- no holding in the portfolio had a stated maturity date beyond one year, and
- the weighted average of the combined portfolio was 29 days on the total portfolio.

As of September 30, 2005, the portfolio contained no structured notes detail.

### **Custodial Credit Risk**

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

As of September 30, 2005, the portfolio contained no certificates of deposit and no repurchase agreements. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

### **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, 2005, was 54.171 cents. The tax rate to finance general governmental services was set at 43.58 cents and the tax rate for all other purposes, including Debt service, was set at 10.59 cents per \$100 of assessed valuation.

### **4 SALES TAX**

The City's sales tax rate is 2 cents for the year ended September 30, 2005. 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 \$3,457,490 in fiscal year 2005. 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>Non-major Governmental Funds</u>	<u>Water</u>	<u>Sewer</u>	<u>Non-major Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
Receivables:								
Taxes	\$ 5,075,543	\$	\$ 192,729	\$	\$	\$	\$	\$ 5,268,272
Accounts	1,978,611	10,000	1,088,508	1,746,746	2,094,700	2,043,204	224,131	9,185,900
Due from other governments	338,791	922,489	2,663,894	250,038	23,403	26,633	26,564	4,251,812
Interest	2,317		2,578	430	430	760	766	7,281
Gross receivables	7,395,262	932,489	3,947,709	1,997,214	2,118,533	2,070,597	251,461	18,713,265
Less: allowance for uncollectibles	(1,748,758)			(189,880)	(260,220)	(528,297)		(2,727,155)
Net total receivables	<u>\$ 5,646,504</u>	<u>\$ 932,489</u>	<u>\$ 3,947,709</u>	<u>\$ 1,807,334</u>	<u>\$1,858,313</u>	<u>\$ 1,542,300</u>	<u>\$ 251,461</u>	<u>\$ 15,986,110</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.

**6 INTERFUND ACTIVITIES**

Interfund transfers for the primary government are as follows for the year ended September 30, 2005:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>						<u>Totals</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>				<u>Other Enterprise Fund</u>	
		<u>Industrial Development Corporation</u>	<u>Convention Center</u>	<u>Waterworks System</u>	<u>Sewer System</u>		
General Fund	\$	\$	\$	\$ 200,000	\$200,000	\$ 200,000	\$ 600,000
Other Governmental Funds:							
Debt Service		1,340,205					1,340,205
HOT Debt Service Fund			126,705				126,705
Capital Projects Fund:							
Drainage and Street Improvement		466,312					466,312
Sewer Improvements		1,328,351					1,328,351
Other Enterprise Fund:							
Golf Course Fund	100,000						100,000
Totals	<u>\$100,000</u>	<u>\$ 3,134,868</u>	<u>\$ 126,705</u>	<u>\$ 200,000</u>	<u>\$200,000</u>	<u>\$ 200,000</u>	<u>\$ 3,961,573</u>

<b>Transfer from</b>	<b>Transfer to</b>	<b>Purpose</b>
General Fund	Golf Course	Provided by budgeted transfer to cover operating costs of the golf course.
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	
Convention Center	HOT Debt Service Fund	Per the bond covenants of the Hotel Occupancy Tax Bonds, Series 2002A and Series 2002B, a transfer of payments from debt service funds is made to various special revenue operating reserve accounts as well as capital reserve accounts for operation of the convention center
Waterworks System	General Fund	To transfer payments in lieu of taxes
Sewer	General Fund	To transfer payments in lieu of taxes
Sanitation Services	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, 2005:

<b>Payable Funds: Due From</b>	<b>Receivable Funds Due to</b>	
	<b>General Fund</b>	<b>Internal Service Fund</b>
Governmental Funds		
Island Transit Fund	\$ 683,189	
Enterprise Funds		
Waterworks System		\$ 7,453
Sewer System		79,279
Other Enterprise Funds		90,425

The Island Transit Fund inter-fund receivable/payable of \$683,189 is the historic variance of funding that the General Fund has had to supplement to Island Transit due to various timing differences of grant reimbursements that Island Transit receives.

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

The Interfund balances owed the internal service fund are amounts owed by water, sewer and sanitation funds for workers' compensation claims liability as of year end.

**7 CAPITAL ASSETS**

Capital asset activity, for the year ended September 30, 2005, was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,715,802			\$ 2,715,802
Construction in progress	2,384,224	3,555,204	(42,847)	5,896,581
Total capital assets, not being depreciated	<u>5,100,026</u>	<u>3,555,204</u>	<u>(42,847)</u>	<u>8,612,383</u>
Capital assets, being depreciated:				
Buildings	38,411,618	168,976		38,580,594
Improvements other than buildings	3,813,564	74,096		3,887,660
Machinery and equipment	7,598,462	382,210		7,980,672
Licensed vehicles	12,647,787	1,663,174	(927,239)	13,383,722
Infrastructure	70,701,882	2,732,152		73,434,034
Total capital assets being depreciated	<u>133,173,313</u>	<u>5,020,608</u>	<u>(927,239)</u>	<u>137,266,682</u>
Less accumulated depreciation for:				
Buildings	(2,961,473)	(765,590)		(3,727,063)
Improvements other than buildings	(2,697,367)	(137,417)		(2,834,784)
Machinery and equipment	(3,573,911)	(869,073)		(4,442,984)
Licensed vehicles	(6,773,747)	(1,097,632)	898,434	(6,972,945)
Infrastructure	(45,591,086)	(1,300,536)		(46,891,622)
Total accumulated depreciation	<u>(61,597,584)</u>	<u>(4,170,248)</u>	<u>898,434</u>	<u>(64,869,398)</u>
Total capital assets, being depreciated, net	<u>71,575,729</u>	<u>850,360</u>	<u>(28,805)</u>	<u>72,397,284</u>
Governmental activities capital assets, net	<u>\$ 76,675,755</u>	<u>\$ 4,405,564</u>	<u>\$ (71,652)</u>	<u>\$ 81,009,667</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,915,875			\$ 1,915,875
Construction in progress	15,615,362	5,855,986	(6,727,910)	14,743,438
Total capital assets, not being depreciated	<u>17,531,237</u>	<u>5,855,986</u>	<u>(6,727,910)</u>	<u>16,659,313</u>
Capital assets, being depreciated:				
Buildings and system	30,258,978	1,127,284		31,386,262
Improvements other than buildings	81,652,939	12,705,852		94,358,791
Machinery and equipment	10,319,775	2,014,143		12,333,918
Total capital assets, being depreciated	<u>122,231,692</u>	<u>15,847,279</u>		<u>138,078,971</u>
Less accumulated depreciation for:				
Buildings and system	(11,769,693)	(729,729)		(12,499,422)
Improvements other than buildings	(30,435,861)	(2,091,673)		(32,527,534)
Machinery and equipment	(7,624,925)	(963,063)		(8,587,988)
Total accumulated depreciation	<u>(49,830,479)</u>	<u>(3,784,465)</u>		<u>(53,614,944)</u>
Total capital assets, being depreciated, net	<u>72,401,213</u>	<u>12,062,814</u>		<u>84,464,027</u>
Business-type activities capital assets, net	<u>\$ 89,932,450</u>	<u>\$ 17,918,800</u>	<u>\$ (6,727,910)</u>	<u>\$ 101,123,340</u>

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

Governmental activities:		
General government		\$ 40,452
Public safety		875,675
Public works and streets, including depreciation		1,406,068
Culture and recreation		1,025,448
Planning and community development		48,834
Transit operations		670,316
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>103,455</u>
Total depreciation expense - governmental activities		<u>\$ 4,170,248</u>
Business-type activities:		
Water		\$ 1,203,426
Sewer		1,896,234
Sanitation		311,171
Drainage		10,510
Airport		281,095
Golf		82,029
Total depreciation expense - business-type activities		<u>\$ 3,784,465</u>



Construction in progress and remaining commitment, at September 30, 2005, 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	\$ 3,447,879	\$ 260,585
Livable communities initiatives	2,309,558	1,827,992	481,566
Fixed guideway demonstration project	937,500	368,280	569,220
Various traffic, streets, etc.	40,142	21,127	19,015
Traffic signal improvement project	1,022,536	145,811	876,725
City Hall Improvements (Central Serv.Fund)	140,492	85,492	55,000
	<u>\$ 8,158,692</u>	<u>\$ 5,896,581</u>	<u>\$ 2,262,111</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	\$ 2,897,891	\$ 7,552,352
Various other	520,002	316,430	203,572
<i>Sewer System Fund Projects</i>			
Various sewer projects	12,118,733	8,943,282	3,175,451
<i>Drainage Fund Projects</i>			
Various drainage projects	705,094	540,132	164,962
<i>Airport Fund Projects</i>	2,201,904	2,045,703	156,201
Totals	<u>\$ 25,995,976</u>	<u>\$ 14,743,438</u>	<u>\$ 11,252,538</u>

**8 LONG-TERM DEBT**

Governmental activities long-term liability activity for the year ended September 30, 2005, was as follows:

<u>Description</u>	<u>Balance at 9/30/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/2005</u>	<u>Current Portion</u>
General Obligation					
Bonds	\$ 17,599,221	\$	\$ (414,869)	\$ 17,184,352	\$ 264,454
Special Obligation					
Bonds	40,910,000		(1,240,000)	39,670,000	1,310,000
Certificates of Obligation	19,323,672			19,323,672	
Capital Leases	1,558,624	349,786	(836,692)	1,071,718	673,935
Accrued Compensated Absences	5,706,723	1,668,399	(485,340)	6,889,782	66,075
Claims and Judgements	560,829	3,843,673	(3,540,163)	864,339	24,000
Totals	<u>\$ 85,659,069</u>	<u>\$ 5,861,858</u>	<u>\$ (6,517,064)</u>	<u>\$ 85,003,863</u>	<u>\$ 2,338,464</u>

Reconciliation to Statement of Net Assets

Due within one year	\$ 2,338,464
Due in more than one year	82,665,399
	<u>\$ 85,003,863</u>

Compensated absences 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 and workers' compensation claims are liquidated by the Internal Service Fund – Health Insurance Fund and the Internal Service Fund – Workers' Compensation 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.	\$ 3,202,532
\$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>13,981,820</u>
Total General Obligation Bonds	<u><u>\$ 17,184,352</u></u>

**Special Obligation Bonds**

\$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 Corporation)	\$ 1,550,000
\$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 Corporation)	7,165,000
\$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%.	15,750,000
\$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%.	15,205,000
Total Special Obligation Bonds	<u><u>\$ 39,670,000</u></u>

**Certificates Of Obligation Bonds**

\$19,323,672 2004 Wharves and Terminal Revenue Bonds due in annual installments of \$2,425,000 to \$1,390,621 through February 1, 2020, interest at 4.25% to 5.18%	<u><u>\$ 19,323,672</u></u>
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**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*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%.	\$ 64,690
\$900,000 2000 Capital Lease purchase due in semi-annual installments of \$107,387 through October 1, 2005; interest at 6.695%.	103,908
\$157,837 2001 Capital lease purchase due in semi-annual installments of \$17,816 through September 17,2006; interest at 4.53%.	34,457
\$434,316 2002 Capital lease purchase due in semi-annual installments of \$48,941 through August 20, 2006; interest at 4.465%.	94,699
\$720,000 2002 Capital lease purchase due in annual installments of \$158,993 through November 28, 2006; interest at 3.395%.	302,495
\$572,740 2003 Capital lease purchase due in semi-annual installments of \$198,322 through August 6, 2006; interest at 2.3%.	195,101
\$349,786 2005 Capital lease purchase due in semi-annual installments of \$75,563 through January 2009; interest at 3.67%	<u>276,368</u>
Total Capital Leases	<u><u>\$ 1,071,718</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments, as of September 30, 2005, were as follows:

<b>Fiscal year ending September 30</b>	<b>Governmental Activities</b>
2005	\$ 819,700
2006	608,542
2007	<u>186,807</u>
Total minimum payments	1,615,049
Less: Interest	<u>(543,331)</u>
Present value of minimum lease payments	1,071,718
Current Portion	<u>673,935</u>
Long Term Portion	<u><u>\$ 397,783</u></u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

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

<b>Annual debt service requirements to maturity for governmental activity bonds are as follows:</b>						
<b>Fiscal Year ending 9/30</b>	<b>General Obligation Bonds</b>		<b>Special Obligation Bonds</b>		<b>Certificates Of Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
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>\$ 14,306,527</u>	<u>\$ 12,983,111</u>	<u>\$ 39,670,000</u>	<u>\$ 30,936,372</u>	<u>\$ 19,323,672</u>	<u>\$ 11,372,666</u>
Accreted interest	<u>2,877,825</u>					
Total Payable	<u>\$ 17,184,352</u>					

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

Business-type activities long-term liability activity for the year ended September 30, 2005, was as follows:

<u>Description</u>	<u>Balance at 9/30/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at 9/30/2005</u>	<u>Current Portion</u>
Contracts (Gulf Coast Water Authority)	\$ 44,388,474	\$	\$ (1,558,439)	\$ 42,830,035	\$ 1,634,877
Revenue Bonds	20,471,124		(1,736,124)	18,735,000	785,000
Certificates of Obligation	910,000		(90,000)	820,000	95,000
Line of Credit		7,490,394		7,490,394	
Capital Lease	593,673	210,950	(177,218)	627,405	174,993
Accrued Compensated Absences	873,299	99,620	(34,496)	938,423	24,875
Deferred Bond issuance costs	<u>(2,007,514)</u>		<u>120,408</u>	<u>(1,887,106)</u>	
<b>Totals</b>	<u>\$ 65,229,056</u>	<u>\$ 7,800,964</u>	<u>\$ (3,475,869)</u>	<u>\$ 69,554,151</u>	<u>\$ 2,714,745</u>

