

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2006



**Prepared by
Finance Department**

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

	Exhibit	Page
INTRODUCTORY SECTION		
Letter of Transmittal		1
Certificate of Achievement for Excellence in Financial Reporting		9
Organizational Chart		11
List of Elected and Appointed Officials		13
FINANCIAL SECTION		
Independent Auditors' Report		17
Management's Discussion and Analysis		19
Basic Financial Statements:		
Government-Wide Financial Statements:		
Statement of Net Assets	1	34
Statement of Activities	2	36
Fund Financial Statements:		
Balance Sheet – Governmental Funds	3	38
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4	41
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	5	42
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	45
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – Major Governmental Funds	7	46
Statement of Net Assets – Proprietary Funds	8	48
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	9	50
Statement of Cash Flows – Proprietary Funds	10	52
Statement of Fiduciary Net Assets – Fiduciary Funds	11	56
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	12	57
Notes to Financial Statements	13	59
Required Supplementary Information:		
Required Pension System Supplementary Information	14	108

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

Combining and Individual Fund Statements and Schedules:		
General Fund Schedule of Expenditures, Budget and Actual on Budgetary Basis	A-1	113
Combining Balance Sheet – Non-major Governmental Funds	B-1	118
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Funds	B-2	122
Island Transit Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis)	B-3	126
Rosenberg Library Fund – Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	B-4	127
Debt Service Fund– Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	B-5	128
Combining Statement of Net Assets – Non-major Enterprise Funds	C-1	130
Combining Statement of Revenues, Expenses and Changes in Net Assets – Non-major Enterprise Funds	C-2	132
Combining Statement of Cash Flows – Non-major Enterprise Funds	C-3	134
Waterworks System Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets, - Budget and Actual	C-4	138
Sewer System Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-5	139
Sanitation Services Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-6	140
Drainage Utility Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-7	141
Airport Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-8	142
Golf Course Enterprise Fund - Statement of Revenues, Expenses and Changes in Net Assets - Budget and Actual	C-9	143
Internal Service Funds - Combining Statement of Net Assets	D-1	146
Internal Service Funds - Combining Statement of Revenues, Expenses and Changes in Net Assets	D-2	148
Internal Service Funds - Combining Statement of Cash Flows	D-3	150
Pension Trust Funds – Combining Statement of Plan Net Assets	E-1	154
Pension Trust Funds – Combining Statement of Changes in Plan Net Assets	E-2	155
Statement of Changes in Assets and Liabilities – Agency Funds	E-3	156

CITY OF GALVESTON, TEXAS
TABLE OF CONTENTS

STATISTICAL SECTION

Net Assets by Component	I	159
Changes in Net Assets	II	160
Fund Balances of Governmental Funds	III	162
Changes in Fund Balance of Governmental Funds	IV	164
Assessed Value and Estimated Actual Value of Taxable Property	V	166
Property Tax Rates Direct and Overlapping Governments	VI	168
Principal Property Taxpayers	VII	170
Property Tax Levies and Collections	VIII	171
Ratios of Outstanding Debt by Type	IX	172
Ratios of General Bonded Debt Outstanding	X	174
Direct and Overlapping Governmental Activities Debt	XI	175
Demographic and Economic Status	XII	176
Principal Employers	XIII	177
Full Time Equivalent City Government Employees by Function	IXV	178
Operating Indicators by Function	XV	180
Capital Assets Statistics by Function	XVI	182

City of Galveston



P. O. Box 779 / Galveston, Texas 77553

January 25, 2007

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, 2006.

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, 2006 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, 2006 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.

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

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

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

- 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 46 as part of the Basic Financial Statements. For governmental funds, other than the General Fund and Island Transit Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection for each governmental fund for which a budget has been adopted.

***Factors Affecting Financial Condition**

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

Galveston Economic Climate Overview: Galveston Island's economy has grown significantly in recent years and promises to set new records in the 2006-2007 year. In particular, growth includes a diversity of industries including healthcare, life sciences/hospitality, offshore oil,

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

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 will be added to the local economy
- 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 constructed under grants from 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 61st 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 45 million into the development of the cruise facilities. The Port of Galveston ranks as the twelfth largest cruise port in the world, the number five U.S. port in the world and the number one cruise port on the Gulf of Mexico. Currently, Carnival Cruise Lines, Royal Caribbean International, and Princess Cruises all have ships based in Galveston. The Port of Galveston also promoted industrial growth as Agriliance LLP and Gulf Copper Manufacturing join existing customers Del Monte Fresh Produce, ADM Grain, "K" Line, Galveston Terminals, Holcim Cement, Smith-Hamm and Wallenius Wilhelmsen Logistics along the Galveston Harbor.

Funding of Major Capital Projects: During the fiscal year the City completed a performance contract to replace all the existing water meters throughout the City. The \$10 million project was made possible through a revolving loan by the Texas State Energy Conservation Office (SECO). The new meters have enabled consumption reads by a transmitted signal and have increased accuracy as well as contributed efficiencies to the overall billing process.

\$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

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

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 were issued in February 2006. The Revenue bond projects underway include a new water tower and pump station at Jamaica Beach, upgrade of the 30th 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.

Negotiations for an outside manager for the City's Golf Course have been tentatively approved, pending a review by the Finance and Fiscal Affairs Committee. The Moody Foundation has proposed a forty-year management term subject to periodic renewal. In return, the Foundation will invest an initial \$14.1 million in course renovations and further, operate the facility as a nonprofit, municipal course.

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 2.32% to 5.31%. Much of the portfolio has been moved to Federal agency securities in anticipation of Federal Open Market Committee action to reduce its target federal funds rate sometime in the first or second quarter of 2007.

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.

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

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.

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, 2006, the plan had a funding ratio of 93.4% 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 2006.

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, 2006 for the Retirement Plan for Police and January 1, 2004 for the Galveston Firemen's Relief and Retirement Fund), the plans were 65.0% (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, 2005. 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.

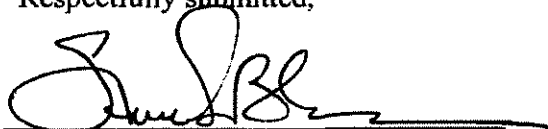
The award is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
January 25, 2007

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

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

Respectfully submitted,



Steve LeBlanc
City Manager



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, 2005

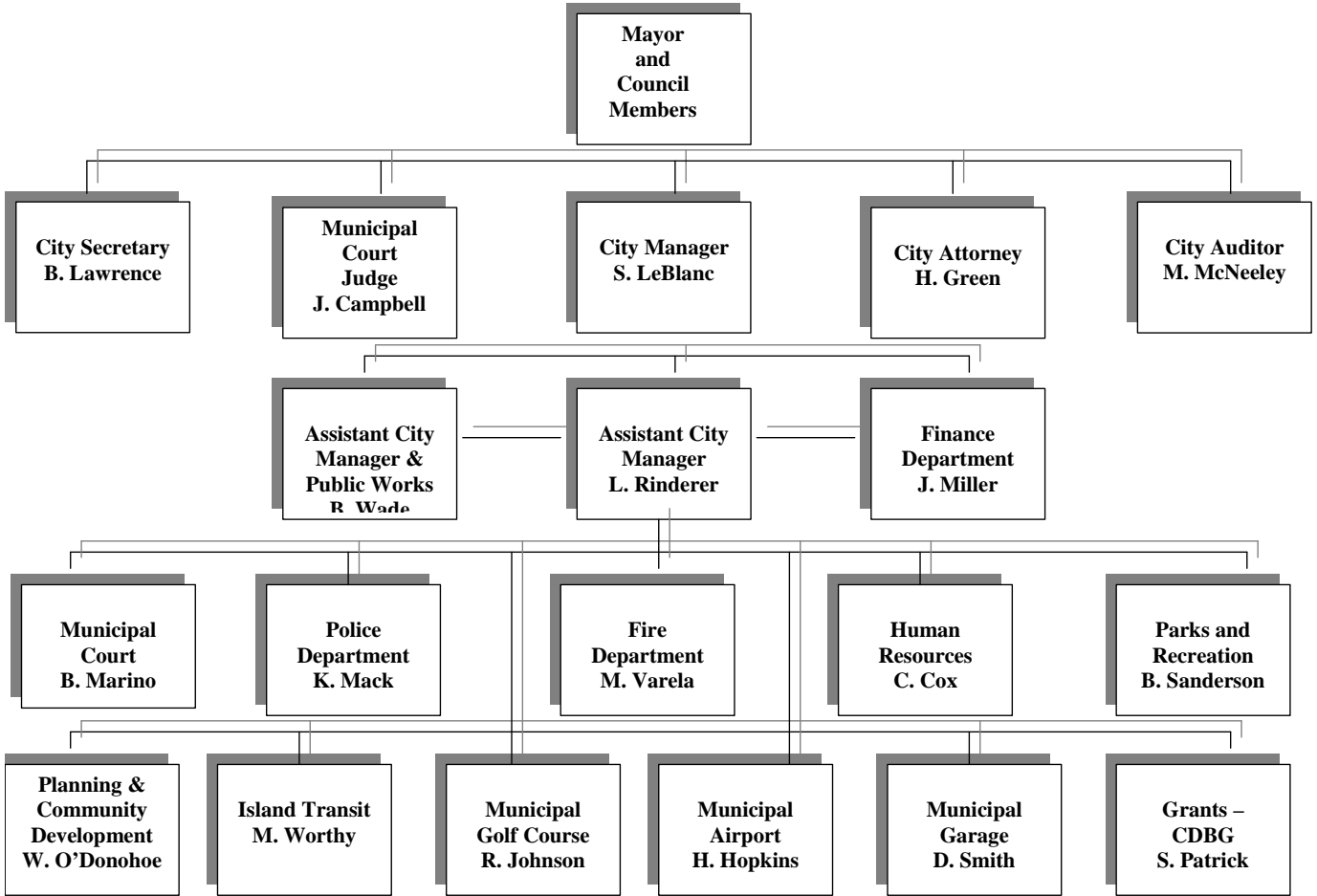
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

**CITY OF GALVESTON, TEXAS
ORGANIZATIONAL CHART**



CITY OF GALVESTON, TEXAS

Incorporated March 1839

Charter Adopted April 19, 1960

Council – Manager Form of Government

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

**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 Worthly
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 Postoffice Street
Galveston, Texas 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, 2006, 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 73% of total assets and 44% 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, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparisons for the major governmental funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2007, 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 and pension system information on pages 19 through 31 and 108 through 109 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 "Null Laisson, P.C." The signature is written in a cursive, flowing style.