Reconciliation to Statement of Net Assets:

Due within one year	\$ 2,714,745
Due in more than one year	66,839,406
	<u>\$ 69,554,151</u>

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

**Contracts (Gulf Coast Water Authority)**

\$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%	\$ 1,671,529
\$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%.	8,635,000
\$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).	21,633,506
\$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>10,890,000</u>
Total Contracts Payable – Enterprise Funds	<u>\$ 42,830,035</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

**Revenue Bonds**

\$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%.	\$ 8,535,000
\$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%.	<u>10,200,000</u>
Total Revenue Bonds, Face Value	18,735,000
Deferred bond issuance costs	<u>(1,887,106)</u>
Total Revenue Bonds – Enterprise Funds, Net	<u><u>\$ 16,847,894</u></u>

**Certificates of Obligation**

\$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%.	<u>\$ 820,000</u>
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**Line of Credit**

\$10,000,000 Line of Credit extended to Waterworks and Sewer Funds due in annual installments for 10 years, interest at 3%, commencing upon completion of the city-wide re-metering	<u>\$ 7,490,394</u>
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**Capital Leases**

\$285,436 2004 Capital lease purchase due in annual installments of \$57,087 through November 18, 2008; interest at 3.08%	\$ 222,831
\$226,058 2005 Capital lease purchase due in annual installments of \$75,353 through June 1, 2007; interest at 2.86%	137,753
\$738,515 1990 Capital lease purchase due in monthly installments of \$5,886 through February 1, 2010; interest at 7.1 %	<u>266,821</u>
Total Capital Leases - Enterprise Funds, Net	<u><u>\$ 627,405</u></u>

The future minimum lease obligations and the net present value of minimum lease payments on Business-type activity capital leases, as of September 30, 2005, were as follows:

Fiscal year ending September 30	Business-type activities		
	Municipal Airport	Drainage Fund	Total
2006	\$ 70,631	\$ 123,890	\$ 194,521
2007	70,631	128,036	198,667
2008	70,631	57,087	127,718
2009	70,631	57,088	127,719
2010	29,428		29,428
Total minimum payments	311,952	366,101	678,053
Less: Interest	<u>(45,131)</u>	<u>(5,518)</u>	<u>(50,649)</u>
Present value of minimum lease payments	266,821	360,583	627,404
Current Portion	<u>49,611</u>	<u>54,409</u>	<u>104,020</u>
Long Term Portion	<u><u>\$ 217,210</u></u>	<u><u>\$ 306,174</u></u>	<u><u>\$ 523,384</u></u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

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

Fiscal Year Ending 9/30	Revenue Bonds		Contracts		Sanitation Certificates of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
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	<u>\$ 18,735,000</u>	<u>\$ 8,710,649</u>	<u>\$ 42,830,043</u>	<u>\$ 21,068,360</u>	<u>\$ 820,000</u>	<u>\$ 128,825</u>

### **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 *Gulf Coast Water Authority Contract Revenue Bonds, Series 2002* to be used to build and improve facilities for potable water transportation to and within the City. The bonds will be repaid with pledged revenues from the City's Waterworks Fund.

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

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

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

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**

#### **Governmental activities**

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, 2005, is \$181,306.



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 \$337,500 at September 30, 2005.

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, 2005, is \$129,558.

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 \$48,941. The carrying value, net of depreciation, of the equipment is \$105,225 at September 30, 2005.

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, 2005, is \$612,000.

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, 2005, the carrying value, net of depreciation, of the equipment is \$128,885.

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, 2005, the carrying value, net of depreciation, of the equipment is \$79,767.

On November 9, 2004, the City entered into a \$349,786 lease-purchase agreement with Banc One Leasing Corporation to purchase a crimson pumper truck. The lease payment is being paid annually at \$75,563 for five years. At September 30, 2005, the carrying value, net of depreciation, of the equipment is \$349,786.

### **Business-type activities**

#### **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 \$319,888 at September 30, 2005.

#### **Drainage**

The City of Galveston entered into a \$226,058 three-year equipment lease-purchase agreement with California First Leasing Corporation ("CalFirst") on March 22, 2005, to purchase a new 2005 Vacuum Truck. The lease is paid at a rate of \$ 75,353 per year for three years. Net of depreciation, the carrying value of the vacuum truck at September 30, 2005 is \$203,918.

The City of Galveston entered into a \$285,436 five-year equipment lease-purchase agreement with Municipal Services Group, Inc. on November 18, 2003, to purchase a new 2004 Morbark Horizontal Wood Grinder. On February 12, 2004 the lease was assigned to Sun Trust Leasing Corporation. The lease is paid at a rate of \$57,087 per year for five years. Net of depreciation, the carrying value of the morbark grinder is \$81,152.

**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, 2005, the following previously refunded bonds are considered defeased:

Series	Refunded Principal Outstanding
Series 1994 Industrial Development Corporation Bonds	\$ 1,570,000
Series 1990 Public Improvement Bonds	195,626
Series 1995 Industrial Development Corporation Bonds	6,890,000

**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%. \$ 2,050,000

**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%. 5,700,000

\$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%. 5,010,000

\$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 3,575,000

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

Total Revenue Bonds, Face Value 30,790,000

Less: Un-amortized Discount (87,543)

Total Revenue Bonds, Net \$ 30,702,457

Amegy Bank - Line of Credit \$ 6,294,531

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5% 8,053,815

Total Notes Payable 14,348,346

\$ 45,050,803

## **9 FUND EQUITY**

### **Deficit Fund Balance**

The following funds had deficit fund balances as of September 30, 2005.

	<u>Deficit Balance</u>
Non-major governmental fund types:	
Special Revenue Funds:	
Grants and government contracts	\$ (80,154)
Internal Service Funds:	
Casualty and Liability Insurance	(214,095)
Workers Compensation Insurance	(215,089)

## **10 CONTINGENT LIABILITIES**

### **Grants:**

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

### **Litigation:**

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

### **Environmental Liability:**

The City is aware of various sites contaminated by hazardous materials. The City purchased land in April 1995, which contained property that had been a City landfill at one time and other land adjacent to it that has been determined by the U.S. Environmental Protection Agency to be contaminated. The City is presently negotiating with the Texas Commission on Environmental Quality to determine the potential cost of cleaning up this property. Ultimately, the cost will depend on the use made of the property and estimates of liability for clean up could range from \$100,000 to several million dollars. The City is negotiating to use the land for a parking lot, in which case the liability should be approximately \$100,000. No amounts have been accrued for this potential liability as of September 30, 2005.

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 Casualty and Liability Internal Service Fund is used to account for the accumulation of assets charged to other funds of the City for insurance premiums and all other liabilities. At September 30, 2005, the fund had a deficit fund balance of \$214,095. This deficit is being addressed through increased future premiums to other funds.

**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 Workers Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at September 30, 2005, 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. At September 30, 2005, the fund had a deficit fund balance of \$215,089. This deficit is being addressed through increased future premiums to other funds.

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

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

<b>Fiscal Year</b>	<b>Beginning of Year Accrual</b>	<b>Current Year Estimates</b>	<b>Claim Payments</b>	<b>End of Year Accrual</b>
2004	\$ 387,182	\$ 787,414	\$ (851,631)	\$ 322,965
2005	\$ 322,965	\$ 576,681	\$ (414,825)	\$ 484,821

**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>
2004	\$ 347,026	\$ 2,350,375	\$ (2,422,377)	\$ 275,024
2005	\$ 275,024	\$ 2,546,421	\$ (2,441,927)	\$ 379,518

**Board of Trustees of the Galveston Wharves**

A substantial portion of the Galveston Wharves facilities and operating assets are subject to federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect such compliance to have, any material effect upon the capital expenditures, net income, financial condition or competitive position of the Galveston Wharves. However, due to the nature of the industry in which they operate, a risk of possible fines, penalties and liability claims exists. Management believes that its current practices and procedures for the control and disposition of waste comply with applicable federal and state requirements and the Galveston Wharves is insured against claims arising from environmental hazards.

The Galveston Wharves is subject to claims and lawsuits arising from the normal course of business. The Galveston Wharves' legal counsel routinely evaluates such claims and management may make provision for probable losses if deemed appropriate. There were no provisions recorded as of December 31, 2004 and 2003.

With respect to litigation cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Galveston Wharves.

The Galveston Wharves has commitments with entities to lease land for parking lots. Future minimum rental commitments for equipment operating leases as of December 31, 2004 are as follows:

<u>Fiscal Year</u>	<u>Minimum Payments</u>
2005	405,000
2006	405,000
2007	405,000
2008	118,125
	<u>\$ 1,333,125</u>

**12 MAJOR CONTRACTS AND COMMITMENTS**

As of September 30, 2005, the City has the following major contracts and commitments in force. The following is a summary of these commitments.

**Emergency Medical Services Contract:**

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

**DISCRETELY PRESENTED COMPONENT UNITS:**

**Governmental Activities**

**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 accounts.

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, 2005.

<b>Year Ending</b>	
<b>September 30</b>	<b>2504 Church</b>
2006	87,600
2007	87,600
2008	87,600
Later years	87,600
	<u>\$ 350,400</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.

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

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:

<b>Year Ending September 30</b>	<b>Concession Contract</b>	<b>Advertising and Promotion</b>	<b>Total</b>
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	\$ 280,000	\$ 240,000	\$ 520,000

**Business-Type Activities**

**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 \$26,000,000 special revenue bonds and \$10,085,730 advance rental from the lessee. During 1982, the Wharves issued \$27,420,000 special revenue bonds to finance additional improvements by the lessee that were redeemed on October 1, 1987.

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

The outstanding balances of the 1977 and 1998 special revenue bonds as of December 31, 2004 and 2003, was \$14,200,000 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, 2004:

Minimum lease rental payments receivable	
Due within one year	\$ 2,983,981
Due after one year	27,621,625
	<u>30,605,606</u>
Unearned income, direct financing lease	
Due within one year	1,062,419
Due after one year	10,754,681
	<u>11,817,100</u>
Net investment in direct financing lease	<u>\$ 18,788,506</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 the 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 \$1,000,000 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, 2004:

Lease payments receivable, current	\$ 598,737
Lease payments receivable, long-term	<u>2,816,384</u>
Total	3,415,121
Unrealized income	<u>(567,075)</u>
Net investment in sales-type lease	<u>\$ 2,848,046</u>

Unearned income is amortized and charged to operation 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 \$170,847 in 2004.

**Future Minimum Lease Payments Receivable – Sales-Type Lease**

<u>Fiscal Year</u>	<u>Future Minimum Lease Payments</u>
2005	598,737
2006	542,920
2007	488,081
2008	423,564
2009	404,576
2010	385,580
2011	366,588
2012	<u>205,075</u>
	<u>\$ 3,415,121</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 Facility Rental**

In 1977 the Galveston Wharves received approximately \$10 million in the form of advanced rental on the dockside elevator facility. It is being recognized over the initial and optional terms of the lease that aggregate fifty years. At December 31, 2004 and 2003, the amount deferred to future years was approximately \$4.6 million and \$4.9 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, 2004, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

<b>Future Lease</b>	
<b>Fiscal Year</b>	<b>Payments</b>
2005	\$ 2,082,783
2006	1,806,586
2007	1,572,201
2008	1,500,803
2009	1,396,491
After 2009	14,286,001
Total	\$ 22,644,865

**13 EMPLOYEE RETIREMENT BENEFITS**

**A. Primary Government Benefit Plans**

**Plan Descriptions**

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 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

**Funding Policy and Annual Pension Cost**

The contribution requirements of plan members are established and may be amended by a majority vote of the membership. The contribution requirements of the City are established and may be amended by the City Council.

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

<b>Retirement Plan</b>	<b>Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Actual Contributions Made</b>	<b>Contributed</b>	<b>Net Pension Obligation (NPO)</b>
Employees' Retirement Plan	12/31/2002	\$ 718,044	\$ 718,044	100%	\$
for City Employees	12/31/2003	\$ 1,175,515	\$ 1,028,576	88%	\$ 146,939
	12/31/2004	\$ 664,706	\$ 811,645	122%	\$
	Firemen's Retirement and Retirement Fund	12/31/2002	\$ 615,897	\$ 615,897	100%
Retirement Fund	12/31/2003	\$ 651,799	\$ 651,799	100%	\$
	12/31/2004	\$ 713,677	\$ 713,677	100%	\$
	Employees' Retirement Plan for Police	12/31/2002	\$ 374,456	\$ 374,456	100%
for Police	12/31/2003	\$ 379,709	\$ 379,709	100%	\$
	12/31/2004	\$ 1,011,632	\$ 498,174	49.2%	\$ 513,458

	<b>Employees’ Retirement Plan</b>	<b>Firemen’s Retirement Plan</b>	<b>Police Retirement Plan</b>
<b>Contribution Rates:</b>			
<b>City</b>	6.00%	13.50%	7.00%
<b>Plan Members</b>	6.00%	12.00%	10.00%
<b>Actuarial valuation date</b>	01/01/04	01/01/04	01/01/05
<b>Actuarial cost method</b>	Entry Age Normal	Entry Age	Entry Age Normal
<b>Asset valuation method</b>	Smoothed market value	Smoothed market value with a five year averaging period	Market Value
<b>Amortization method</b>	Level dollar amount, closed	Level percentage of projected payroll, open	Level percentage of projected payroll, open
<b>Amortization period</b>	30	37.6	30
<b>Actuarial assumptions:</b>			
Inflation rate	3.25%	3.25%	
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increase	5.25%	4.50%	4.50%

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

NPO 12/31/03	\$	
Annual Pension Cost		1,011,632
Actual contributions made		(498,174)
NPO 12/31/04	\$	513,458

**B. Discretely Presented Component Unit Benefit Plans**

**Board of Trustees of the Galveston Wharves**

**Plan Description**

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

**Basis of Accounting**

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

**Annual Pension Cost – Unaudited**

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

	<u>January 1, 2004</u>	<u>January 1, 2003</u>	<u>January 1, 2002</u>
Actuarial value of plan assets	\$ 7,151,956	\$ 5,932,540	\$ 7,114,778
Actuarial accrued liability	<u>8,040,414</u>	<u>7,359,447</u>	<u>7,087,542</u>
Total funding excess (deficit)	<u>\$ (888,458)</u>	<u>\$ (1,426,907)</u>	<u>\$ 27,236</u>
Annual covered payroll	<u>\$ 2,947,809</u>	<u>\$ 2,512,512</u>	<u>\$ 2,258,320</u>
Ratio-over (under) funded to covered payroll	<u>-30%</u>	<u>-57%</u>	<u>1%</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 Wharves during 2004 were \$348,879. At December 31, 2004 The Plan had an unfunded actuarial liability of \$888,458.

**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 right's 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 \$60,017 which was five percent (5%) of \$1,200,340 its current-year covered payroll. Employees' required and actual contributions amounted to \$41,707. Total current year payroll was \$2,829,862.

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.

### **14 Subsequent Event**

On December 20, 2005, the City issued its \$9,462,818 General Obligation and Refunding Bonds, Series 2005. The refunding bonds were issued to refund \$2,500,000 of the City's General Obligation and Refunding Bonds, Series 2001 resulting in a net present value savings of approximately \$156,000. The new bonds will be mature in annual installments through 2023 and will bear interest at 3.5 to 4.1%.

### **15 Major Discretely Presented Component Units**

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

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

**DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL TYPE**  
**STATEMENT OF NET ASSETS**  
**December 31, 2004**

	<u>Other Component Units</u>				<u>Totals</u>
	<u>Park Board of Trustees</u>	<u>Tax Increment Reinvestment Zone No. 12</u>	<u>Tax Increment Reinvestment Zone No. 14</u>	<u>Total - Other Component Units</u>	
Cash and temporary investments	\$ 2,607,896	\$ 337,327	\$	\$ 337,327	\$ 2,945,223
Receivables (net of allowance for uncollectibles)	1,667,035				1,667,035
Due from primary government			62,000	62,000	62,000
Inventories	12,024				12,024
Prepays	107,963				107,963
Restricted assets:					
Cash and temporary investments	622,547				622,547
Net investment in direct financing and capital leases - current					
Net investment in direct financing and capital leases - long term					
Capital assets not being depreciated	681,974	241,128		241,128	923,102
Capital assets, net of accumulated depreciation	317,448,742				317,448,742
Total assets	<u>323,148,181</u>	<u>578,455</u>	<u>62,000</u>	<u>640,455</u>	<u>323,788,636</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	686,943				686,943
Unearned revenues					
Due to primary government		241,127		241,127	241,127
Accrued interest					
Long term payable to primary government					
Non-current liabilities:					
Due within one year	798,320				798,320
Due in more than one year	1,875,655				1,875,655
Total liabilities	<u>3,360,918</u>	<u>241,127</u>		<u>241,127</u>	<u>3,602,045</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	317,702,830				317,702,830
Restricted for:					
Capital projects		337,328	62,000	399,328	399,328
Debt service	574,765				574,765
Replenishment	331,679				331,679
Unrestricted	1,177,989				1,177,989
Total net assets	<u>\$ 319,787,263</u>	<u>\$ 337,328</u>	<u>\$ 62,000</u>	<u>\$ 399,328</u>	<u>\$ 320,186,591</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**Exhibit 12**

**Discretely Presented Component Units - Government activity type**

**Statement of Activities**

**For the Year Ended September 30, 2005**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Park Board of Trustees	Tax Zone Twelve	Tax Zone Thirteen	Tax Zone Fourteen	Non Major Component Units	Totals
Component Unit										
Park Board of Trustees of the City of Galveston	\$ 22,683,534	\$ 4,447,737	\$ 321,708	\$	\$ (17,914,089)					\$ (17,914,089)
Tax Increment Reinvestment Zone No. Twelve										
Tax Increment Reinvestment Zone No. Thirteen										
Tax Increment Reinvestment Zone No. Fourteen										
Non Major Component Units										
Total component units	<u>\$ 22,683,534</u>	<u>\$ 4,447,737</u>	<u>\$ 321,708</u>		<u>(17,914,089)</u>					<u>(17,914,089)</u>
General revenues:										
Taxes:										
Property tax						160,805		62,000	222,805	222,805
Sales tax					876,147					876,147
Hotel tax					4,886,497					4,886,497
Unrestricted investment earnings					63,384	658	84		742	64,126
Miscellaneous										
Capital asset contributions					8,052,608					8,052,608
Total general revenues					<u>13,878,636</u>	<u>161,463</u>	<u>84</u>	<u>62,000</u>	<u>223,547</u>	<u>14,102,183</u>
Change in net assets					<u>(4,035,453)</u>	<u>161,463</u>	<u>84</u>	<u>62,000</u>	<u>223,547</u>	<u>(3,811,906)</u>
Net assets - beginning					<u>323,822,716</u>	<u>175,865</u>	<u>(84)</u>		<u>175,781</u>	<u>323,998,497</u>
Net assets - ending					<u>\$ 319,787,263</u>	<u>\$ 337,328</u>	<u>\$</u>	<u>\$ 62,000</u>	<u>\$ 399,328</u>	<u>\$ 320,186,591</u>

**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

*Exhibit 12*

**DISCRETELY PRESENTED COMPONENT UNITS - BUSINESS TYPE**  
**STATEMENT OF NET ASSETS**  
**December 31, 2004**

	<u>Other Component Units</u>				<u>Totals</u>
	<u>Board of Trustees of the Galveston Wharves</u>	<u>Galveston Housing Finance Corporation</u>	<u>City of Galveston Property Finance Authority</u>	<u>Total - Other Component Units</u>	
Cash and temporary investments	\$ 5,100,244	\$ 229,115	\$ 1,313,414	\$ 1,542,529	\$ 6,642,773
Receivables (net of allowance for uncollectibles)	2,195,936	(30,000)	779,096	749,096	2,945,032
Due from primary government					
Inventories					
Prepays	415,706				415,706
Restricted assets:					
Cash and temporary investments	22,487,221				22,487,221
Net investment in direct financing and capital leases - current	2,520,299				2,520,299
Net investment in direct financing and capital leases - long term	19,116,253				19,116,253
Capital assets not being depreciated	18,570,770				18,570,770
Capital assets, net of accumulated depreciation	51,177,196				51,177,196
Total assets	<u>121,583,625</u>	<u>199,115</u>	<u>2,092,510</u>	<u>2,291,625</u>	<u>123,875,250</u>
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	3,541,979	11,510	11,165	22,675	3,564,654
Unearned revenues	4,607,125				4,607,125
Advances payable					
Accrued interest	978,804		21,250	21,250	1,000,054
Long term payable to primary government	19,323,672				19,323,672
Non-current liabilities:					
Due within one year	9,882,028		115,000	115,000	9,997,028
Due in more than one year	33,632,673		880,000	880,000	34,512,673
Total liabilities	<u>71,966,281</u>	<u>11,510</u>	<u>1,027,415</u>	<u>1,038,925</u>	<u>73,005,206</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	33,896,121				33,896,121
Restricted for:					
Capital projects					
Debt service	6,715,107		59,297	59,297	6,774,404
Other projects					
Unrestricted	9,006,116	187,605	1,005,798	1,193,403	10,199,519
Total net assets	<u>\$ 49,617,344</u>	<u>\$ 187,605</u>	<u>\$ 1,065,095</u>	<u>\$ 1,252,700</u>	<u>\$ 50,870,044</u>



**CITY OF GALVESTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2005**

**Exhibit 12**

**Discretely Presented Component Units - Business activity type**

**Statement of Activities**

**For the Year Ended December 31, 2004**

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Board of Trustees of the Galveston Wharves	Galveston Housing Finance Corporation	City of Galveston Property Finance Authority	Non-major Component Units	Total
Component Unit									
Board of Trustees of the Galveston Wharves	\$ 16,128,653	\$ 15,576,779		\$ 1,295,345	\$ 743,471			\$	\$ 743,471
Non-major component units	307,633	234,434				(1,534)	(71,665)	(73,199)	(73,199)
Total component units	<u>\$ 16,436,286</u>	<u>\$ 15,811,213</u>	<u>\$</u>	<u>\$ 1,295,345</u>	<u>\$ 743,471</u>	<u>\$ (1,534)</u>	<u>\$ (71,665)</u>	<u>\$ (73,199)</u>	<u>\$ 670,272</u>
General revenues:									
Unrestricted investment earnings					492,088	3,090	37,262	40,352	532,440
Total general revenues					<u>492,088</u>	<u>3,090</u>	<u>37,262</u>	<u>40,352</u>	<u>532,440</u>
Change in net assets					1,235,559	1,556	(34,403)	(32,847)	1,202,712
Net assets - beginning					48,381,785	186,049	1,099,498	1,285,547	49,667,332
Net assets - ending					<u>\$ 49,617,344</u>	<u>\$ 187,605</u>	<u>\$ 1,065,095</u>	<u>\$ 1,252,700</u>	<u>\$ 50,870,044</u>

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**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, 2005**

	<b>General Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis) Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Property taxes	\$ 11,287,753	\$ 11,287,753	\$ 11,183,399	\$ (104,354)
Sales and use taxes	10,902,001	10,902,001	10,918,183	16,182
Franchise fees	4,889,836	4,889,836	4,879,699	(10,137)
Licenses and permits	1,145,458	1,145,458	1,313,886	168,428
Intergovernmental		410,753	547,368	136,615
Charges for services	2,029,499	2,015,353	2,109,980	94,627
Payments in lieu of taxes	606,376	606,376	596,461	(9,915)
Fines and forfeitures	1,795,097	1,795,097	2,133,166	338,069
Earnings on investments	137,256	137,256	244,597	107,341
Other	483,351	497,497	513,755	16,258
<b>Total revenues</b>	<b>33,276,627</b>	<b>33,687,380</b>	<b>34,440,494</b>	<b>753,114</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	4,654,580	4,725,565	4,514,748	210,817
Public safety	21,783,247	22,189,232	22,399,192	(209,960)
Public works and traffic	3,080,308	2,990,108	2,732,340	257,768
Culture and recreation	1,571,494	1,591,029	1,450,867	140,162
Planning and community development	1,647,367	1,787,566	1,624,416	163,150
Transportation system	866,901	866,901	885,731	(18,830)
<b>Total expenditures</b>	<b>33,603,897</b>	<b>34,150,401</b>	<b>33,607,294</b>	<b>543,107</b>
Revenues over (under) expenditures	(327,270)	(463,021)	833,200	1,296,221
<b>Other financing sources (uses):</b>				
Proceeds from sale of equipment	27,270	27,270	264,022	236,752
Transfers in	600,000	600,000	600,000	
Transfers out	(100,000)	(100,000)	(100,000)	
<b>Total other financing sources (uses)</b>	<b>527,270</b>	<b>527,270</b>	<b>764,022</b>	<b>236,752</b>
Revenues and other financing sources over (under) expenditures and other financing (uses)	200,000	64,249	1,597,222	1,532,973
Fund balances at beginning of year	7,774,338	7,774,338	7,774,338	
<b>Fund balances at end of year</b>	<b>\$ 7,974,338</b>	<b>\$ 7,838,587</b>	<b>\$ 9,371,560</b>	<b>\$ 1,532,973</b>

Exhibit 13

<b>Island Transit Fund</b>			
<b>Budgeted Amounts</b>		<b>Actual (Budgetary Basis) Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Original</b>	<b>Final</b>		
\$	\$	\$	\$
2,244,276	2,244,276	2,261,993	17,717
535,000	535,000	486,210	(48,790)
<u>75,000</u>	<u>75,000</u>	<u>28,758</u>	<u>(46,242)</u>
<u>2,854,276</u>	<u>2,854,276</u>	<u>2,776,961</u>	<u>(77,315)</u>
<u>3,276,087</u>	<u>3,276,087</u>	<u>3,077,913</u>	<u>198,174</u>
<u>3,276,087</u>	<u>3,276,087</u>	<u>3,077,913</u>	<u>198,174</u>
(421,811)	(421,811)	(300,952)	120,859
(421,811)	(421,811)	(300,952)	120,859
<u>163,994</u>	<u>163,994</u>	<u>163,994</u>	
<u>\$ (257,817)</u>	<u>\$ (257,817)</u>	<u>\$ (136,958)</u>	<u>\$ 120,859</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 were three budget amendment during FY 2005. Total appropriations did not increase.
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 Public Safety Department was over budget by \$209,960 primarily due to costs associated with Hurricanes Rita and Katrina.