January 25, 2007
Houston, Texas

City of Galveston, Texas
Management's Discussion and Analysis
(unaudited)

September 30, 2006

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, 2006. 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 2005. 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 \$134.3 million (net assets). Of these assets, cash and cash equivalents increased \$12.7 million or 45.17% over the prior year.
- Total assets, excluding component units, were \$336.9 million at September 30, 2006, increasing 17.3% over the previous fiscal year. Total liabilities, excluding component units, were \$202.6 million at September 30, 2006, increasing 20.5% over September 30, 2005.
- The ratio of total assets to total liabilities for governmental activities was 1.5 times; for business type activities the ratio was 1.8 times.
- The fund balance of the General Fund increased from \$9.4 million to \$12.1 million, a 29.1% increase. The ending balance represents 33.7% of the \$35.9 million in expenditures. Total undesignated and unreserved fund balance was \$9.84 million, or 27.8% of expenditures.
- Business-type assets increased \$39.9 million over the last fiscal year. Cash and cash equivalents amounted to \$4.1 million, an increase of \$122,000 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 potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement, an airport facility, and a golf course facility.

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 34-36 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By

doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Island Transit fund, which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The City's governmental fund financial statements can be found on pages 38-45 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 potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement, 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 wastewater 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 48-53 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 56-57 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 59-105 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 108. Information concerning the City’s progress in funding its obligation to provide pension benefits to its employees is presented.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, government-wide assets exceeded liabilities by \$47.5 million at the close of the most recent fiscal year.

A significant portion of the City’s net assets (72.3%) 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)

TABLE A-1

September 30, 2006

With comparative totals for September 30, 2005

	<u>Governmental activities</u>		<u>Business - type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 64,972	\$ 54,684	\$ 81,206	\$ 50,371	\$ 146,178	\$ 105,055
Capital assets	80,566	81,010	110,196	101,123	190,762	182,133
Total assets	<u>145,538</u>	<u>135,694</u>	<u>191,402</u>	<u>151,494</u>	<u>336,940</u>	<u>287,188</u>
Current liabilities	7,733	8,427	5,756	5,129	13,489	13,556
Long term liabilities	90,300	85,004	98,834	69,554	189,134	154,558
Total liabilities	<u>98,033</u>	<u>93,431</u>	<u>104,590</u>	<u>74,683</u>	<u>202,623</u>	<u>168,114</u>
Net assets:						
Invested in capital assets, net of related debt	25,631	25,910	71,492	69,740	97,124	95,650
Restricted	10,791	8,444	9,502	3,387	20,293	11,831
Unrestricted	11,083	7,909	5,818	3,684	16,900	11,593
Total net assets	<u>\$ 47,505</u>	<u>\$ 42,263</u>	<u>\$ 86,812</u>	<u>\$ 76,811</u>	<u>\$ 134,317</u>	<u>\$ 119,074</u>

An additional portion of the City's net assets (15.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$16.9 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 for the government activities as a whole.

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 \$171.6 million, comprising 89.7% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$25.6 million and \$44.1 million, respectively, which is 80.3% of total net assets compared to 84.3% for 2005. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 30.2% of the total business-type unrestricted net assets.

Governmental activities. As shown in Table A-2, revenues were divided between governmental activities and business-type activities 60.4% and 39.6% respectively. Expenses were divided between governmental activities and business-type activities 65.8% and 34.2% respectively. Net assets increased \$5.2 million, or 12.4% from the prior period for governmental activities and \$10.0 million or 13.0% for business-type activities, and 12.8% overall.

City of Galveston, Texas
Changes in Net Assets (in thousands)
For the Fiscal Year Ended September 30, 2006
With comparative totals for fiscal year ended September 30, 2005

TABLE A-2

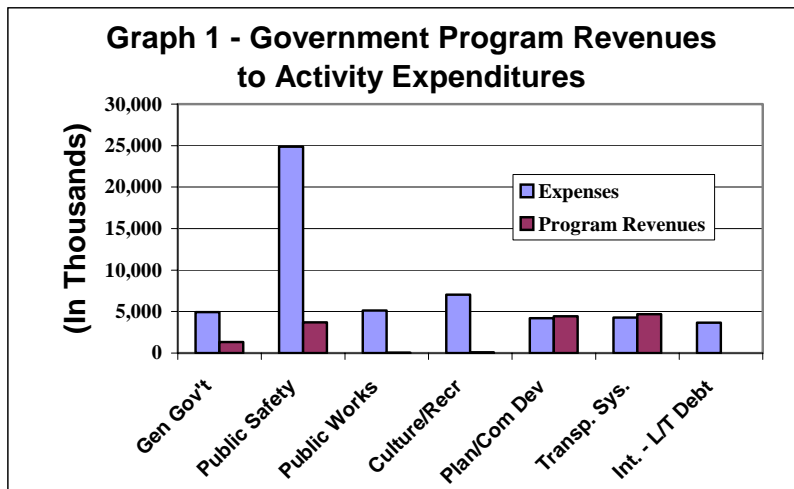
	Governmental activities		Business - type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 7,015	\$ 6,566	\$ 34,282	\$ 28,174	\$ 41,297	\$ 34,740
Operating grants and contributions	5,635	5,039			5,635	5,039
Capital grants and contributions	1,575	2,556	2,680	1,178	4,255	3,734
General revenues:						
Property taxes	15,480	13,838			15,480	13,838
Sales taxes	16,849	14,425			16,849	14,425
Hotel occupancy taxes	4,122	3,418			4,122	3,418
Franchise fees	5,148	4,880			5,148	4,880
Payments in lieu of taxes	655	596			655	596
Other	2,321	1,395	1,654	467	3,975	1,862
Total revenues	58,800	52,713	38,616	29,819	97,416	82,532
Expenses:						
General government	4,924	4,662			4,924	4,662
Public safety	24,876	24,111			24,876	24,111
Public works	5,113	4,331			5,113	4,331
Culture and recreation	7,025	5,211			7,025	5,211
Planning and community dev	4,202	2,375			4,202	2,375
Transportation system	4,269	4,032			4,269	4,032
Interest on long-term debt	3,649	2,866			3,649	2,866
Waterworks system			11,849	10,958	11,849	10,958
Sewer system			9,229	7,921	9,229	7,921
Sanitation services			3,541	3,376	3,541	3,376
Drainage utility			1,342	1,085	1,342	1,085
Airport			1,128	932	1,128	932
Golf Course			1,026	1,010	1,026	1,010
Total Expenses	54,058	47,588	28,115	25,282	82,173	72,870
Increase (decrease) in net assets before transfers	4,742	5,125	10,501	4,537	15,243	9,662
Transfer in (out)	500	500	(500)	(500)		
Change in net assets	5,242	5,625	10,001	4,037	15,243	9,662
Net assets at beginning of year	42,263	36,638	76,811	72,774	119,074	109,412
Net assets at end of year	\$ 47,505	\$ 42,263	\$ 86,812	\$ 76,811	\$ 134,317	\$ 119,074

Table A-2 above reflects that:

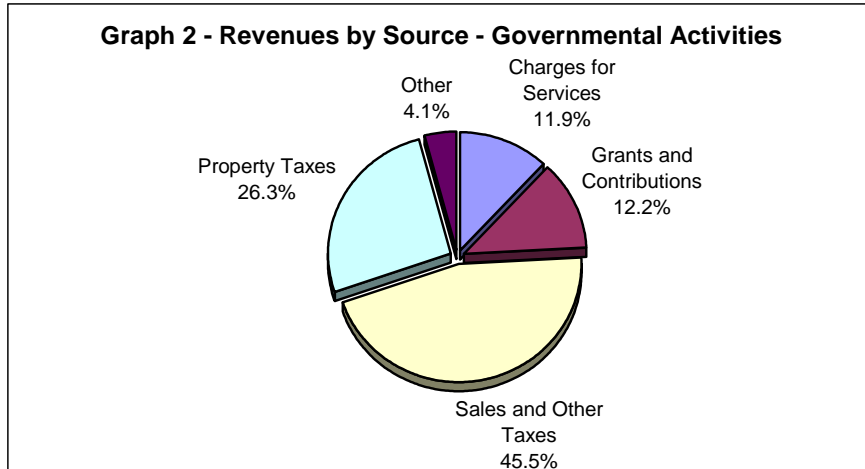
- The cost of all governmental activities for the fiscal year was \$54.1 million, an increase of \$6.5 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 46.0% of governmental activities compared to 50.7% in 2005. Public Works expenses for streets and traffic increased 18.1% compared to the prior year. Other significant increases were in culture and recreation (Convention Center) up 34.8% and planning and community development (Island Transit capital investment), up 76.9%.

- 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 \$42.3 million, an increase over the previous year of \$5.1 million. Taxes and franchise fees contributed 70.7% of governmental activities revenue compared to 69.4% in fiscal year 2005.
- The second largest source of revenue is from governments and organizations that subsidize certain programs with grants and contributions. \$7.2 million was received in 2006 versus \$7.6 million in 2005.
- Charges for services account for 11.9% of governmental activities and increased \$.5 million in fiscal 2006 to \$7.0 million. The increase is attributable to licenses and permits, up \$264 thousand and Island Transit fares, up \$188 thousand.

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 \$54.1 million. Program revenues provided \$14.2 million, for a net cost of services of \$39.9 million. The net cost of providing public safety was \$24.9 million or 46% of the net cost of governmental activities, a decrease from 50.7% of net cost of governmental activities in 2005. 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 (16.8%), hotel taxes (7%), franchise fees (8.8%), and payments in lieu of taxes received from business-type activities (1.1%) comprise a total 45.5% 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 \$10.0 million, or 65.6%. Business-type net assets accounted for 64.6% of the City's total net assets. Revenues derived from charges for services account for 83.0% 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, 2006

With comparative totals for fiscal year ended September 30, 2005

Program:	Expenses	Program Revenues	2006	2005
			Net Revenue (Cost) of Services	Net Revenue (Cost) of Services
Waterworks system	\$ 11,849	\$ 14,173	\$ 2,324	\$ 272
Sewer system	9,229	11,395	2,166	1,488
Sanitation services	3,541	4,240	699	556
Drainage utility	1,342	2,711	1,369	741
Airport	1,128	937	(191)	1,111
Golf Course	1,026	826	(200)	(98)
Totals	<u>\$ 28,115</u>	<u>\$ 34,282</u>	<u>\$ 6,167</u>	<u>\$ 4,070</u>

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$26.0 million, or 92.3% of all the expenses of business-type activities. Related revenues of those funds totaled \$32.5 million, or 94.9% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$26.4 million and expenses were \$23.4 million. Waterworks, Sewer system and Drainage operating revenues were up \$4.9 million compared to the prior year. A rate increase, effective October 1,

2005, increases in meter accuracy (with the island-wide remetering project) and higher consumption (12%) all contributed to revenue increases.

The net excess of program revenues over expenses for the four public utility related funds was \$6.6 million compared to \$4.1 million in 2005. In total, business type activity excess revenues over expenses were \$6.2 million in 2006 compared to \$4.1 million in 2005. As indicated above, the increase in the current year resulted from water, sewer and drainage rate increases, increases in meter accuracy and a 12% increase in consumption over the prior year.

Table A-4 shows business-type activities revenues by source. Charges for services account for 88.8% of the total, with capital grants and contributions accounting for 6.9%.

City of Galveston, Texas

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

TABLE A-4

For the Fiscal Year Ended September 30, 2006

With comparative totals for fiscal year ended September 30, 2005

	2006		2005	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 34,282	88.8%	\$ 28,174	94.5%
Capital grants and contributions	2,680	6.9%	1,178	4.0%
Other	1,654	4.3%	467	1.6%
Totals	<u>\$ 38,616</u>	<u>100%</u>	<u>\$ 29,819</u>	<u>100%</u>

Financial Analysis of the Government’s Funds

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

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

The following is of note relating to governmental funds:

- Total assets of the General Fund grew from \$12.5 million in fiscal 2005 to \$15.0 million in fiscal 2006. Cash and temporary investments reflect \$8.8 million or 58.5% of total assets with net receivables reporting \$6.0 million, or 40.4% of the total. Sales and property taxes along with franchise fees account for 23.3% of net receivables.
- No significant change in overall General Fund liabilities occurred. Liabilities were 2.9 million in 2006. Deferred revenue from property taxes accounted for approximately 45.0% of General Fund liabilities compared to 42.7% for fiscal year 2005.

- General Fund revenues reflect a \$1.5 million increase over the budget. Property and sales tax revenues increased \$2.8 million over the prior year. General Fund expenditures were \$1.0 million under budgeted amounts.
- The General Fund's unreserved undesignated fund balance increased \$2.7 million in 2006 to \$10.0 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 2005 to \$2.0 million in 2006. A \$500 thousand increase has been provided in the 2006-2007 budget.
- Other governmental non-major funds (16 separate funds) have cash and investments totaling \$24.7 million, comprising 74.0 % of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$661,000 to \$3.5 million at the end of 2006.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$36.0 million. Of this amount, \$10.1 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Reserves are reported for operations (\$.5 million), capital project (\$13.5 million) and debt service (\$6.7 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 \$171.6 million, which comprises 87.3% of the total assets of all proprietary funds. Unrestricted net assets (deficit) of those two funds are (\$.7) million and (\$2.5) million respectively.

General Fund Budgetary Highlights

A primary goal for the General Fund operating budget is that current budgeted revenues will equal or exceed current budgeted expenditures. Only unforeseen or emergency circumstances will be considered justification for utilizing the fund balance or contingency funds during the annual budget process. During fiscal year 2006 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 2006 set General Fund revenue and expenditures at \$36.2 million (exclusive of transfers), a 7.4 % 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 7.4% and 5.4%, respectively in 2006 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 and water park.

During the year, total revenues were \$1.5 million higher than budgetary estimates. Major variances between budget and actual revenues include a \$1.3 million increase in sales and use taxes, a \$158 thousand decrease in licenses and permits (court fines) and 279 thousand increase in other revenues (interest earnings).

General Fund expenditures were \$1.0 million 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 vacancies and personnel benefits.

The Island Transit Special Revenue Fund had positive net revenue over expenditures of \$2321thousand. Operating results resulted in a favorable variance to budget amounting to \$282 thousand for the 2006 year.

Capital Asset and Debt Administration

City of Galveston, Texas

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

September 30, 2006

TABLE A-5

With comparative totals for September 30, 2005

	Governmental activities		Busines - type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,716	\$ 2,716	\$ 2,115	\$ 1,916	\$ 4,831	\$ 4,632
Infrastructure	32,599	27,595	63,004	61,831	95,603	89,426
Buildings	34,402	34,854	22,031	18,887	56,433	53,741
Equipment and furniture	10,264	9,948	4,362	3,746	14,626	13,694
Construction in progress	585	5,897	18,685	14,743	19,270	20,640
Totals	\$ 80,566	\$ 81,010	\$110,196	\$101,123	\$190,762	\$ 182,133

As shown in Table A-5, at the end of 2006, the City had invested \$190.8 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 contributed \$80.6 million in capital assets, while business-type activities have invested in \$110.2 million of capital assets.

Total infrastructure assets comprise 50.1% of the total capital assets. The City's Island-wide remetering project, valued at \$10 million, was completed during the 2006 fiscal year. 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 \$130.8 million. Of this amount, \$23.7 million was comprised of debt backed by the full faith and credit of the government and \$38.4 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 (\$68.7 million) represents bonds secured solely by specified revenue sources (\$48.7 million) and certificates of obligation (\$20.0 million).

City of Galveston, Texas
Outstanding Debt (in thousands)
September 30, 2006
With comparative totals for September 30, 2005

TABLE A-6

	Governmental activities		Business - type activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 23,733	\$ 17,184		\$	\$ 23,733	\$ 17,184
Special obligation bonds	38,360	39,670			38,360	39,670
Contracts payable			41,195	42,830	41,195	42,830
Revenue bonds			48,710	18,735	48,710	18,735
Certificates of obligation	19,324	19,324	725	820	20,049	20,144
Notes payable			9,741	7,490	9,741	7,490
Capital lease obligations	398	1,072	725	627	1,123	1,699
Deferred bond costs	276		(3,347)	(1,887)	(3,071)	(1,887)
Total debt	82,091	77,250	97,749	68,615	179,840	145,865
Compensated absences	7,476	6,890	1,085	939	8,561	7,829
Claims and judgments	733	864			733	864
Totals	\$ 90,300	\$ 85,004	\$ 98,834	\$ 69,554	\$ 189,134	\$ 154,558

The City's total debt increased \$54.4 million or 35.2% during the current fiscal year. The City issued General Obligation Bond Series 2005, for \$9.7 million in December, 2005. Further, the City issued Revenue Bond Series 2006 in February, 2006, for \$38.3 million. Notes payable increased \$2.5 million, representing a SECO loan in connection with the citywide remetering project. Compensated absences increased by a net \$.6 million in the 2006 year. Principal payments and refunding components of the new issues reduced bonded debt by \$14.4 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 revenue for fiscal year 2006 was up 16.8% compared to prior year. The City anticipates the continuation of increased sales tax collections, and has budgeted a 5.0% increase for fiscal year ending September 30, 2007.

The property tax rate was lowered 8.8% for the fiscal year 2007, from 54.17 cents to 49.40 cents per \$100 of valuation for all funds. The rate for the General Fund (Maintenance and operation) decreased from 42.28 cents to 38.34 cents per \$100. Additional property tax revenue of \$1.1 million is projected in 2007 due to increases by some 7.8% in property appraisals and new development for the year.

On December 15, 2006 Council took action to annex Galveston Municipal Utility District 1. The District will add 300 million in property values to the roll, or an additional 10.6%. The District did not levy a property tax for the 2006 year. Therefore, these values will not be included in the property tax projections until 2008.

There were no changes in the utility funds (Waterworks, Sewer System, Refuse and Drainage) for the 2006-07 year.

New businesses and construction new to the Island for calendar year 2006 total approximately \$607 million. Construction of commercial and residential properties will continue at a strong pace in 2007. Building permits filed for the 2006 year reflect \$68 million in residential and \$140 million in commercial construction or improvements. Projects and development underway total approximately \$1.7 billion.