The Transportation Department was over budget by \$18,830 primarily due to the cost of the three electric buses purchased being much higher than anticipated.

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

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

	<b>General Fund</b>			<b>GAAP Basis</b>
	<b>Budgetary Basis</b>	<b>Encumbrances</b>	<b>Unbudgeted Activities</b>	
Revenues	\$ 34,440,494	\$	\$ 260,113	\$ 34,700,607
Expenditures	33,607,294		609,899	34,217,193
Revenues over (under) expenditures	833,200		(349,786)	483,414
Other financing sources (uses)	764,022		349,786	1,113,808
Revenues and other financing sources over (under) expenditures and other financing (uses)	1,597,222			1,597,222
Fund balance at beginning of year	7,774,338			7,774,338
Fund balance at end of year	\$ 9,371,560	\$	\$	\$ 9,371,560
<b>Major Governmental Fund - Island Transit</b>				
	<b>Budgetary Basis</b>	<b>Unbudgeted Activities</b>		<b>GAAP Basis</b>
Revenues	\$ 2,776,961	\$ 557,366		\$ 3,334,327
Expenditures	3,077,913	305,117		3,383,030
Revenues over (under) expenditures	(300,952)	252,249		(48,703)
Other financing sources (uses)		607		607
Revenues and other financing sources over (under) expenditures and other financing (uses)	(300,952)	252,856		(48,096)
Fund balance at beginning of year	163,994			163,994
Fund balance at end of year	\$ (136,958)	\$ 252,856		\$ 115,898

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<b>Employees' Retirement Plan for City Employees (Unaudited)</b>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2003	\$ 33,117,589	\$ 35,037,084	\$ 1,919,495	94.5%	\$ 13,474,381	14.2%
01/01/2004	\$ 37,568,312	\$ 36,425,950	\$ (1,142,362)	103.1%	\$ 14,116,889	-8.1%
01/01/2005	\$ 37,475,822	\$ 39,065,834	\$ 1,590,012	95.9%	\$ 14,946,697	10.6%

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<b>Firemen's Relief and Retirement Fund (Unaudited)</b>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2000	\$ 24,590,702	\$ 27,011,421	\$ 2,420,719	91.0%	\$ 4,181,238	57.9%
1/1/2002	\$ 26,399,756	\$ 32,527,226	\$ 6,127,470	81.2%	\$ 4,387,586	139.7%
1/1/2004	\$ 26,956,845	\$ 34,723,058	\$ 7,766,213	77.6%	\$ 4,814,360	161.3%

<b>SCHEDULES OF FUNDING PROGRESS</b>						
<b>Employees' Retirement Plan for Police (Unaudited)</b>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2003	\$ 21,012,541	\$ 31,601,696	\$ 10,589,155	66.5%	\$ 6,803,316	155.6%
1/1/2004	\$ 23,438,264	\$ 34,129,588	\$ 10,691,324	68.7%	\$ 6,744,215	158.5%
1/1/2005	\$ 24,829,733	\$ 38,866,978	\$ 14,037,245	63.9%	\$ 7,118,514	197.2%

\* Except for the Firemen's Relief and Retirement Fund which is as of the January 1, 2004 valuation date.



**CITY OF GALVESTON, TEXAS**

**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**

December 31, 2003

Unaudited

Exhibit 15

Page 2 of 2

<b>THREE YEAR TREND INFORMATION</b>				
<b>(dollar amounts in thousands)</b>				
<b>Retirement Plan</b>	<b>Year Ending</b>	<b>Annual Required Contribution (ARC)</b>	<b>Contributed</b>	<b>Net Pension Obligation</b>
<b>Employees' Retirement Plan for City Employees</b>	12/31/2002	\$ 718,044	100%	\$
	12/31/2003	\$ 1,175,515	88%	\$ 146,939
	12/31/2004	\$ 664,706	122%	\$
<b>Firemen's Retirement and Retirement Fund</b>	12/31/2002	\$ 615,897	100%	\$
	12/31/2003	\$ 651,799	100%	\$
	12/31/2004	\$ 713,677	100%	\$
<b>Employees' Retirement Plan for Police</b>	12/31/2002	\$ 374,456	100%	\$
	12/31/2003	\$ 379,709	100%	\$
	12/31/2004	\$ 1,011,632	49.2%	\$ 513,458

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***GENERAL FUND***

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**CITY OF GALVESTON, TEXAS**

*Exhibit A-1*

**GENERAL FUND**

**SCHEDULE OF EXPENDITURES, BUDGET**

**AND ACTUAL ON BUDGETARY BASIS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<b>2005</b>			
	<b>Final Budget</b>	<b>Actual (Budgetary Basis)</b>	<b>Variance with Final Budget- Positive (Negative)</b>	<b>Actual (Budgetary Basis)</b>
General government:				
Legislative	\$ 310,858	\$ 289,814	\$ 21,044	\$ 313,278
Judicial	547,807	526,852	20,955	467,076
Executive	1,091,066	1,043,797	47,269	922,545
City Auditor	34,717	27,460	7,257	26,666
Finance	1,831,494	1,751,252	80,242	1,695,119
Legal	514,566	496,141	18,425	338,275
Personnel	260,657	253,533	7,124	218,201
Taxation	134,400	125,899	8,501	135,067
Total general government	<u>4,725,565</u>	<u>4,514,748</u>	<u>210,817</u>	<u>4,116,227</u>
Public safety:				
Police	13,623,462	13,341,630	281,832	12,965,162
Special events - Beach Party	251,032	251,032		250,000
Fire	8,013,538	7,922,202	91,336	7,193,707
Emergency medical service	225,800	211,667	14,133	227,133
Emergency management	75,400	70,590	4,810	331,028
Hurricane		602,071	(602,071)	331,028
Total public safety	<u>22,189,232</u>	<u>22,399,192</u>	<u>(209,960)</u>	<u>21,298,058</u>
Public works and streets	2,990,108	2,732,340	257,768	2,728,158
Culture and recreation	1,591,029	1,450,867	140,162	1,371,223
Planning and community development	1,787,566	1,624,416	163,150	1,461,270
Transportation system	<u>866,901</u>	<u>885,731</u>	<u>(18,830)</u>	<u>658,049</u>
Total expenditures	<u>\$ 34,150,401</u>	<u>\$ 33,607,294</u>	<u>\$ 543,107</u>	<u>\$ 31,632,985</u>

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# ***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 ad valorem 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.

**Convention Center Funds** – To account for operating and capital reserves relating to the Convention Center.

## ***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.

**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, 2005*

*Special Revenue Funds*

	<b>Rosenberg Library</b>	<b>Industrial Development Corporation</b>	<b>Parks and Recreation Improvement</b>	<b>Moody Civic Center</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 170,128	\$ 349,026	\$ 385,701	\$ 14,311
Receivables, net of allowance for uncollectibles	89,193	606,016	112	
<b>Total assets</b>	<b>\$ 259,321</b>	<b>\$ 955,042</b>	<b>\$ 385,813</b>	<b>\$ 14,311</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and other current liabilities	104,077	151,348		
Due to other governments				
Deferred revenue	89,194			
Advances from other governments				
<b>Total liabilities</b>	<b>193,271</b>	<b>151,348</b>		
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances				
Capital projects				
Debt service:				
Industrial Development Corporation Bonds		261,578		
Other bonded debt				
Other purposes			116,288	
Unreserved	66,050	542,116	269,525	14,311
<b>Total fund balances</b>	<b>66,050</b>	<b>803,694</b>	<b>385,813</b>	<b>14,311</b>
<b>Total liabilities and fund balances</b>	<b>\$ 259,321</b>	<b>\$ 955,042</b>	<b>\$ 385,813</b>	<b>\$ 14,311</b>



				<i>Debt Service Funds</i>	
<u>Street Improvements</u>	<u>Grants and Government Contract Programs</u>	<u>Project Specific Programs</u>	<u>Convention Center Funds</u>	<u>Debt Service Fund</u>	<u>Hotel Occupancy Tax Debt Service Fund</u>
\$ 19,759	476,504	\$ 1,549,615	\$ 1,086,754	\$ 2,807,773	\$ 2,594,352
6	2,118,599	696,693		104,354	
<u>\$ 19,765</u>	<u>\$ 2,595,103</u>	<u>\$ 2,246,308</u>	<u>\$ 1,086,754</u>	<u>\$ 2,912,127</u>	<u>\$ 2,594,352</u>
	396,520	11,602		1,314	
	14,917	711,672			
	2,256,288	218,815		103,536	
	7,532				
	<u>2,675,257</u>	<u>942,089</u>		<u>104,850</u>	
				1,219,000	
				1,588,277	2,594,352
19,765	(80,154)	1,304,219	1,086,754		
<u>19,765</u>	<u>(80,154)</u>	<u>1,304,219</u>	<u>1,086,754</u>	<u>2,807,277</u>	<u>2,594,352</u>
<u>\$ 19,765</u>	<u>\$ 2,595,103</u>	<u>\$ 2,246,308</u>	<u>\$ 1,086,754</u>	<u>\$ 2,912,127</u>	<u>\$ 2,594,352</u>

**CITY OF GALVESTON, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON MAJOR GOVERNMENTAL FUNDS**  
*September 30, 2005*

	<i>Capital Projects Funds</i>		
	<b>Public Improvements</b>	<b>Public Safety Improvements</b>	<b>Drainage and Street Improvements</b>
<b>ASSETS</b>			
Cash and temporary investments	\$ 1,000	\$ 1,109	\$ 824,744
Receivables, net of allowance for uncollectibles			104
<b>Total assets</b>	<b>\$ 1,000</b>	<b>\$ 1,109</b>	<b>\$ 824,848</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable and other current liabilities			4,050
Due to other governments			
Deferred revenue			
Advances from other governments			
<b>Total liabilities</b>			4,050
 <b>FUND BALANCES:</b>			
Reserved for:			
Encumbrances			
Capital projects	1,000	1,109	820,798
Debt service:			
Industrial Development Corporation Bonds			
Other bonded debt			
Other purposes			
Unreserved			
<b>Total fund balances</b>	<b>1,000</b>	<b>1,109</b>	<b>820,798</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,000</b>	<b>\$ 1,109</b>	<b>\$ 824,848</b>

*Exhibit B-1*  
*Page 2 of 2*

<u>Sewer Improvements</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$ 2,508,685	\$ 3,021,157	\$ 47,018	\$ 15,857,636
344		332,288	3,947,709
<u>\$ 2,509,029</u>	<u>\$ 3,021,157</u>	<u>\$ 379,306</u>	<u>\$ 19,805,345</u>
	194,500	164,043	1,027,454
			726,589
		101,333	2,769,166
			7,532
	<u>194,500</u>	<u>265,376</u>	<u>4,530,741</u>
2,509,029	2,826,657	113,930	6,272,523
			1,480,578
			4,182,629
			1,203,042
			<u>2,135,832</u>
<u>2,509,029</u>	<u>2,826,657</u>	<u>113,930</u>	<u>15,274,604</u>
<u>\$ 2,509,029</u>	<u>\$ 3,021,157</u>	<u>\$ 379,306</u>	<u>\$ 19,805,345</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, 2005**

	<i>Special Revenue Funds</i>			
	<b>Rosenberg Library</b>	<b>Industrial Development Corporation</b>	<b>Parks and Recreation Improvement</b>	<b>Moody Civic Center</b>
<b>REVENUES</b>				
Property tax	\$ 1,273,952	\$	\$	\$
Sales tax		3,506,480		
Hotel occupancy taxes				
Fees and fines				
Intergovernmental				
Charges for services				
Investment earnings	286	66,269	11,350	387
Miscellaneous				
<b>Total revenues</b>	<u>1,274,238</u>	<u>3,572,749</u>	<u>11,350</u>	<u>387</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Public safety				
Culture and recreation	1,245,059	877,601		
Planning and community development				
Transportation system				
Debt Service:				
Principal				
Interest and other charges				
Capital Outlay:				
Public works				
Culture and recreation				
Planning and community development				
Transportation system				
<b>Total expenditures</b>	<u>1,245,059</u>	<u>877,601</u>	<u>11,350</u>	<u>387</u>
Revenues over (under) expenditures	<u>29,179</u>	<u>2,695,148</u>	<u>11,350</u>	<u>387</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in				
Transfers out		(3,134,868)		
<b>Total other financing sources and uses</b>		<u>(3,134,868)</u>		
Net change in fund balances	29,179	(439,720)	11,350	387
Fund balances at beginning of year	36,871	1,243,414	374,463	13,924
<b>Fund balances at end of year</b>	<u>\$ 66,050</u>	<u>\$ 803,694</u>	<u>\$ 385,813</u>	<u>\$ 14,311</u>