Unemployment rate for the City is currently 5.5 %, which is a decrease from a rate of 6.0 % a year ago. This compares unfavorably to the state's average unemployment rate of about 4.7 % and the national average rate of about 4.5 %. That said, 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 2007 fiscal year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF GALVESTON, TEXAS

Statement of Net Assets

September 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and temporary investments	\$ 36,873,689	\$ 4,144,032	\$ 41,017,721
Investments			
Receivables, net	4,850,067	6,343,362	11,193,429
Internal balances	(874,336)	874,336	
Receivables from other governments	4,040,577		4,040,577
Due from component unit			
Inventories	367,932	108,967	476,899
Prepays	389,515	32,873	422,388
Restricted assets		51,898,007	51,898,007
Receivable from component unit	19,323,672	241,128	19,564,800
Contractual rights to water supply, net		17,563,301	17,563,301
Net investment in direct financing and capital leases - noncurrent			
Capital assets not being depreciated	3,300,622	20,799,454	24,100,076
Capital Assets (net of accumulated depreciation)	77,265,315	89,397,005	166,662,320
Total Assets	<u>\$ 145,537,053</u>	<u>\$ 191,402,465</u>	<u>\$ 336,939,518</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 3,091,290	\$ 4,861,764	\$ 7,953,054
Due to other governmental agencies	299,816	20,699	320,515
Due to primary government			
Deferred Revenues	2,371,721	65,711	2,437,432
Accrued interest	856,498	809,632	1,666,130
Net Pension Obligation	1,114,173		1,114,173
Long-term liabilities			
Due within one year	2,671,680	4,695,272	7,366,952
Due in more than one year	87,628,083	94,138,750	181,766,833
Total liabilities	<u>98,033,261</u>	<u>104,591,828</u>	<u>202,625,089</u>
NET ASSETS			
Invested in capital assets, net of related debt	25,631,361	71,492,191	97,123,552
Restricted for:			
Capital projects	4,877,148		4,877,148
Debt Service	5,913,832	9,501,675	15,415,507
Other projects			
Unrestricted	11,081,451	5,816,771	16,898,222
Total net assets	<u>\$ 47,503,792</u>	<u>\$ 86,810,637</u>	<u>\$ 134,314,429</u>

See notes to financial statements.

Exhibit 1

Component Units	
Governmental Activities	Business-type Activities
\$ 5,402,820	\$ 4,168,208
5,010	1,302,546
1,331,693	4,024,341
5,539	
139,073	391,041
622,454	13,069,586
	16,493,229
241,128	14,288,879
311,678,273	61,306,141
<u>\$ 319,425,990</u>	<u>\$ 115,043,971</u>
\$ 448,871	\$ 2,775,498
104,021	197,072
241,128	19,323,672
8,775	4,694,098
	1,036,319
649,459	5,243,717
1,579,640	28,452,913
<u>3,031,894</u>	<u>61,723,289</u>
311,399,835	41,419,331
902,837	
574,765	4,355,552
649,278	
2,867,381	7,545,799
<u>\$ 316,394,096</u>	<u>\$ 53,320,682</u>

CITY OF GALVESTON, TEXAS
Statement of Activities
For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities				
General government	\$ 4,924,411	\$ 1,322,167	\$	\$
Public safety	24,875,593	2,738,636	955,858	
Public works	5,112,987	19,358		
Culture and recreation	7,025,024	6,082	83,220	
Planning and community development	4,202,068	2,231,132	2,199,293	
Transportation system	4,268,665	698,016	2,396,257	1,574,613
Interest on long-term debt	3,649,351			
Total governmental activities	<u>54,058,099</u>	<u>7,015,391</u>	<u>5,634,628</u>	<u>1,574,613</u>
Business-type activities				
Waterworks	11,849,441	14,173,108		
Sewer system	9,228,575	11,394,543		
Sanitation	3,541,264	4,239,729		
Drainage	1,342,450	2,710,533		
Airport	1,128,028	937,411		2,680,324
Golf course	1,028,024	826,823		
Total business-type activities	<u>28,117,782</u>	<u>34,282,147</u>		<u>2,680,324</u>
Total primary government	<u>\$ 82,175,881</u>	<u>\$ 41,297,538</u>	<u>\$ 5,634,628</u>	<u>\$ 4,254,937</u>
Component units				
Governmental activities	\$ 20,259,399	\$ 4,664,241	\$ 515,337	\$
Business-type activities	17,427,063	18,344,555		864,889
Total component units	<u>\$ 37,686,462</u>	<u>\$ 23,008,796</u>	<u>\$ 515,337</u>	<u>\$ 864,889</u>

General revenues:

Taxes:
Property taxes, levied for general purposes
Franchise taxes
Sales taxes
Hotel occupancy taxes
Payments in lieu of taxes
Special assessments
Unrestricted investment earnings
Miscellaneous
Capital asset contributions
Special item - gain on sale of asset
Transfers
Total general revenues, special items, and transfers
Change in net assets
Net assets - beginning
Net assets - ending

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (3,602,244)		\$ (3,602,244)		
(21,181,099)		(21,181,099)		
(5,093,629)		(5,093,629)		
(6,935,722)		(6,935,722)		
228,357		228,357		
400,221		400,221		
(3,649,351)		(3,649,351)		
<u>(39,833,467)</u>		<u>(39,833,467)</u>		
	\$ 2,323,667	2,323,667		
	2,165,968	2,165,968		
	698,465	698,465		
	1,368,083	1,368,083		
	2,489,707	2,489,707		
	<u>(201,201)</u>	<u>(201,201)</u>		
	8,844,689	8,844,689		
<u>(39,833,467)</u>	<u>8,844,689</u>	<u>(30,988,778)</u>		
			\$ (15,079,821)	
			<u>(15,079,821)</u>	\$ 1,782,381
				<u>1,782,381</u>
15,480,403		15,480,403	400,336	
5,148,416		5,148,416		
16,849,450		16,849,450	987,034	
4,122,104		4,122,104	5,862,763	
655,190		655,190		
			88,200	
1,649,987	1,755,082	3,405,069	16,124	660,105
669,107	169,722	838,829	134,739	8,152
			3,798,130	
	(270,826)	(270,826)		
500,000	(500,000)			
<u>45,074,657</u>	<u>1,153,978</u>	<u>46,228,635</u>	<u>11,287,326</u>	<u>668,257</u>
5,241,190	9,998,667	15,239,857	(3,792,495)	2,450,638
42,262,602	76,811,970	119,074,572	320,186,591	50,870,044
<u>\$ 47,503,792</u>	<u>\$ 86,810,637</u>	<u>\$ 134,314,429</u>	<u>\$ 316,394,096</u>	<u>\$ 53,320,682</u>

CITY OF GALVESTON, TEXAS

Balance Sheet

Governmental Funds

September 30, 2006

	<u>General Fund</u>	<u>Island Transit</u>	<u>Other Governmental Funds</u>
ASSETS			
Cash and temporary investments	\$ 8,755,915	\$ 9,834	\$ 24,715,340
Accounts receivable, net	3,492,554	21,624	1,140,315
Due from other funds	104,805		
Receivable from other governments	2,417,783	342,392	1,280,402
Inventories		255,735	
Prepays	206,920		
Total assets	<u>\$ 14,977,977</u>	<u>\$ 629,585</u>	<u>\$ 27,136,057</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other current liabilities	\$ 1,312,869	\$ 117,910	\$ 1,183,740
Due to other funds			104,805
Payable to other governments	270,099		29,717
Deferred revenue	1,294,734	113,538	2,271,304
Advances from other governments			7,532
Total liabilities	<u>2,877,702</u>	<u>231,448</u>	<u>3,597,098</u>
Fund balances:			
Reserved for:			
Inventories		255,735	
Encumbrances	128,000		
Prepays	206,920		
Capital projects			13,472,433
Debt service			6,663,217
Other purposes			
Unreserved, designated for emergencies	1,925,226		
Unreserved, undesignated	9,840,129	142,402	
Unreserved, reported in non-major:			
Special revenue funds			3,401,893
Capital projects funds			1,416
Total fund balances	<u>12,100,275</u>	<u>398,137</u>	<u>23,538,959</u>
Total liabilities and fund balances	<u>\$ 14,977,977</u>	<u>\$ 629,585</u>	<u>\$ 27,136,057</u>

See notes to financial statements.

Exhibit 3

**Total
Governmental
Funds**

\$	33,481,089
	4,654,493
	104,805
	4,040,577
	255,735
	206,920
\$	<u>42,743,619</u>

\$	2,614,519
	104,805
	299,816
	3,679,576
	7,532
	<u>6,706,248</u>

	255,735
	128,000
	206,920
	13,472,433
	6,663,217
	1,925,226
	9,982,531
	3,401,893
	1,416
	<u>36,037,371</u>
\$	<u>42,743,619</u>

This page is intentionally left blank

CITY OF GALVESTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets September 30, 2006

Exhibit 4

Total fund balance, governmental funds \$ 36,037,371

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. 79,527,181

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

Property taxes receivable 1,263,233
Municipal court receivables 44,622
Long term receivable from component unit 19,323,672

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 2,573,424

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

Bonds payable (81,416,994)
Capital lease obligation (397,783)
Compensated absences (7,204,286)
Accrued interest (856,498)
Net pension obligation (1,114,173)
Deferred bond issuance costs (275,977)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 47,503,792

See notes to financial statements.

CITY OF GALVESTON, TEXAS
Statement of Revenues, Expenditures and Changes
Governmental Funds
For the Year Ended September 30, 2006

	<u>General Fund</u>	<u>Island Transit</u>	<u>Other Governmental Funds</u>
REVENUES			
Property taxes	\$ 12,167,442	\$	\$ 3,402,914
Sales and use taxes	12,750,773		4,098,677
Hotel occupancy taxes			4,122,104
Franchise fees	5,148,416		
Fees and fines	1,828,036		
Licenses and permits	1,577,415		
Intergovernmental	608,626	3,094,804	3,481,874
Charges for services	2,186,720	674,308	672,953
Investment earnings	459,600		1,064,124
Miscellaneous	607,405	23,558	160,181
Payments in lieu of taxes	655,190		
Total revenues	<u>37,989,623</u>	<u>3,792,670</u>	<u>17,002,827</u>
EXPENDITURES			
Current:			
General government	4,857,620		147,475
Public safety	22,999,635		519,082
Public works	3,065,553		86,978
Culture and recreation	1,508,174		4,563,146
Planning and community development	1,817,539		1,944,536
Transportation system	696,405	3,510,432	149,129
Debt service:			
Principal	639,479		1,998,911
Interest and other charges	33,145		3,288,105
Capital outlay	261,410		3,212,127
Total expenditures	<u>35,878,960</u>	<u>3,510,432</u>	<u>15,909,489</u>
Excess (deficiency) of revenues over expenditures	<u>2,110,663</u>	<u>282,238</u>	<u>1,093,338</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of refunding bonds			9,840,254
Proceeds from sale of capital asset	118,052		
Payment to refunding bond escrow agent			(2,669,235)
Transfers in	600,000		3,423,293
Transfers out	(100,000)		(3,423,293)
Total other financing sources and uses	<u>618,052</u>		<u>7,171,019</u>
Net change in fund balances	2,728,715	282,238	8,264,357
Fund balances - beginning	9,371,560	115,899	15,274,602
Fund balances - ending	<u>\$ 12,100,275</u>	<u>\$ 398,137</u>	<u>\$ 23,538,959</u>

See notes to financial statements.

Exhibit 5

**Total
Governmental
Funds**

\$	15,570,356
	16,849,450
	4,122,104
	5,148,416
	1,828,036
	1,577,415
	7,185,304
	3,533,981
	1,523,724
	791,144
	655,190
	<u>58,785,120</u>

	5,005,095
	23,518,717
	3,152,531
	6,071,320
	3,762,075
	4,355,966

	2,638,390
	3,321,250
	3,473,537
	<u>55,298,881</u>
	<u>3,486,239</u>

	9,840,254
	118,052
	(2,669,235)
	4,023,293
	<u>(3,523,293)</u>
	<u>7,789,071</u>

	11,275,310
	24,762,061
\$	<u>36,037,371</u>

This page is intentionally left blank

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, 2006

Exhibit 6

Net change in fund balances - total governmental funds: \$ 11,275,310

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 depreciation exceeded capital outlays in the current period. (544,648)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (118,052)

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 (79,011)

Municipal court revenue (88,059)

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.

Net proceeds from sale of bonds (7,171,019)

Principal repayments 2,638,390

Interest accretion 147,788

Deferred bond charges (275,977)

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

Changes in accrued interest (87,495)

Changes in accrued compensated absences (645,122)

Changes in net pension obligation (600,715)

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. 789,800

Change in net assets of governmental activities \$ 5,241,190

See notes to financial statements.

CITY OF GALVESTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
	Adopted Original	Final		
Revenues:				
Property taxes	\$ 12,122,774	\$ 12,122,774	\$ 12,167,442	\$ 44,668
Sales and use taxes	11,493,387	11,493,387	12,750,773	1,257,386
Franchise fees	5,158,225	5,158,225	5,148,416	(9,809)
Licenses and permits	1,494,320	1,494,320	1,577,415	83,095
Intergovernmental	1,229,461	1,229,461	1,254,527	25,066
Charges for services	2,050,122	2,050,122	1,892,507	(157,615)
Fines and forfeitures	1,829,600	1,829,600	1,828,036	(1,564)
Other	810,278	810,278	1,089,353	279,075
Total revenues	<u>36,188,167</u>	<u>36,188,167</u>	<u>37,708,469</u>	<u>1,520,302</u>
Expenditures:				
Current:				
General government	4,908,059	5,078,596	4,857,620	220,976
Public safety	23,958,200	23,722,932	23,343,684	379,248
Public works and traffic	2,968,516	3,190,934	2,885,710	305,224
Culture and recreation	1,565,633	1,644,334	1,619,166	25,168
Planning and community development	1,495,759	1,602,580	1,520,684	81,896
Transportation system	782,000	782,000	755,617	26,383
Total expenditures	<u>35,678,167</u>	<u>36,021,376</u>	<u>34,982,481</u>	<u>1,038,895</u>
Revenues over (under) expenditures	510,000	166,791	2,725,988	2,559,197
Other financing sources (uses):				
Transfer to emergency reserve	(400,000)	(400,000)	(400,000)	
Proceeds from sale of equipment			118,052	118,052
Transfers out	(100,000)	(100,000)	(100,000)	
Total other financing sources (uses)	<u>(500,000)</u>	<u>(500,000)</u>	<u>(381,948)</u>	<u>118,052</u>
Revenues and other financing sources over (under) expenditures and other financing (uses)	10,000	(333,209)	2,344,040	2,677,249
Fund balances at beginning of year	<u>9,371,560</u>	<u>9,371,560</u>	<u>9,371,560</u>	
Fund balances at end of year	<u>\$ 9,381,560</u>	<u>\$ 9,038,351</u>	<u>\$ 11,715,600</u>	<u>\$ 2,677,249</u>

See notes to financial statements.

Exhibit 7

Island Transit Fund			
Budgeted Amounts			
Adopted Original	Final	Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
\$	\$	\$	\$
2,695,057	2,695,057	2,845,470	150,413
580,000	580,000	674,308	94,308
25,000	25,000	23,558	(1,442)
<u>3,300,057</u>	<u>3,300,057</u>	<u>3,543,336</u>	<u>243,279</u>
<u>3,259,195</u>	<u>3,261,230</u>	<u>3,222,313</u>	<u>38,917</u>
<u>3,259,195</u>	<u>3,261,230</u>	<u>3,222,313</u>	<u>38,917</u>
40,862	38,827	321,023	282,196
<u>40,862</u>	<u>38,827</u>	<u>321,023</u>	<u>282,196</u>
<u>115,899</u>	<u>115,899</u>	<u>115,899</u>	<u> </u>
<u>\$ 156,761</u>	<u>\$ 154,726</u>	<u>\$ 436,922</u>	<u>\$ 282,196</u>

CITY OF GALVESTON, TEXAS

Statement of Net Assets

Proprietary Funds

September 30, 2006

	Enterprise Funds		
	Waterworks System	Sewer System	Other Enterprise Funds
ASSETS			
Current assets:			
Cash and temporary investments	\$ 1,771,464	\$ 932,621	\$ 1,439,947
Accounts receivable, net	1,965,708	2,482,121	1,895,533
Receivables from other governments	241,128		
Inventories	84,880		24,087
Prepays	17,369	9,302	6,202
Restricted assets:			1,452,972
Cash and investments	21,287,595	21,799,654	
Investment with trustee	7,357,786		
Total current assets	<u>32,725,930</u>	<u>25,223,698</u>	<u>4,818,741</u>
Non-current assets:			
Contractual rights to water supply	17,563,301		
Capital assets (net of depreciation)	41,494,131	54,632,883	14,069,445
Total non-current assets	<u>59,057,432</u>	<u>54,632,883</u>	<u>14,069,445</u>
Total assets	<u>\$ 91,783,362</u>	<u>\$ 79,856,581</u>	<u>\$ 18,888,186</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 693,493	\$ 985,732	\$ 854,808
Salaries payable	50,673	103,868	119,822
Accrued interest payable	341,443	460,001	8,188
Due to other funds			
Payable to other governments	20,699		
Customer deposits	1,026,687	1,026,681	
Deferred revenue			65,711
Long term debt - current portion	2,798,480	1,602,656	294,136
Total current liabilities	<u>4,931,475</u>	<u>4,178,938</u>	<u>1,342,665</u>
Non-current liabilities:			
Long term debt - noncurrent portion	61,253,805	31,557,348	1,327,597
Total liabilities	<u>66,185,280</u>	<u>35,736,286</u>	<u>2,670,262</u>
NET ASSETS			
Invested in capital assets, net of related debt	21,009,051	37,560,676	12,922,464
Restricted for debt service	5,283,317	4,106,981	111,377
Restricted for other purposes			
Unrestricted	(694,286)	2,452,638	3,184,083
Total net assets	<u>\$ 25,598,082</u>	<u>\$ 44,120,295</u>	<u>\$ 16,217,924</u>

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

Total net assets per Government-Wide financial statements

See notes to financial statements.