<i>Debt Service Funds</i>					
<b>Street Improvements</b>	<b>Grants and Government Contract Programs</b>	<b>Project Specific Programs</b>	<b>Convention Center Funds</b>	<b>Debt Service Fund</b>	<b>Hotel Occupancy Tax Debt Service Fund</b>
\$	\$	\$	\$	1,426,291	\$
			1,521,297		1,896,789
		197,183			
	1,830,441	54,149			
	731,900	104,648			
552	11,983	42,864	6,753	77,133	56,854
	7	180,821			
<u>552</u>	<u>2,574,331</u>	<u>579,665</u>	<u>1,528,050</u>	<u>1,503,424</u>	<u>1,953,643</u>
		110,096			
	216,942	60,738			
	64,254	85,001			
	2,142,515				
		5,628			
				1,199,573	325,000
				1,417,175	1,501,812
			843,561		
	166,350				
	<u>2,590,061</u>	<u>261,463</u>	<u>843,561</u>	<u>2,616,748</u>	<u>1,826,812</u>
552	<u>(15,730)</u>	<u>318,202</u>	<u>684,489</u>	<u>(1,113,324)</u>	<u>126,831</u>
				1,340,205	126,705
			(126,705)		
			(126,705)	1,340,205	126,705
552	(15,730)	318,202	557,784	226,881	253,536
19,213	(64,424)	986,017	528,970	2,580,396	2,340,816
<u>\$ 19,765</u>	<u>\$ (80,154)</u>	<u>\$ 1,304,219</u>	<u>\$ 1,086,754</u>	<u>\$ 2,807,277</u>	<u>\$ 2,594,352</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, 2005**

	<b>Public Improvements</b>	<b>Public Safety Improvements</b>	<b>Drainage and Street Improvements</b>
<b>REVENUES</b>			
Property tax	\$	\$	\$
Sales tax			
Hotel occupancy taxes			
Fees and fines			
Intergovernmental			
Charges for services			
Investment earnings		274	11,949
Miscellaneous			
<b>Total revenues</b>	<u>274</u>	<u>274</u>	<u>11,949</u>
<b>EXPENDITURES</b>			
Current:			
General government			
Public safety		13,597	
Culture and recreation			
Planning and community development			
Transportation system			
Debt Service:			
Principal			32,947
Interest and other charges			2,685
Capital Outlay:			
Public works			60,653
Culture and recreation			
Planning and community development			
Transportation system			
<b>Total expenditures</b>	<u>13,597</u>	<u>13,597</u>	<u>96,285</u>
Revenues over (under) expenditures	<u>(13,323)</u>	<u>(13,323)</u>	<u>(84,336)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			466,312
Transfers out			
<b>Total other financing sources and uses</b>	<u>466,312</u>	<u>466,312</u>	<u>466,312</u>
Net change in fund balances		(13,323)	381,976
Fund balances at beginning of year	1,000	14,432	438,822
<b>Fund balances at end of year</b>	<u>\$ 1,000</u>	<u>\$ 1,109</u>	<u>\$ 820,798</u>

*Exhibit B-2*

*Page 2 of 2*

<u>Sewer Improvements</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Total Non-major Governmental Funds</u>
\$	\$	\$	\$ 2,700,243
			3,506,480
			3,418,086
			197,183
		1,783,582	3,668,172
			836,548
35,293	115,483	652	438,082
			180,828
<u>35,293</u>	<u>115,483</u>	<u>1,784,234</u>	<u>14,945,622</u>
			110,096
			291,277
			2,271,915
			2,142,515
			5,628
			1,557,520
			2,921,672
45,151	2,920,328		3,026,132
	62,704		906,265
			166,350
	11,020	1,784,181	1,795,201
<u>45,151</u>	<u>2,994,052</u>	<u>1,784,181</u>	<u>15,194,571</u>
<u>(9,858)</u>	<u>(2,878,569)</u>	<u>53</u>	<u>(248,949)</u>
1,328,351			3,261,573
<u>1,328,351</u>			<u>(3,261,573)</u>
1,318,493	(2,878,569)	53	(248,949)
1,190,536	5,705,226	113,877	15,523,553
<u>\$ 2,509,029</u>	<u>\$ 2,826,657</u>	<u>\$ 113,930</u>	<u>\$ 15,274,604</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, 2005**

	<b>2005</b>		
	<b>Final Budget</b>	<b>Budgetary Basis Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
Revenues			
Intergovernmental-Federal	\$ 1,227,375	\$ 1,288,401	\$ 61,026
Intergovernmental-State	350,000	333,712	(16,288)
Intergovernmental-Local	666,901	639,880	(27,021)
Fare box revenues	240,000	229,813	(10,187)
Charges for services	295,000	256,397	(38,603)
Other	75,000	28,758	(46,242)
Total operating revenues	<u>2,854,276</u>	<u>2,776,961</u>	<u>(77,315)</u>
Expenditures			
Current			
Transportation system:			
Transit system:			
Personal services	1,256,976	1,259,736	(2,760)
Materials and supplies	231,878	231,878	
Contractual services	204,968	202,890	2,078
Other charges	62,479	62,479	
Total transit system expenditures	<u>1,756,301</u>	<u>1,756,983</u>	<u>(682)</u>
Maintenance:			
Personal services	758,284	730,063	28,221
Materials and supplies	285,800	264,349	21,451
Contractual services	83,363	78,374	4,989
Other charges	(30,000)	(49,749)	19,749
Total maintenance expenditures	<u>1,097,447</u>	<u>1,023,037</u>	<u>74,410</u>
Administration:			
Personal services	201,641	140,066	61,575
Materials and supplies	63,900	47,239	16,661
Contractual services	120,655	85,036	35,619
Other charges	36,143	25,552	10,591
Total administration expenditures	<u>422,339</u>	<u>297,893</u>	<u>124,446</u>
Total transportation system	<u>3,276,087</u>	<u>3,077,913</u>	<u>198,174</u>
Revenues and other sources over (under) expenditures	<u>\$ (421,811)</u>	(300,952)	<u>\$ 120,859</u>
Fund balance at beginning of year (budgetary basis)		<u>163,994</u>	
Fund balance at end of year (budgetary basis)		<u>\$ (136,958)</u>	



**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, 2005**

*Exhibit B-4*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
Revenues:			
Property taxes - current	\$ 1,248,930	\$ 1,240,812	\$ (8,118)
Property taxes - delinquent		33,140	33,140
Interest income		286	286
Total revenues	<u>1,248,930</u>	<u>1,274,238</u>	<u>25,308</u>
Expenditures:			
Current:			
Culture and recreation			
Payments to Rosenberg Library	<u>1,248,930</u>	<u>1,245,059</u>	<u>3,871</u>
Revenues over (under) expenditures		29,179	29,179
Fund balance (deficit) at beginning of year	36,871	36,871	
Fund balance (deficit) at end of year	<u>\$ 36,871</u>	<u>\$ 66,050</u>	<u>\$ 29,179</u>

**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, 2005**

	<b>2005</b>		
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
Revenues:			
Property taxes	\$ 1,444,800	\$ 1,426,291	\$ (18,509)
Earnings on investments	71,000	77,133	6,133
Other revenues	1,829,312		(1,829,312)
Total revenues	<u>3,345,112</u>	<u>1,503,424</u>	<u>(1,841,688)</u>
Expenditures:			
Principal retirement	1,524,573	1,199,573	325,000
Interest and fiscal agent fees	3,016,734	1,417,175	1,599,559
Total expenditures	<u>4,541,307</u>	<u>2,616,748</u>	<u>1,924,559</u>
Revenues over (under) expenditures	(1,196,195)	(1,113,324)	82,871
Other financing sources:			
Operating transfers in:			
Industrial Development Corporation	1,326,195	1,340,205	14,010
Revenues and other financing sources over (under) expenditures and other financing (uses)	130,000	226,881	96,881
Fund balance at beginning of year	<u>2,580,396</u>	<u>2,580,396</u>	
Fund balance at end of year	<u>\$ 2,710,396</u>	<u>\$ 2,807,277</u>	<u>\$ 96,881</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, 2005**

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
<b>ASSETS</b>			
Current assets:			
Cash and temporary investments	\$ 521,339	\$ 617,883	\$ 153,693
Receivables, net of allowance for uncollectibles	1,005,134	455,515	80,150
Inventories			
Prepaid expenses	3,544	2,363	
Restricted cash and cash equivalents:			
Bond covenant accounts	123,128		
Capital improvements	29,152		
Total current assets	<u>1,682,297</u>	<u>1,075,761</u>	<u>233,843</u>
Capital assets, net of depreciation	<u>1,662,046</u>	<u>825,203</u>	<u>6,369,509</u>
Total non-current assets	<u>1,662,046</u>	<u>825,203</u>	<u>6,369,509</u>
Total assets	<u>3,344,343</u>	<u>1,900,964</u>	<u>6,603,352</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and other current liabilities	327,882	41,830	225,444
Due to other funds	75,248		8,877
Deferred revenue	8,900		49,667
Accrued interest	9,376		
Non-current liabilities due within one year	<u>108,909</u>	<u>124,682</u>	<u>53,277</u>
Total current liabilities	<u>530,315</u>	<u>166,512</u>	<u>337,265</u>
Non-current liabilities due in more than one year	<u>872,197</u>	<u>297,288</u>	<u>250,884</u>
Total liabilities	<u>1,402,512</u>	<u>463,800</u>	<u>588,149</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	871,198	825,203	6,369,509
Restricted for debt service	28,128		
Unrestricted	<u>1,042,505</u>	<u>611,961</u>	<u>(354,306)</u>
Total net assets	<u>\$ 1,941,831</u>	<u>\$ 1,437,164</u>	<u>\$ 6,015,203</u>

*Exhibit C-1*

<u>Golf Course</u>	<u>Total</u>
\$ 80,539	\$ 1,373,454
1,501	1,542,300
44,144	44,144
	5,907
	123,128
	29,152
<u>126,184</u>	<u>3,118,085</u>
<u>2,510,285</u>	<u>11,367,043</u>
<u>2,510,285</u>	<u>11,367,043</u>
<u>2,636,469</u>	<u>14,485,128</u>
22,203	617,359
6,300	90,425
	58,567
	9,376
	286,868
<u>28,503</u>	<u>1,062,595</u>
<u>86,002</u>	<u>1,506,371</u>
<u>114,505</u>	<u>2,568,966</u>
2,510,285	10,576,195
	28,128
11,679	1,311,839
<u>\$ 2,521,964</u>	<u>\$ 11,916,162</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, 2005**

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 3,930,973	\$ 1,774,824	\$ 844,443
Other	1,152	41,224	30,521
Total operating revenues	<u>3,932,125</u>	<u>1,816,048</u>	<u>874,964</u>
<b>OPERATING EXPENSES</b>			
Personal services	1,704,938	652,247	311,301
Materials and supplies	66,295	67,199	83,002
Contractual services	1,000,081	251,714	81,458
Other charges	100,358	43,485	114,706
Administrative service charge	160,000	36,000	41,000
Depreciation	311,171	10,510	281,095
Total operating expenses	<u>3,342,843</u>	<u>1,061,155</u>	<u>912,562</u>
Operating income (loss)	<u>589,282</u>	<u>754,893</u>	<u>(37,598)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest earned	16,436	11,483	19,902
Interest expense	(30,378)	(4,833)	(21,020)
Gain (loss) on retirement of capital asset	-		
Total nonoperating revenues (expenses)	<u>(13,942)</u>	<u>6,650</u>	<u>(1,118)</u>
Income (loss) before operating transfers and capital contributions	575,340	761,543	(38,716)
Capital contributions		9,725	1,167,942
Operating transfers in			
Operating transfers out	(200,000)		
Change in net assets	<u>375,340</u>	<u>771,268</u>	<u>1,129,226</u>
Net assets at beginning of year	1,566,491	665,896	4,885,977
Net assets at end of year	<u>\$ 1,941,831</u>	<u>\$ 1,437,164</u>	<u>\$ 6,015,203</u>

*Exhibit C-2*

<u>Golf Course</u>	<u>Total</u>
\$ 910,598	\$ 7,460,838
1,697	74,594
<u>912,295</u>	<u>7,535,432</u>
474,573	3,143,059
202,561	419,057
225,385	1,558,638
33,062	291,611
	237,000
82,029	684,805
<u>1,017,610</u>	<u>6,334,170</u>
<u>(105,315)</u>	<u>1,201,262</u>
962	48,783
(176)	(56,407)
<u>786</u>	<u>(7,624)</u>
(104,529)	1,193,638
	1,177,667
100,000	100,000
	(200,000)
<u>(4,529)</u>	<u>2,271,305</u>
2,526,493	9,644,857
<u>\$ 2,521,964</u>	<u>\$ 11,916,162</u>