Exhibit 8

Total	Governmental Activities Internal Service Funds
\$ 4,144,032	\$ 3,531,246
6,343,362	195,574
241,128	
108,967	112,197
32,873	182,595
1,452,972	
43,087,249	
7,357,786	
62,768,369	4,021,612
17,563,301	
110,196,459	1,038,756
127,759,760	1,038,756
\$ 190,528,129	\$ 5,060,368
\$ 2,534,033	\$ 410,407
274,363	58,831
809,632	
	138,647
20,699	
2,053,368	
65,711	
4,695,272	24,000
10,453,078	631,885
94,138,750	980,723
104,591,828	1,612,608
71,492,191	1,038,756
9,501,675	
4,942,435	2,409,004
\$ 85,936,301	\$ 3,447,760
874,336	
\$ 86,810,637	

CITY OF GALVESTON, TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended September 30, 2006

	Enterprise Funds		
	Waterworks System	Sewer System	Other Enterprise Funds
REVENUES			
Charges for services	\$ 14,181,514	\$ 11,399,625	\$ 8,679,256
Miscellaneous		170,512	35,240
Total operating revenues	<u>14,181,514</u>	<u>11,570,137</u>	<u>8,714,496</u>
OPERATING EXPENSES			
Personal services	1,384,530	2,949,976	3,546,953
Contractual services	478,983	1,031,867	1,667,434
Other charges	187,274	250,642	333,366
Surface water contract	5,192,997		
Materials and supplies	880,808	1,459,443	520,304
Insurance policies in force			
Insurance claims and expenses			
Administrative charge	503,000	307,000	237,000
Depreciation	2,633,987	2,204,431	757,368
Total Operating Expenses	<u>11,261,579</u>	<u>8,203,359</u>	<u>7,062,425</u>
Operating income (loss)	<u>2,919,935</u>	<u>3,366,778</u>	<u>1,652,071</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	911,919	718,771	124,387
Operating grants and contributions			2,680,324
Gain (loss) on sale of capital asset	(270,826)		
Interest expense	(585,708)	(1,063,805)	(55,019)
Amortization of bond issuance costs	(119,366)	(27,919)	
Total non-operating revenue (expenses)	<u>(63,981)</u>	<u>(372,953)</u>	<u>2,749,692</u>
Income (loss) before contributions and transfers	<u>2,855,954</u>	<u>2,993,825</u>	<u>4,401,763</u>
Transfers in			100,000
Transfers out	(200,000)	(200,000)	(200,000)
Change in net assets	2,655,954	2,793,825	4,301,763
Total net assets - beginning	22,942,128	41,326,470	11,916,161
Total net assets - ending	<u>\$ 25,598,082</u>	<u>\$ 44,120,295</u>	<u>\$ 16,217,924</u>

Change in net assets, per above

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

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

See notes to financial statements.

Exhibit 9

Total	Governmental Activities Internal Service Funds
\$ 34,260,395	\$ 11,965,371
205,752	30,516
34,466,147	11,995,887
7,881,459	1,702,585
3,178,284	1,148,016
771,282	891,945
5,192,997	
2,860,555	2,711,995
	1,427,085
	3,115,281
1,047,000	
5,595,786	87,384
26,527,363	11,084,291
7,938,784	911,596
1,755,077	125,329
2,680,324	
(270,826)	
(1,704,532)	
(147,285)	
2,312,758	125,329
10,251,542	1,036,925
100,000	
(600,000)	
9,751,542	1,036,925
76,184,759	2,410,835
\$ 85,936,301	\$ 3,447,760
\$ 9,751,542	
247,125	
\$ 9,998,667	

CITY OF GALVESTON, TEXAS
Statements of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2006

	Business-type Activities		
	Waterworks System	Sewer System	Other Enterprise Funds
Cash flows from operating activities:			
Cash received from customers	\$ 13,797,765	\$ 10,799,976	\$ 8,367,096
Cash payments to suppliers for goods and services	(6,753,580)	(2,796,953)	(1,945,362)
Cash payments to employees	(1,402,578)	(2,969,088)	(3,519,933)
Administrative service charge	(503,000)	(307,000)	(246,000)
Other operating revenue	8,396	170,512	
Net cash provided by (used for) operating activities	<u>5,147,003</u>	<u>4,897,447</u>	<u>2,655,801</u>
Cash flows from noncapital and related financing activities:			
Due from other funds			(6,300)
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>(200,000)</u>	<u>(200,000)</u>	<u>(106,300)</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of note payable	1,236,034	1,236,034	
Payments for capital acquisitions	(5,207,684)	(4,902,226)	(3,609,670)
Proceeds from issuance of bonds	19,929,600	18,380,400	
Principal paid on revenue bonds	(2,092,909)	(976,968)	(95,000)
Principal payments on long term contracts	(110,741)	(110,741)	
Principal paid on capital leases			(166,674)
Interest paid on revenue bonds	(454,088)	(839,823)	(28,128)
Interest paid on capital leases	(38,576)	(38,576)	(32,401)
Refunded Principal of revenue bonds	(2,235,600)	(4,664,400)	
Bond issuance costs	(769,022)	(848,933)	
Contributed capital			2,624,426
Net cash provided by (used for) capital and related financing activities	<u>10,257,014</u>	<u>7,234,767</u>	<u>(1,307,447)</u>
Cash flows from investing activities:			
Investment with trustee	3,864,535		
Interest on investments	912,349	719,201	125,131
Net cash provided by (used for) investing activities	<u>4,776,884</u>	<u>719,201</u>	<u>125,131</u>
Net increase (decrease) in equity in cash and temporary investments	19,980,901	12,651,415	1,367,185
Cash and temporary investments, beginning of year	3,078,158	10,080,860	1,525,734
Cash and temporary investments, end of year	<u>\$ 23,059,059</u>	<u>\$ 22,732,275</u>	<u>\$ 2,892,919</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$ 1,771,464	\$ 932,621	\$ 1,439,947
Restricted	21,287,595	21,799,654	1,452,972
Cash and temporary investments, end of year	<u>\$ 23,059,059</u>	<u>\$ 22,732,275</u>	<u>\$ 2,892,919</u>

Exhibit 10
Page 1 of 2

Total	Governmental Activities Internal Service Funds
\$ 32,964,837 (11,495,895) (7,891,599) (1,056,000) 178,908 <u>12,700,251</u>	\$ 12,227,191 (9,820,958) (1,604,635) (138,208) <u>663,390</u>
(6,300) 100,000 (600,000) <u>(506,300)</u>	490,669 <u>490,669</u>
2,472,068 (13,719,580) 38,310,000 (3,164,877) (221,482) (166,674) (1,322,039) (109,553) (6,900,000) (1,617,955) 2,624,426 <u>16,184,334</u>	(131,184) <u>(131,184)</u>
3,864,535 <u>1,756,681</u> <u>5,621,216</u>	121,865 <u>121,865</u>
33,999,501 <u>14,684,752</u> <u>\$ 48,684,253</u>	1,144,740 <u>2,386,506</u> <u>\$ 3,531,246</u>
<u>\$ 4,144,032</u> <u>44,540,221</u> <u>\$ 48,684,253</u>	<u>\$ 1,144,740</u> <u>2,386,506</u> <u>\$ 3,531,246</u>

CITY OF GALVESTON, TEXAS
Statement of Cash Flows - Continued
Proprietary Funds
For the Fiscal Year Ended September 30, 2006

	Business-type Activities		
	Waterworks System	Sewer System	Other Enterprise Funds
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,919,935	\$ 3,366,778	\$ 1,652,071
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	2,633,987	2,204,431	759,611
(Increase) decrease in accounts receivable	(399,922)	(624,238)	(377,047)
Decrease in interfund receivable			(8,877)
(Increase) decrease Due From State Controller			22,028
(Increase) decrease in inventory and prepaid	(16,688)	(443)	21,861
Increase (decrease) in due to other funds	(3,189)		
Increase (decrease) in accounts payable	3,150	(54,558)	558,020
Increase (decrease) in salaries payable		2,618	
Increase (decrease) in deferred revenue			7,144
Increase (decrease) in in customer deposits	24,589	24,589	
Increase (decrease) in estimated liability claims	(7,453)	(79,279)	(75,248)
Increase (decrease) in compensated absences payable	(7,406)	57,549	96,238
Total adjustments	<u>2,227,068</u>	<u>1,530,669</u>	<u>1,003,730</u>
Net cash provided by (used for) operating activities	<u>\$ 5,147,003</u>	<u>\$ 4,897,447</u>	<u>\$ 2,655,801</u>

See notes to financial statements.

Schedule of Noncash Investing, Capital and Financing Activities

Assets acquired through capital lease issuance	\$ 136,171	\$ 136,171
--	------------	------------

Exhibit 10
Page 2 of 2

Total	Governmental Activities Internal Service Funds
\$ 7,938,784	\$ 911,596
5,598,029	87,384
(1,401,207)	245,397
(8,877)	5,887
22,028	
4,730	67,253
(3,189)	
506,612	(634,055)
2,618	(30,160)
7,144	
49,178	
(161,980)	2,950
146,381	7,138
4,761,467	(248,206)
\$ 12,700,251	\$ 663,390

\$ 272,342

CITY OF GALVESTON, TEXAS

Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2006

Exhibit 11

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 3,462,832	\$ 309,081
Receivables:		
Interest and Dividends	169,592	
Loans to participants	219,673	
From employer	216,411	
Total receivables	<u>605,676</u>	
Investments:		
U.S. Government obligations	2,976,784	
Corporate and foreign bonds	5,457,881	
Corporate stocks	52,421,549	
Mutual funds	16,267,732	
Fixed income funds	8,227,267	
Total Investments	<u>85,351,213</u>	
Prepaid benefits	203,279	
Total assets	<u>\$ 89,623,000</u>	<u>\$ 309,081</u>
LIABILITIES		
Accounts payable	\$ 164,017	\$ 18,369
Due to other funds		(56,211)
Refunds payable and others		346,923
Total liabilities	<u>164,017</u>	<u>\$ 309,081</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u>\$ 89,458,983</u>	

See notes to financial statements.

CITY OF GALVESTON, TEXAS

*Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2006*

Exhibit 12

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 2,330,973
Plan Members	2,415,716
Total contributions	<u>4,746,689</u>
Investment earnings:	
Net increase in fair value of investments	2,749,157
Interest	1,433,021
Dividends	1,123,040
Investment activity expense	(597,318)
Total net investment earnings	<u>4,707,900</u>
Other Additions:	
Miscellaneous	337
Total additions	<u>9,454,926</u>
DEDUCTIONS	
Benefits	7,193,885
Administrative	192,835
Total deductions	<u>7,386,720</u>
Change in net assets	2,068,206
Net assets - beginning	<u>87,390,777</u>
Net assets - ending	<u><u>\$ 89,458,983</u></u>

See notes to financial statements.

This page is intentionally left blank

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Blended Component Units Reported with the Primary Government

Blended component units provide services exclusively or almost exclusively for the City, or their 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 year end.

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, 2005.

Discretely Reported Component Units

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

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

The Park Board of Trustees of the City of Galveston

The Park Board of Trustees, (the "Park Board"), was created by the State Statute to provide improvements and maintenance to City waterfront parks and beaches. The Park Board, funded primarily by Hotel Occupancy Tax and beach parking receipts, is legally separate from the City. The Park Board, which is appointed by the City Council, has a 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 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.

Public Improvement District – Campeche Shores

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

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

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

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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2006

Exhibit 13

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

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

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

The Board of Trustees of the Galveston Wharves

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

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:

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

- 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

1. Deposits and Investments

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

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

2. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 32.6% of total property taxes including the related penalty and interest accrual as of year end. The allowance for enterprise fund charges for services is 20% of total outstanding charges as of year end.

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

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

3. Inventories and prepaid items

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

Payments made to vendors for services that will benefit periods beyond September 30, 2006, are recorded as prepaid items.

4. Capital Assets

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

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

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

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

5. Compensated Absences

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

6. Long-term Obligations

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

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

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

7. Fund Equity

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

8. Restricted 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

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

payments over the next twelve months. The “revenue bond future debt service” account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. Other restricted accounts reflect money set aside by City Council action for improvements or to meet contractual obligations.

Assets were restricted for the following as of year end:

Restricted for:	Enterprise Funds				Total Business Type Activities
	Waterworks System	Sewer System	Sanitation	Drainage	
Capital projects	\$ 23,020,621	\$ 16,205,991	\$ 30,431	\$ 1,302,976	\$ 40,560,019
Debt service	5,624,760	5,593,663	119,565		11,337,988
	<u>\$ 28,645,381</u>	<u>\$ 21,799,654</u>	<u>\$ 149,996</u>	<u>\$ 1,302,976</u>	<u>\$ 51,898,007</u>

E. Comparative data/reclassifications

Certain reclassifications have been made to the 2005 net asset components to conform to the 2006 presentation. These reclassifications have no effect on total assets.

F. 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.

G. Legal Compliance - Budgets

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

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

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

The City Charter requires that no funds shall be expended nor shall any obligation for the expenditure of money be incurred unless an appropriation exists in the duly adopted budget. Annual appropriations style budgets are adopted for the General Fund, the Island Transit and the Rosenberg Library Special Revenue Funds, the Debt Service Fund, and all Enterprise Funds.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Fund and Enterprise Funds.

Budgets are adopted and accounted for on a basis consistent with generally accepted accounting principles (GAAP), with the following exceptions:

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

Capital and planning grant activities in the Island Transit Special Revenue Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were four budget amendments during FY 2006. Total appropriations did not increase. Appropriation balances lapse at year end and may be re-appropriated by City Council. Appropriations re-appropriated by City Council for the current year ended were \$128,000.

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

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

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

Revenue and Expenditure/Expenses Analysis in Comparison to Budget

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

	General Fund				GAAP Basis
	Budgetary Basis	Classification differences	Unbudgeted Activities	Budgeted transfer to reserves	
Revenues	\$ 37,708,469	\$ 281,154			\$ 37,989,623
Expenditures	34,982,481	881,154	15,325		35,878,960
Revenues over (under) expenditures	2,725,988	(600,000)	(15,325)		2,110,663
Other financing sources (uses)	(381,948)	600,000		400,000	618,052
Revenues and other financing sources over (under) expenditures and other financing (uses)	2,344,040		(15,325)	400,000	2,728,715
Fund balance at beginning of year	9,371,560				9,371,560
Fund balance at end of year	<u>\$ 11,715,600</u>	<u>\$</u>	<u>\$ (15,325)</u>	<u>\$ 400,000</u>	<u>\$ 12,100,275</u>

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

	Major Governmental Fund - Island Transit		
	Budgetary	Unbudgeted	
	Basis	Activities	GAAP Basis
Revenues	\$ 3,543,336	\$ 249,334	\$ 3,792,670
Expenditures	3,222,313	288,119	3,510,432
Revenues over (under) expenditures	321,023	(38,785)	282,238
Other financing sources (uses)			
Revenues and other financing sources over (under) expenditures and other financing (uses)	321,023	(38,785)	282,238
Fund balance at beginning of year	115,899		115,899
Fund balance at end of year	<u>\$ 436,922</u>	<u>\$ (38,785)</u>	<u>\$ 398,137</u>

2 DEPOSITS AND INVESTMENTS**Credit Risk**

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

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

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

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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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 year end,

- investment in the State Treasurer's AAA-rated local government investment pool represented 48.64 % of the total portfolio,
- holdings in a rated money market mutual fund represented 5.41 % of the total portfolio,
- holding in US Government securities rated AAA represented 45.95 % 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 year end,

- holdings in one AAA-rated local government investment pool represented 48.64 % of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 5.41 % 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.

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

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

<u>Investment Type</u>	<u>Investment Maturities in Years</u>
	<u>Less than 1 year</u>
US Treasury Notes and Bills	\$ 1,971,046
US Agencies	
FNMA	16,385,659
FHLMC	14,756,680
FHLB	6,334,382
2A-7 like Local Government Pools	41,767,012
SEC Registered Money Market Fund	4,651,312
Collateralized Depository Account	702
	<u>\$ 85,866,793</u>

As of year end, 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 67 days on the total portfolio. As of year end, 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 year end, 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

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).

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

- 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, 2006, was 54.171 cents. The tax rate to finance general governmental services was set at 47.28 cents and the tax rate for all other purposes, including debt service, was set at 6.89 cents per \$100 of assessed valuation.

4 SALES TAX

The City’s sales tax rate is 2 cents for the year ended September 30, 2006. 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 \$4.1 million in fiscal year 2006. 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:

	General	Island Transit	Non-major Governmental Funds	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total
Receivables:								
Taxes	\$ 3,000,225	\$	\$ 287,182	\$	\$	\$	\$	\$ 3,287,407
Accounts	2,102,900	21,624	949,479	2,151,784	2,739,109	2,420,560	195,574	10,581,030
Interest								
Gross receivables	5,103,125	21,624	1,236,661	2,151,784	2,739,109	2,420,560	195,574	13,868,437
Less: allowance for uncollectibles	(1,610,571)		(96,346)	(186,076)	(256,988)	(525,027)		(2,675,008)
Net total receivables	\$ 3,492,554	\$ 21,624	\$ 1,140,315	\$ 1,965,708	\$ 2,482,121	\$ 1,895,533	\$ 195,574	\$ 11,193,429

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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 current year ended:

Transfer In Fund	Transfer Out Fund						Totals
	General Fund	Industrial Development Corporation	Convention Center	Waterworks System	Sewer System	Other Enterprise Fund-Sanitation	
General Fund	\$	\$	\$	\$ 200,000	\$ 200,000	\$ 200,000	\$ 600,000
Other Governmental Funds:							
Debt Service		1,742,956					1,742,956
HOT Debt Service Fund			10,939				10,939
Capital Projects Fund:							
Drainage and Street Improvement		667,485					667,485
Sewer Improvements		1,001,913					1,001,913
Other Enterprise Fund:							
Golf Course Fund	100,000						100,000
Totals	<u>\$ 100,000</u>	<u>\$ 3,412,354</u>	<u>\$ 10,939</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 4,123,293</u>

Transfer from	Transfer to	Purpose
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 c
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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

<u>Payable Funds: Due From</u>	<u>Receivable Funds Due to General Fund</u>
Governmental Funds:	
Island Transit Capital Projects	\$ 104,805
	<u>\$ 104,805</u>

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

It is usually 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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

7 CAPITAL ASSETS

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,715,802	\$	\$	\$ 2,715,802
Construction in progress	<u>5,896,581</u>	<u>2,337,543</u>	<u>(7,649,304)</u>	<u>584,820</u>
Total capital assets, not being depreciated	<u>8,612,383</u>	<u>2,337,543</u>	<u>(7,649,304)</u>	<u>3,300,622</u>
Capital assets, being depreciated:				
Buildings	38,580,594	314,631		38,895,225
Improvements other than buildings	3,887,660	49,787		3,937,447
Machinery and equipment	7,980,672	722,942		8,703,614
Licensed vehicles	13,383,722	639,719		14,023,441
Infrastructure	<u>73,434,034</u>	<u>7,530,341</u>		<u>80,964,375</u>
Total capital assets being depreciated	137,266,682	9,257,420		146,524,102
Less accumulated depreciation for:				
Buildings	(3,727,063)	(765,699)		(4,492,762)
Improvements other than buildings	(2,834,784)	(124,834)		(2,959,618)
Machinery and equipment	(4,442,984)	(874,846)		(5,317,830)
Licensed vehicles	(6,972,945)	(1,149,839)		(8,122,784)
Infrastructure	<u>(46,891,622)</u>	<u>(1,474,171)</u>		<u>(48,365,793)</u>
Total accumulated depreciation	<u>(64,869,398)</u>	<u>(4,389,389)</u>		<u>(69,258,787)</u>
Total capital assets, being depreciated, net	<u>72,397,284</u>	<u>4,868,031</u>		<u>77,265,315</u>
Governmental activities capital assets, net	<u>\$ 81,009,667</u>	<u>\$ 7,205,574</u>	<u>\$ (7,649,304)</u>	<u>\$ 80,565,937</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,915,875	\$ 198,995	\$	\$ 2,114,870
Construction in progress	14,743,438	8,624,902	(4,683,756)	18,684,584
Total capital assets, not being depreciated	<u>16,659,313</u>	<u>8,823,897</u>	<u>(4,683,756)</u>	<u>20,799,454</u>
Capital assets, being depreciated:				
Buildings and system	31,386,262	3,963,564		35,349,826
Improvements other than buildings	94,358,791	4,272,701	(800,751)	97,830,741
Machinery and equipment	12,333,918	1,534,504		13,868,422
Total capital assets, being depreciated	<u>138,078,971</u>	<u>9,770,769</u>	<u>(800,751)</u>	<u>147,048,989</u>
Less accumulated depreciation for:				
Buildings and system	(12,499,422)	(819,808)		(13,319,230)
Improvements other than buildings	(32,527,534)	(2,760,700)	461,040	(34,827,194)
Machinery and equipment	(8,587,988)	(917,572)		(9,505,560)
Total accumulated depreciation	<u>(53,614,944)</u>	<u>(4,498,080)</u>	<u>461,040</u>	<u>(57,651,984)</u>
Total capital assets, being depreciated, net	<u>84,464,027</u>	<u>5,272,689</u>	<u>(339,711)</u>	<u>89,397,005</u>
Business-type activities capital assets, net	<u>\$ 101,123,340</u>	<u>\$ 14,096,586</u>	<u>\$ (5,023,467)</u>	<u>\$ 110,196,459</u>