**CITY OF GALVESTON, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

	<b>Sanitation Services</b>	<b>Drainage Utility</b>	<b>Airport</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 3,602,187	\$ 1,616,577	\$ 866,965
Cash payments to suppliers for goods and services	(1,283,563)	(370,207)	(84,852)
Cash payments to employees	(1,607,881)	(627,648)	(316,786)
Administrative service charge	(160,000)	(36,000)	(41,000)
Cash received from other operations	41,225	41,225	41,225
Net cash provided by (used for) operating activities	<u>550,743</u>	<u>623,947</u>	<u>424,327</u>
<b>Cash flows from noncapital and related financing activities:</b>			
Interfund borrowings	75,248		8,877
Interfund transfers in			
Interfund transfers out	(200,000)		
Net cash provided by (used for) noncapital and related financing activities	<u>(124,752)</u>		<u>8,877</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from capital leases		210,950	
Payments for capital acquisitions	(365,231)	(210,950)	(447,739)
Principal payments on long term contracts			
Principal paid on bonds	(90,000)		
Interest paid on bonds	(32,712)		
Bond issuance costs	(2,243)		
Principal paid on capital leases		(127,607)	(49,611)
Interest paid on capital leases		(3,857)	(21,020)
Contributed capital			
Net cash provided by (used for) capital and related financing activities	<u>(490,186)</u>	<u>(131,464)</u>	<u>(518,370)</u>
<b>Cash flows from investing activities:</b>			
Interest on investments	16,501	11,741	19,487
Net increase (decrease) in equity in pooled cash and investments	(47,694)	504,224	(65,679)
Cash and temporary investments, beginning of year	721,313	113,659	219,372
<b>Cash and temporary investments, end of year</b>	<u>\$ 673,619</u>	<u>\$ 617,883</u>	<u>\$ 153,693</u>



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

<b>Golf Course</b>		<b>Totals</b>	
\$ 912,305		\$ 6,998,034	
(460,115)		(2,198,737)	
(488,290)		(3,040,605)	
		(237,000)	
		41,225	
(36,100)		1,562,917	
(1,483)		82,642	
100,000		100,000	
		(200,000)	
98,517		(17,358)	
		210,950	
		(1,023,920)	
		(90,000)	
		(32,712)	
		(2,243)	
		(177,218)	
(176)		(25,053)	
(176)		(1,140,196)	
944		48,673	
63,185		454,036	
17,354		1,071,698	
\$ 80,539		\$ 1,525,734	
\$ 80,539		\$ 1,373,454	
		152,280	
\$ 80,539		\$ 1,525,734	

**CITY OF GALVESTON, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS-continued**  
**NON-MAJOR ENTERPRISE FUNDS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>			
Operating income (loss)	\$ 589,282	\$ 754,893	\$ (37,598)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	311,171	10,510	281,095
(Increase) decrease in accounts receivable	(328,786)	(158,247)	(24,448)
Decrease in interfund receivable			
(Increase) decrease in deferred charges			16,458
(Increase) decrease in inventory and prepaid	(3,554)	(2,363)	4,528
Increase (decrease) in salaries and benefits payable	28,453	24,599	203,182
Increase (decrease) in accounts payable	(41,654)	(5,445)	
Increase (decrease) in interfund payable			
Increase (decrease) in in customer deposits	2,475		
Increase (decrease) in estimated liability claims	(36,696)		(16,931)
Increase (decrease) in compensated absences payable	30,052		(1,959)
Total adjustments	<u>(38,539)</u>	<u>(130,946)</u>	<u>461,925</u>
<b>Net cash provided by operating activities</b>	<u>\$ 550,743</u>	<u>\$ 623,947</u>	<u>\$ 424,327</u>

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

<b>Golf Course</b>	<b>Totals</b>
\$ (105,315)	\$ 1,201,262
82,030	684,806 (511,481)
6,398	16,458 5,009
1,986	258,220
(5,496)	(52,595)
(15,703)	2,475 (53,627)
69,215	12,390
\$ (36,100)	\$ 1,562,917

**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, 2005**

*Exhibit C-4*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services:			
Water sales	\$ 10,691,300	\$ 10,962,209	\$ 270,909
Tap fees	280,000	260,373	(19,627)
Other	20,000	6,925	(13,075)
Total operating revenues	<u>10,991,300</u>	<u>11,229,507</u>	<u>238,207</u>
<b>OPERATING EXPENSES:</b>			
Personal services	1,654,564	1,415,292	239,272
Materials and supplies	789,688	610,431	179,257
Contractual services	485,782	378,756	107,026
Other charges	167,749	160,705	7,044
Surface water contract	5,336,826	5,336,826	
Administrative service charge	503,000	503,000	
Depreciation	1,203,426	2,301,132	(1,097,706)
Total operating expenses	<u>10,141,035</u>	<u>10,706,142</u>	<u>(565,107)</u>
Operating income (loss)	<u>850,265</u>	<u>523,365</u>	<u>(326,900)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned	10,000	225,006	215,006
Interest expense	(163,504)	(160,527)	2,977
Gain (loss) on retirement of capital asset		19,900	19,900
Amortization of bond issuance costs	(108,500)	(108,454)	46
Total nonoperating revenues (expenses)	<u>(262,004)</u>	<u>(24,075)</u>	<u>237,929</u>
Income (loss) before operating transfers	588,261	499,290	(88,971)
Operating transfer in (out)	(555,149)	(200,000)	355,149
Change in net assets	33,112	299,290	266,178
Net assets at beginning of year	22,642,838	22,642,838	
Net assets at end of year	<u>\$ 22,675,950</u>	<u>\$ 22,942,128</u>	<u>\$ 266,178</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, 2005**

*Exhibit C-5*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services:			
Sewer charges	\$ 9,174,400	\$ 9,148,515	\$ (25,885)
Tap fees	74,000	61,214	(12,786)
Waste hauler fees	120,000	176,113	56,113
Other	19,000	23,319	4,319
Total operating revenues	<u>9,387,400</u>	<u>9,409,161</u>	<u>21,761</u>
<b>OPERATING EXPENSES:</b>			
Personal services	2,894,287	2,608,514	285,773
Materials and supplies	1,203,983	1,152,724	51,259
Contractual services	966,055	827,619	138,436
Other charges	272,173	264,778	7,395
Administrative service charge	307,000	307,000	
Depreciation	1,896,234	1,896,234	
Total operating expenses	<u>7,539,732</u>	<u>7,056,869</u>	<u>482,863</u>
Operating income (loss)	<u>1,847,668</u>	<u>2,352,292</u>	<u>504,624</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned	8,001	178,080	170,079
Interest expense	(833,197)	(833,196)	1
Gain (loss) on retirement of capital asset			
Amortization of bond issuance costs	(8,756)	(8,757)	(1)
Total nonoperating revenues (expenses)	<u>(833,952)</u>	<u>(663,873)</u>	<u>170,079</u>
Income (loss) before operating transfers and capital contributions	1,013,716	1,688,419	674,703
Capital contributions			
Operating transfer in (out)	(993,000)	(200,000)	793,000
Change in net assets	20,716	1,488,419	1,467,703
Net assets at beginning of year	<u>39,838,051</u>	<u>39,838,051</u>	
Net assets at end of year	<u>\$ 39,858,767</u>	<u>\$ 41,326,470</u>	<u>\$ 1,467,703</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, 2005**

*Exhibit C-6*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services	\$ 3,980,000	\$ 3,930,973	\$ (49,027)
Other	1,005	1,152	147
Total operating revenues	<u>3,981,005</u>	<u>3,932,125</u>	<u>(48,880)</u>
<b>OPERATING EXPENSES:</b>			
Personal services	1,778,449	1,704,938	73,511
Materials and supplies	66,450	66,295	155
Contractual services	1,074,356	1,000,081	74,275
Other charges	102,314	100,358	1,956
Administrative service charge	160,000	160,000	
Depreciation	338,067	311,171	26,896
Total operating expenses	<u>3,519,636</u>	<u>3,342,843</u>	<u>176,793</u>
Operating income (loss)	461,369	589,282	127,913
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned	500	16,436	15,936
Interest expense	(34,180)	(30,378)	3,802
Gain (loss) on retirement of capital asset			
Total nonoperating revenues (expenses)	<u>(33,680)</u>	<u>(13,942)</u>	<u>19,738</u>
Income (loss) before operating transfers:	427,689	575,340	147,651
Operating transfer in (out)	(200,000)	(200,000)	
Changes in net assets	227,689	375,340	147,651
Net assets at beginning of year	1,566,491	1,566,491	
Net assets at end of year	<u>\$ 1,794,180</u>	<u>\$ 1,941,831</u>	<u>\$ 147,651</u>

**CITY OF GALVESTON, TEXAS**  
**DRAINAGE UTILITY ENTERPRISE FUND**  
**SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

*Exhibit C-7*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services	\$ 2,094,100	\$ 1,774,824	\$ (319,276)
Other	29,999	41,224	11,225
Total operating revenues	<u>2,124,099</u>	<u>1,816,048</u>	<u>(308,051)</u>
<b>OPERATING EXPENSES:</b>			
Personal services	931,082	652,247	278,835
Materials and supplies	104,925	67,199	37,726
Contractual services	340,021	251,714	88,307
Other charges	44,488	43,485	1,003
Administrative service charge	36,000	36,000	
Depreciation	51,515	10,510	41,005
Total operating expenses	<u>1,508,031</u>	<u>1,061,155</u>	<u>446,876</u>
Operating income (loss)	<u>616,068</u>	<u>754,893</u>	<u>138,825</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned		11,483	11,483
Interest expense	(9,342)	(4,833)	4,509
Total non-operating revenues (expenses)	<u>(9,342)</u>	<u>6,650</u>	<u>15,992</u>
Income (loss) before capital contributions	606,726	761,543	154,817
Capital contributions		9,725	9,725
Changes in net assets	606,726	771,268	164,542
Net assets at beginning of year	665,896	665,896	
Net assets at end of year	<u>\$ 1,272,622</u>	<u>\$ 1,437,164</u>	<u>\$ 164,542</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, 2005**

*Exhibit C-8*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services:			
Building rental	\$ 186,000	\$ 131,861	\$ (54,139)
Hangar rental	75,000	72,668	(2,332)
Terminal space rental	53,000	53,966	966
Land lease rental	517,420	548,568	31,148
Oil company receipts	40,000	37,380	(2,620)
Other	41,224	30,521	(10,703)
Total operating revenues	<u>912,644</u>	<u>874,964</u>	<u>(37,680)</u>
<b>OPERATING EXPENSES:</b>			
Personal services	374,341	311,301	63,040
Materials and supplies	84,935	83,002	1,933
Contractual services	83,917	81,458	2,459
Other charges	114,938	114,706	232
Administrative service charge	41,000	41,000	
Depreciation	204,553	281,095	(76,542)
Total operating expenses	<u>903,684</u>	<u>912,562</u>	<u>(8,878)</u>
Operating income (loss)	<u>8,960</u>	<u>(37,598)</u>	<u>(46,558)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned	7,000	19,902	12,902
Interest expense	(21,020)	(21,020)	
Total nonoperating revenues (expenses)	<u>(14,020)</u>	<u>(1,118)</u>	<u>12,902</u>
Income (loss) before capital contributions	(5,060)	(38,716)	(33,656)
Capital contributions		1,167,942	1,167,942
Changes in net assets	(5,060)	1,129,226	1,134,286
Net assets at beginning of year	4,885,977	4,885,977	
Net assets at end of year	<u>\$ 4,880,917</u>	<u>\$ 6,015,203</u>	<u>\$ 1,134,286</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, 2005**

*Exhibit C-9*

	<b>2005</b>		<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>OPERATING REVENUES:</b>			
Charges for sales and services	\$ 1,041,515	\$ 910,598	\$ (130,917)
Other	2,504	1,697	(807)
Total operating revenues	<u>1,044,019</u>	<u>912,295</u>	<u>(131,724)</u>
<b>OPERATING EXPENSES:</b>			
Personal services	487,240	474,573	12,667
Materials and supplies	242,995	202,561	40,434
Contractual services	225,384	225,385	(1)
Other charges	33,635	33,062	573
Depreciation	82,030	82,029	1
Total operating expenses	<u>1,071,284</u>	<u>1,017,610</u>	<u>53,674</u>
Operating income (loss)	<u>(27,265)</u>	<u>(105,315)</u>	<u>(78,050)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest earned		962	962
Income (loss) before operating transfers and capital contributions	(27,265)	(104,529)	(77,264)
Capital contributions			
Operating transfer in	100,000	100,000	
Changes in net assets	<u>72,735</u>	<u>(4,529)</u>	<u>(77,264)</u>
Net assets at beginning of year	2,526,493	2,526,493	
Net assets at end of year	<u>\$ 2,599,228</u>	<u>\$ 2,521,964</u>	<u>\$ (77,264)</u>

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## ***INTERNAL SERVICE FUNDS***

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

**Central Garage** – to account for the financing of garage activities through charges to user departments.

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

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

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

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

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

**CITY OF GALVESTON, TEXAS**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2005**  
**WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2004**

	<u>Central Garage</u>	<u>Casualty &amp; Liabilty Insurance</u>	<u>Workers Compensation Insurance</u>
<b>ASSETS</b>			
Current Assets:			
Cash and temporary investments	\$ 248,484	\$	\$
Receivables (net of allowance for uncollectibles)	153,098	35,299	32,570
Due from other funds			191,821
Inventories	97,851		
Prepaid Expenses	2,601	183,419	69,634
Total current assets	<u>502,034</u>	<u>218,718</u>	<u>294,025</u>
Non-Current Assets:			
Construction in Progress			
Buildings			
Equipment and Furniture	171,678		
Capital assets, net of depreciation	<u>171,678</u>		
Total assets	<u>673,712</u>	<u>218,718</u>	<u>294,025</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and other current liabilities	243,955	67,787	16,811
Due to other funds	14,664	320,539	31,482
Current portion of long term liabilities		24,000	
Total current liabilities	<u>258,619</u>	<u>412,326</u>	<u>48,293</u>
Non-Current Liabilities:			
Non-current portion of long term liabilities	<u>129,031</u>	<u>20,487</u>	<u>460,821</u>
Total liabilities	<u>387,650</u>	<u>432,813</u>	<u>509,114</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	171,678		
Unrestricted	114,384	(214,095)	(215,089)
Total net assets	<u>\$ 286,062</u>	<u>\$ (214,095)</u>	<u>\$ (215,089)</u>

*Exhibit D-1*

<b>Health and Life Insurance</b>	<b>Central Service</b>	<b>Construction Management</b>	<b>Total</b>
\$ 1,937,355	\$ 160,465	\$ 40,202	\$ 2,386,506
15,121	12,260	3,113	251,461
352,021			543,842
	7,287		105,138
	1,253		256,907
<u>2,304,497</u>	<u>181,265</u>	<u>43,315</u>	<u>3,543,854</u>
	85,492		85,492
	595,128		595,128
	142,654		314,332
	823,274		994,952
<u>2,304,497</u>	<u>1,004,539</u>	<u>43,315</u>	<u>4,538,806</u>
181,391	82,275	40,184	632,403
			366,685
			24,000
<u>181,391</u>	<u>82,275</u>	<u>40,184</u>	<u>1,023,088</u>
379,518	115,025		1,104,882
<u>560,909</u>	<u>197,300</u>	<u>40,184</u>	<u>2,127,970</u>
	823,274		994,952
1,743,588	(16,035)	3,131	1,415,884
<u>\$ 1,743,588</u>	<u>\$ 807,239</u>	<u>\$ 3,131</u>	<u>\$ 2,410,836</u>

**CITY OF GALVESTON, TEXAS**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<b>Central Garage</b>	<b>Casualty &amp; Liabilty Insurance</b>	<b>Workers Compensation Insurance</b>
<b>REVENUES</b>			
Charges for services	\$ 2,930,882	\$ 1,558,653	\$ 724,672
Miscellaneous	28,728		
Grants		4,780	
Total operating revenues	<u>2,959,610</u>	<u>1,563,433</u>	<u>724,672</u>
<b>OPERATING EXPENSES</b>			
Personal services	820,824	158,537	
Materials and supplies	1,946,329	1,083	
Contractual services	298,826	92,738	
Other charges	307,740		
Insurance policies in force		971,886	408,262
Insurance claims and expenses		362,300	576,681
Depreciation	22,753		
Total operating expenses	<u>3,396,472</u>	<u>1,586,544</u>	<u>984,943</u>
Operating income (loss)	<u>(436,862)</u>	<u>(23,111)</u>	<u>(260,271)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	10,560		988
Interest expense			
Gain on retirement of capital asset			
Total non-operating revenues (expenses)	<u>10,560</u>		<u>988</u>
Income (loss) before transfers	<u>(426,302)</u>	<u>(23,111)</u>	<u>(259,283)</u>
Change in net assets	<u>(426,302)</u>	<u>(23,111)</u>	<u>(259,283)</u>
Net assets at beginning of year	<u>712,364</u>	<u>(190,984)</u>	<u>44,194</u>
Net assets at end of year	<u>\$ 286,062</u>	<u>\$ (214,095)</u>	<u>\$ (215,089)</u>

*Exhibit D-2*

<b>Health and Life Insurance</b>	<b>Central Service</b>	<b>Construction Management</b>	<b>Total</b>
\$ 3,562,032	\$ 1,711,965	342,804	\$ 10,831,008
			28,728
			4,780
<u>3,562,032</u>	<u>1,711,965</u>	<u>342,804</u>	<u>10,864,516</u>
	609,790	295,325	1,884,476
	339,874	11,328	2,298,614
	535,599	33,038	960,201
	38,790		346,530
646,112			2,026,260
2,546,421			3,485,402
	80,702		103,455
<u>3,192,533</u>	<u>1,604,755</u>	<u>339,691</u>	<u>11,104,938</u>
<u>369,499</u>	<u>107,210</u>	<u>3,113</u>	<u>(240,422)</u>
55,690	2,747	18	70,003
	(372)		(372)
			-
<u>55,690</u>	<u>2,375</u>	<u>18</u>	<u>69,631</u>
<u>425,189</u>	<u>109,585</u>	<u>3,131</u>	<u>(170,791)</u>
<u>425,189</u>	<u>109,585</u>	<u>3,131</u>	<u>(170,791)</u>
<u>1,318,399</u>	<u>697,654</u>		<u>2,581,627</u>
<u>\$ 1,743,588</u>	<u>\$ 807,239</u>	<u>\$ 3,131</u>	<u>\$ 2,410,836</u>

**CITY OF GALVESTON, TEXAS**

**INTERNAL SERVICE FUNDS**

**COMBINING STATEMENT OF CASH FLOWS**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

**WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<u>Central Garage</u>	<u>Casualty &amp; Liability Insurance</u>	<u>Workers Compensation Insurance</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 2,933,304	\$ 1,442,379	\$ 712,934
Cash payments to suppliers for goods and services	(2,337,800)	(1,434,627)	(784,393)
Cash payments to employees	(779,427)	(141,017)	
Other operating revenue		90,256	
Net cash provided by (used for) operating activities	<u>(183,923)</u>	<u>(43,009)</u>	<u>(71,459)</u>
<b>Cash flows from noncapital and related financing activities:</b>			
Interfund borrowings		320,539	31,482
Interfund transfers in			
		<u>320,539</u>	<u>31,482</u>
<b>Cash flows from capital and and related financing activities:</b>			
Proceeds from sale of capital assets			
Payment for capital acquisitions			
Principal paid on capital leases			
Interest paid on capital leases			
Net cash provided by (used for) capital and related financing activities			
<b>Cash flows from investing activities:</b>			
Interest on investments			987
Net increase (decrease) in cash and temporary investments	(183,923)	277,530	(38,990)
Cash and temporary investments, beginning of year	432,407	(277,530)	38,990
<b>Cash and temporary investments, end of year</b>	<u>\$ 248,484</u>	<u>\$</u>	<u>\$</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities</b>			
Operating income (loss)	<u>\$ (436,862)</u>	<u>\$ (23,111)</u>	<u>\$ (260,271)</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	22,753		
Decrease (increase) in accounts receivable	(30,980)	(25,454)	(11,738)
Decrease (increase) in due to other funds	8,777	(5,341)	(191,821)
Decrease (increase) in inventory and prepaid items	102,037	(19,043)	(64,809)
Increase (decrease) in salaries payable	10,608	6,919	
Increase (decrease) in accounts payable	123,848	12,422	(3,641)
Increase (decrease) in compensated absences	16,868	10,599	
Increase (decrease) in claims payable	(972)		460,821
Total adjustments	<u>252,939</u>	<u>(19,898)</u>	<u>188,812</u>
<b>Net cash provided by (used for) operating activities</b>	<u>\$ (183,923)</u>	<u>\$ (43,009)</u>	<u>\$ (71,459)</u>



*Exhibit D-3*

<b>Health and Life Insurance</b>	<b>Central Service</b>	<b>Construction Management</b>	<b>Total</b>
\$ 3,240,794 (2,683,568)	\$ 1,699,742 (884,684) (568,485)	\$ 339,691 (299,507)	\$ 10,368,844 (8,424,579) (1,488,929) 90,256
<u>557,226</u>	<u>246,573</u>	<u>40,184</u>	<u>545,592</u>
(352,021)			
<u>(352,021)</u>			
	(114,975) (24,481)		(114,975) (24,481)
	<u>(139,456)</u>		<u>(139,456)</u>
<u>55,190</u>	<u>2,338</u>	<u>18</u>	<u>58,533</u>
260,395	109,455	40,202	464,669
<u>1,676,960</u>	<u>51,010</u>		<u>1,921,837</u>
<u>\$ 1,937,355</u>	<u>\$ 160,465</u>	<u>\$ 40,202</u>	<u>\$ 2,386,506</u>
<u>\$ 369,499</u>	<u>\$ 107,210</u>	<u>\$ 3,113</u>	<u>\$ (240,422)</u>
	80,702		103,455
(1,481)	(12,223)	(3,113)	(72,766)
	6,492		(200,608)
	16,463		24,677
84,690	22,747	40,184	33,990
	25,347		280,250
104,518	(165)		52,814
<u>187,727</u>	<u>139,363</u>	<u>37,071</u>	<u>564,202</u>
			<u>786,014</u>
<u>\$ 557,226</u>	<u>\$ 246,573</u>	<u>\$ 40,184</u>	<u>\$ 545,592</u>

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## ***FIDUCIARY FUNDS***

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

Pension Trust – to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. These funds are reported on a calendar year basis for the year ended December 31, 2004.

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

**CITY OF GALVESTON, TEXAS**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF PLAN NET ASSETS**  
**DECEMBER 31, 2004**

*Exhibit E-1*

	<b>City of Galveston Employees' Retirement Plan for City Employees</b>	<b>City of Galveston Firemen's Relief and Retirement</b>	<b>City of Galveston Employees' Retirement Plan for Police</b>	<b>2004</b>
<b>ASSETS</b>				
Cash and temporary investments	\$ 1,686,553	\$ 704,978	\$ 704,159	\$ 3,095,690
Investments, at fair value:				
Government and corporate bonds	10,455,510	8,446,776	9,124,645	28,026,931
Mutual funds		4,151,196		4,151,196
Common stock	21,008,482	15,957,779	14,597,552	51,563,813
Receivables:				
Interest and Dividends	34,518	14,193	111,644	160,355
Loans to participants			153,516	153,516
Contributions	193,061			193,061
Due from other governments				
Prepaid benefits			187,612	187,612
Total assets	<u>33,378,124</u>	<u>29,274,922</u>	<u>24,879,128</u>	<u>87,532,174</u>
<b>LIABILITIES</b>				
Accounts payable	77,630	20,116	43,651	141,397
Refunds payable and others				
Total liabilities	<u>77,630</u>	<u>20,116</u>	<u>43,651</u>	<u>141,397</u>
<b>NET ASSETS</b>				
Held in trust for benefits and other purposes	<u>\$ 33,300,494</u>	<u>\$ 29,254,806</u>	<u>\$ 24,835,477</u>	<u>\$ 87,390,777</u>

**CITY OF GALVESTON, TEXAS**  
**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

*Exhibit E-2*

	<b>City of Galveston Employees' Retirement Plan for City Employees</b>	<b>City of Galveston Firemen's Relief and Retirement</b>	<b>City of Galveston Employees' Retirement Plan for Police</b>	<b>2004</b>
<b>ADDITIONS</b>				
Contributions:				
Employer	\$ 797,928	\$ 713,677	\$ 485,886	\$ 1,997,491
Plan members	900,725	640,360	800,370	2,341,455
Total contributions	<u>1,698,653</u>	<u>1,354,037</u>	<u>1,286,256</u>	<u>4,338,946</u>
Investment earnings:				
Net appreciation of investments	2,778,071	1,886,467	1,694,734	6,359,272
Interest	530,651	471,479	533,778	1,535,908
Dividends	446,776	249,501	203,356	899,633
Investment activity expense	(207,178)	(159,074)	(181,642)	(547,894)
Total net investment earnings	<u>3,548,320</u>	<u>2,448,373</u>	<u>2,250,226</u>	<u>8,246,919</u>
Total additions	<u>5,246,973</u>	<u>3,802,410</u>	<u>3,536,482</u>	<u>12,585,865</u>
<b>DEDUCTIONS</b>				
Benefits	2,871,642	1,627,601	2,240,391	6,739,634
Refunds of contributions				
Administrative	86,758	76,269	92,075	255,102
Total deductions	<u>2,958,400</u>	<u>1,703,870</u>	<u>2,332,466</u>	<u>6,994,736</u>
Change in net assets	2,288,573	2,098,540	1,204,016	5,591,129
Net assets at beginning of year	31,011,921	27,156,266	23,631,461	81,799,648
Net assets at end of year	<u>\$ 33,300,494</u>	<u>\$ 29,254,806</u>	<u>\$ 24,835,477</u>	<u>\$ 87,390,777</u>

**CITY OF GALVESTON, TEXAS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**SEPTEMBER 30, 2005**

*Exhibit E-3*

<b>ASSETS</b>	<b>09/30/04</b>	<b>Additions</b>	<b>Deletions</b>	<b>09/30/05</b>
Cash and temporary investments	\$ 342,581	\$ 527,009	\$ 616,119	\$ 253,471
Accounts receivable		75		75
Total assets	<u>\$ 342,581</u>	<u>\$ 527,084</u>	<u>\$ 616,119</u>	<u>\$ 253,546</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities				
Refunds payable and others	12,772	73,395	71,831	14,336
Total liabilities	<u>329,809</u>	<u>209,992</u>	<u>300,591</u>	<u>239,210</u>
	<u>\$ 342,581</u>	<u>\$ 283,387</u>	<u>\$ 372,422</u>	<u>\$ 253,546</u>

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***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, 2005**

*Exhibit F-1*

	2005	2004
Capital assets:		
Land	\$ 2,715,805	\$ 2,715,806
Buildings	37,895,768	37,797,911
Improvements other than buildings	3,887,659	3,813,563
Infrastructures	73,434,034	70,701,882
Equipment	6,480,428	6,147,810
Licensed vehicle	13,356,000	12,620,062
Construction in progress	5,811,089	2,323,535
Total capital assets	\$ 143,580,782	\$ 136,120,569
Investments in capital assets from:		
General Fund revenue	\$ 116,292,910	\$ 116,471,967
Federal grants	14,228,518	10,602,680
Donations	3,488,098	3,372,527
Capital assets acquired before July 1, 1956		
State	194,096	61,956
Park Board	29,666	29,666
Capital bond proceeds	8,619,439	4,853,717
Capital-Industrial Development Corp.	728,055	728,056
Total investment in capital assets	\$ 143,580,782	\$ 136,120,569

**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, 2005**

	Capital assets 09/30/04	Adjustments	Additions	(Deletions)	Capital assets 09/30/05
General Government:					
Executive	\$ 57,072	\$	\$ 10,265	\$	\$ 67,337
Finance	97,927	15			97,942
Flagship hotel					
Judicial	99,678				99,678
Legislative	503,318				503,318
Legal	9,284				9,284
Personnel	15,308				15,308
Garage	24,330				24,330
Internal service					
Other - unclassified	84,125				84,125
<b>Total General Government</b>	<b>891,042</b>	<b>15</b>	<b>10,265</b>		<b>901,322</b>
Public Safety:					
Police	3,869,579		314,919	(158,329)	4,026,169
Communications	2,191,281				2,191,281
Fire	4,144,805		365,478	(527,448)	3,982,835
EMS	108,446				108,446
Emergency management	31,048		41,015		72,063
<b>Total Public Safety</b>	<b>10,345,159</b>		<b>721,412</b>	<b>(685,777)</b>	<b>10,380,794</b>
Public Works and Streets					
Streets	47,404,479	(2,485)	24,056	(28,288)	47,397,762
Traffic control	16,737,701	2,485	2,863,019		19,603,205
<b>Total Public Works And Streets</b>	<b>64,142,180</b>		<b>2,887,075</b>	<b>(28,288)</b>	<b>67,000,967</b>
Culture and Recreation	41,165,506	(42,847)	445,454		41,568,113
Housing	77,456				77,456
Planning and Community Development	500,308	1,624,383			2,124,691
Transportation System	6,011,518	368,280	1,000,157	(213,174)	7,166,781
Trolley	12,987,391	1,326,719	46,548		14,360,658
<b>Total General Fixed Assets</b>	<b>\$ 136,120,560</b>	<b>\$ 3,276,550</b>	<b>\$ 5,110,911</b>	<b>\$ (927,239)</b>	<b>\$ 143,580,782</b>

<b>Land</b>	<b>Buildings</b>	<b>Improvements other than buildings</b>	<b>Infrastructure</b>	<b>Equipment</b>	<b>Licensed Vehicles</b>	<b>Construction in progress</b>	<b>Total Capital Assets</b>
\$	\$	\$	\$	\$	\$	\$	\$
				36,289	31,048		67,337
				97,942			97,942
				99,678			99,678
39,827	444,926	18,565		9,284			503,318
					15,308		9,284
24,330							15,308
							24,330
84,125							-
<u>148,282</u>	<u>444,926</u>	<u>18,565</u>		<u>243,193</u>	<u>46,356</u>		<u>84,125</u>
							<u>901,322</u>
	841,512	186,595		810,745	2,187,316		4,026,169
				2,191,281			2,191,281
3,152	648,215	75,883		170,271	3,085,314		3,982,835
	22,729	4,860			80,857		108,446
				41,015	31,048		72,063
<u>3,152</u>	<u>1,512,456</u>	<u>267,338</u>		<u>3,213,313</u>	<u>5,384,535</u>		<u>10,380,794</u>
	706,268	119,011	44,995,862	668,851	898,659	9,112	47,397,762
	130,361	1,518,725	17,560,532	44,289	201,001	148,297	19,603,205
	<u>836,629</u>	<u>1,637,736</u>	<u>62,556,394</u>	<u>713,140</u>	<u>1,099,660</u>	<u>157,409</u>	<u>67,000,967</u>
2,556,751	34,530,106	1,688,735	104,217	2,263,272	415,503	9,530	41,568,113
	36,103	41,353					77,456
					296,700	1,827,991	2,124,691
7,620	405,671	151,031	73,423	47,510	6,113,246	368,280	7,166,781
	129,877	82,902	10,700,000			3,447,879	14,360,658
<u>\$ 2,715,805</u>	<u>\$ 37,895,768</u>	<u>\$ 3,887,659</u>	<u>\$ 73,434,034</u>	<u>\$ 6,480,428</u>	<u>\$ 13,356,000</u>	<u>\$ 5,811,089</u>	<u>\$ 143,580,782</u>

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***UNAUDITED STATISTICAL SECTION***

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

<b>Fiscal Year</b>	<b>General Government</b>	<b>Public Safety</b>	<b>Public Works and Streets</b>	<b>Culture and Recreation</b>	<b>Planning and Community Development</b>	<b>Transportation System</b>
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
2005	4,624,844	22,197,995	2,732,340	3,566,928	3,766,931	4,102,026

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>
\$ 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
	6,489,761			5,313,969	52,794,794

**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>
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
2005	13,883,642	14,424,663	4,879,699	1,313,886	7,295,013



*Exhibit II*

<u>Charges for Services</u>	<u>Fines and Forfeitures</u>	<u>Earnings on Investments</u>	<u>Other</u>	<u>Total</u>
\$ 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
3,432,738	2,330,349	682,679	-	48,242,669

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

<b>Fiscal Year</b>	<b>Total current tax levy</b>	<b>Current tax collections</b>	<b>Percent of current levy collected</b>	<b>Delinquent tax collections</b>	<b>Total tax collections</b>
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
2005	13,908,839	13,142,435	94.5%	462,475	13,604,910

*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%	1293883	15.2%
100.6%	1,459,760	15.6%
99.4%	1,502,877	13.6%
98.5%	1,448,171	11.8%
99.5%	1,387,220	11.8%
99.7%	1,438,646	10.9%
97.8%	1,398,753	10.1%

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

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>	<u>Exemptions*</u>
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
2005	2004	2,835,416,552	327,079,631	3,162,496,183	267,789,399

\* This category includes only exemptions which reduce taxable property liability. Separately, the Central Appraisal District reports \$1,040,879,578 in totally tax-exempt property (non-profit, school district, city, county, etc.)

All assessments are at 100% of market value.

*Exhibit IV*

Net Assessed Value

\$ 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

2,894,706,784

**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>	
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
2005	2004	0.4358		\$ 0.0500	0.0559	0.5417

*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	\$ 0.0322	\$ 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
1.7100	0.1952	0.0409	0.6280	3.1198

**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***

<b>Fiscal Year</b>	<b>Population (2)</b>	<b>Assessed Value</b>	<b>Gross Bonded Debt (1)</b>	<b>Less Amount Available in Debt Service Fund</b>	<b>Less Debt Payable From Enterprise Revenues</b>
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	
2005	57,905	2,894,706,784	17,184,352	2,912,127	

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>
\$ 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
14,272,225	0.49%	246

**CITY OF GALVESTON, TEXAS**  
**COMPUTATION OF DIRECT AND OVERLAPPING**  
**GENERAL OBLIGATION DEBT**  
*September 30, 2005*

*Exhibit VII*

<b>Governmental Unit</b>	<b>Net Debt Outstanding</b>	<b>Percentage Applicable to City of Galveston (1)</b>	<b>Amount Applicable to City of Galveston</b>
City of Galveston	\$ 21,269,344 (2)	100.00%	\$ 21,269,344
Galveston Independent School District	85,004,505	88.08%	74,871,968
Galveston County	197,928,421 (2)	18.76%	37,131,372
Galveston County MUD No. 29	2,050,000	100.00%	2,050,000
Total direct and overlapping debt			\$ 135,322,684

**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**

<b>Fiscal Year</b>	<b>Principal (1)</b>	<b>Interest (2)</b>	<b>Total Debt Service</b>	<b>Total General Governmental Expenditures</b>	<b>Ratio of Debt Service to Total General Governmental Expenditures</b>
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	30,902,159	4.55%
2004	308,322	1,080,478	1,388,800	35,900,693	3.87%
2005	1,240,000	1,080,478	2,320,478	52,794,794	4.40%

(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**

<b>Fiscal Year</b>	<b>Operating and Nonoperating Revenues</b>	<b>Direct Operating Expenses</b>	<b>Adjustments to Direct Operating Expenses (1)</b>	<b>Net Revenue Available For Debt Service</b>
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	3,732,857	5,854,933
2005	21,061,654	17,763,011	4,197,366	7,496,009

*Exhibit IX*

**Debt service requirements**

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<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
\$ 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
1,622,963	1,148,180	2,771,143	2.11
1,736,124	993,723	2,729,847	2.75

**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, 2005**

	<u>Waterworks System</u>	<u>Sewer System</u>	<u>Total Waterworks &amp; Sewer System</u>
Operating revenues	\$ 11,229,507	\$ 9,409,161	\$ 20,638,668
Nonoperating revenues	244,906	178,080	422,986
Adjusted revenues	<u>11,474,413</u>	<u>9,587,241</u>	<u>21,061,654</u>
Operating expenses	10,706,142	7,056,869	17,763,011
Less items excluded for purpose of computing net revenues available for debt service			
Depreciation and amortization	<u>(2,301,132)</u>	<u>(1,896,234)</u>	<u>(4,197,366)</u>
Adjusted expenses	<u>8,405,010</u>	<u>5,160,635</u>	<u>13,565,645</u>
Net revenues available for debt service	<u>\$ 3,069,403</u>	<u>\$ 4,426,606</u>	<u>\$ 7,496,009</u>
Net revenue requirements pursuant to City of Galveston Water and Sewer System Revenue Bond Ordinances -Series 2000 and 2003			
125% times average annual current revenue bond debt service	<u>\$ 346,703</u>		
125% times average annual current revenue bond debt service		<u>\$ 1,692,380</u>	
			<u>\$ 2,039,083</u>

**CITY OF GALVESTON, TEXAS**  
**TEN LARGEST TAXPAYERS**  
*September 30, 2005*

*Exhibit XI*

<u>Taxpayer</u>	<u>2004 Assessed Valuation</u>	<u>Percentage of total assessed valuation</u>
Centerpoint Energy Inc.	\$ 41,426,380	1.88%
Southwestern Bell Telephone Co.	20,964,540	0.95%
Fertitta Hospitality Inc.	18,447,470	0.84%
Newpark Shipbuilding	13,324,280	0.60%
American National Insurance Co.	13,101,540	0.59%
MBP Corporation	11,340,710	0.51%
Sealy Smith Foundation	10,826,190	0.49%
Walmart Realty Co. #504	9,925,120	0.45%
Wal-mart Stores, Inc.	8,757,140	0.40%
Dawn on the Sea Wall Partnership	<u>8,700,000</u>	<u>0.39%</u>
Total	<u>\$ 156,813,370</u>	<u>7.10%</u>
 Total Assessed Value	 <u>\$ 2,208,942,483</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
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
2005	48	169,834,643	190	45,567,298

\* 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)**

<b>Commercial</b>	<b>Residential</b>	<b>Exemptions**</b>	<b>Nontaxable ***</b>
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
592,201,002	1,889,912,744	273,171,263	1,040,879,578

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

<u>Fiscal Year</u>	<u>Estimated City Population (1)</u>	<u>Water Usage (Millions of Gallons)</u>			
		<u>Number of Customers</u>	<u>Average Day Usage</u>	<u>Peak Day Usage</u>	<u>Peak Month Usage</u>
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	57,027	18,432	12.440	16.150	500.500
2003	57,027	20,689	14.100	16.840	505.200
2004	57,905	18,419	13.480	17.900	555.700
2005	57,905	23,250	14.067	17.694	548.500

(1) Years 1996-99 based on 1994 U.S. Census update.

Year 2000 based on 2000 Census.

Years 2001, 2002, 2003 2004 and 2005 based on Texas State Data Center, Texas A&M University

*Exhibit XIII*

<u>Total Usage</u>	<u>Operating Revenue</u>
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	96,292,615
5,015.900	10,800,053
5,064.000	10,955,434

**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>
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
2005	284	487	771

**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>
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%
2005	57,905 (3)	17,769 (2)	35.5 (2)	9,149	10.1%

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

**CITY OF GALVESTON, TEXAS**  
*Miscellaneous Statistics*  
*September 30, 2005*

*Exhibit XVII*  
*Page 1 of 3*

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

*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

**CITY OF GALVESTON, TEXAS**  
*Miscellaneous Statistics*  
*September 30, 2005*

*Exhibit XVII*  
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**Sewerage 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, 2005:**

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	
Dockside	6
Other	1
Channel Depth in feet	40
Docking capacity (number of ships)	20

**Hospitals:**

Number of hospitals	6
Number of beds	795

**CITY OF GALVESTON, TEXAS**  
*Miscellaneous Statistics*  
*September 30, 2005*

*Exhibit XVII*  
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<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)%