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

Governmental activities:

General government	\$ 36,613
Public safety	869,058
Public works	1,457,111
Culture and recreation	1,046,116
Planning and community development	76,945
Transportation system	816,162

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

Total depreciation expense - governmental activities \$ 4,389,389

Business-type activities:

Waterworks	\$ 1,536,281
Sewer system	2,204,431
Sanitation	262,749
Drainage	17,741
Airport	394,849
Golf course	82,029

Total depreciation expense - business-type activities \$ 4,498,080

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

Governmental Activities

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to date</u>	<u>Remaining Commitment</u>
McGuire-Dent Recreation Center	\$ 3,767,370	\$ 166,756	\$ 3,600,614
Seawall Beautification - design only	112,000	112,000	
Traffic signal improvement project	398,654	189,577	209,077
Island Transit maintenance facility - design	80,504	78,750	1,754
Trolley Diamond Crossing -residual costs	5,737	5,665	72
Island Transit downtown terminal (Goodman)	400,000	12,250	387,750
Menard Skate Park - residual costs	9,530	9,530	
Broadway Beautification	1,477,845	10,292	1,467,553
	<u>\$ 6,251,640</u>	<u>\$ 584,820</u>	<u>\$ 5,666,820</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)	\$ 9,803,981	\$ 7,084,280	\$ 2,719,701
Various other	902,120	342,094	560,026
<i>Sewer System Fund Projects</i>			
Various sewer projects	15,785,214	10,018,890	5,766,324
<i>Drainage Fund Projects</i>			
Various drainage projects	2,091,182	1,105,182	986,000
<i>Airport Fund Projects</i>			
Totals	<u>\$ 29,868,634</u>	<u>\$ 18,684,584</u>	<u>\$ 11,184,050</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

8 LONG-TERM DEBT

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

Governmental Activities

Description	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Primary Government					
General Obligation Bonds	\$ 14,306,525	\$ 9,370,000	\$ (3,154,454)	\$ 20,522,071	\$ 1,018,073
Accretion on Capital Interest Bonds	2,877,827	92,818	240,606	3,211,251	
Special Obligation Bonds	39,670,000		(1,310,000)	38,360,000	1,375,000
Certificates of Obligation	19,323,672			19,323,672	
Capital Leases	1,071,718		(673,935)	397,783	254,607
Accrued Compensated Absences	6,889,782	1,025,747	(439,595)	7,475,934	
Claims payable-Unemployment Tax	17,201	85,722	(78,923)	24,000	24,000
Claims Payable - Workers Compen.	460,226	289,631	(437,914)	311,943	
Claims Payable-Health Insurance	386,912	2,853,609	(2,843,389)	397,132	
Deferred Bond Charges		275,977		275,977	
Total primary Government	<u>85,003,863</u>	<u>13,993,504</u>	<u>(8,697,604)</u>	<u>90,299,763</u>	<u>2,671,680</u>
Discretely presented component units					
Special revenue bonds	2,050,000		(480,000)	1,570,000	500,000
Capital lease obligations	427,885		(215,567)	212,318	149,459
Notes payable	108,685	288,368	(46,765)	350,288	
Compensated absences	102,752	9,088		111,840	
Deferred bond charges	(15,347)			(15,347)	
Total discretely presented component units	<u>2,673,975</u>	<u>297,456</u>	<u>(742,332)</u>	<u>2,229,099</u>	<u>649,459</u>
Total reporting entity	<u>\$ 87,677,838</u>	<u>\$ 14,290,960</u>	<u>\$ (9,439,936)</u>	<u>\$ 92,528,862</u>	<u>\$ 3,321,139</u>

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

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

Primary Government:

General Obligation Bonds

	Total
\$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 \$1,791,902.	\$ 2,558,871
\$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 \$901,370	11,676,472
\$9462818 2005 Obligation and Refunding Bonds due in annual installments of \$ 390,000 to \$1,235,000 May 1, 2006 through May 1, 2023; interest at 4.15% to 4.465. Includes interest accretion of \$ 517,979	9,497,979
Total General Obligation Bonds	<u>\$ 23,733,322</u>

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13***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) \$ 1,185,000

\$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) 6,570,000

\$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%. 15,590,000

\$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%. 15,015,000

Total Special Obligation Bonds \$ 38,360,000

Certificates Of Obligation Bonds

\$19,323,672 2004 Wharves and Terminal Revenue Bonds due in annual installments of \$2,425,000 to \$1,390,621 through February 1, 2020, interest at 4.25% to 5.18% \$ 19,323,672

Capital Leases

\$95,721 - 2004 capital lease purchase due in annual installments of \$31,907 through October 20, 2006; interest at 4.15%; net carrying value of equipment purchased is \$83,755 as of year end \$ 33,035

\$720,000 - 2002 capital lease purchase due in annual installments of \$158,993 through November 28, 2006; interest at 3.395%; net carrying value of equipment purchased is \$575,799 as of year end 153,772

\$349,786 - 2005 capital lease purchase due in semi-annual installments of \$75,563 through January 2009; interest at 3.67%; net carrying value of equipment purchased is \$332,297 as of year end 210,976

Total Capital Leases \$ 397,783

Discretely Presented Component Units:**Special Obligation Bonds**

Parks Board of Trustees - \$4,500,000 Industrial Development Corporation Bonds, Series 1999 due in annual installments of \$415,000 to \$545,000; average interest 4.3%. \$ 1,570,000

Notes payable

\$480,000 line of credit with Moody National Bank, secured by CD, interest due monthly at 3%, principal due on demand or on September 30, 2008. \$ 350,288

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

Primary Government

Fiscal Year ending September 30,	General Obligation Bonds		Special Obligation Bonds		Certificates Of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	592,912	1,372,546	1,375,000	1,811,096		782,175
2008	234,896	1,701,290	1,450,000	1,758,646		782,175
2009	279,161	1,723,949	1,525,000	1,703,459		782,175
2010	1,058,993	1,029,565	1,175,000	1,650,329		782,175
2011	1,032,612	1,053,796	1,240,000	1,614,129		782,175
2012	1,006,391	1,083,217	1,305,000	1,559,091		782,175
2013	988,350	1,098,632	1,380,000	1,506,069	\$ 2,425,000	721,550
2014	976,829	1,111,966	1,465,000	1,443,019	2,540,000	608,538
2015	966,927	1,122,931	1,550,000	1,375,413	2,660,000	489,650
2016	1,460,000	630,433	740,000	1,303,050	2,795,000	353,275
2017	1,525,000	564,518	795,000	1,270,675	2,940,000	209,900
2018	1,590,000	495,330	860,000	1,226,950	3,090,000	68,200
2019	1,675,000	417,740	930,000	1,179,650	1,483,051	1,676,949
2020	1,750,000	335,680	1,005,000	1,128,500	1,390,621	1,769,379
2021	1,575,000	249,510	1,085,000	1,078,250		
2022	1,865,000	170,948	1,160,000	1,024,000		
2023	1,945,000	87,909	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>\$ 20,522,071</u>	<u>\$ 14,249,960</u>	<u>\$ 38,360,000</u>	<u>\$ 29,076,076</u>	<u>\$ 19,323,672</u>	<u>\$ 10,590,491</u>

Discretely presented component units

Fiscal Year ending September 30,	Special revenue bonds	
	Principal	Interest
2007	500,000	72,265
2008	525,000	49,765
2009	545,000	25,615
	<u>\$ 1,570,000</u>	<u>\$ 147,645</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

Fiscal year ending September 30	Governmental Activities
2007	\$ 269,032
2008	75,563
2009	75,563
Total minimum payments	420,158
Less: Interest	(22,375)
Present value of minimum lease payments	397,783
Current portion	254,606
Long term portion	<u>\$ 143,177</u>

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

Description	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Primary Government					
Contracts (Gulf Coast Water Authority)	\$ 42,830,035		\$ (1,634,877)	\$ 41,195,158	\$ 1,714,186
Revenue Bonds	18,735,000	38,310,000	(8,335,000)	48,710,000	1,610,000
Certificates of Obligation	820,000		(95,000)	725,000	95,000
Notes Payable	7,490,394	2,472,067	(221,482)	9,740,979	902,664
Capital Lease	627,405	272,342	(174,993)	724,754	320,248
Accrued Compensated Absences	938,423	217,021	(70,635)	1,084,809	53,174
Deferred Bond issuance costs	(1,887,106)	(1,745,644)	286,072	(3,346,678)	
Total primary government	<u>69,554,151</u>	<u>39,525,786</u>	<u>(10,245,915)</u>	<u>98,834,022</u>	<u>4,695,272</u>
Discretely presented component units					
Special obligation bonds	14,200,000		(1,700,000)	12,500,000	2,000,000
Revenue bonds	17,585,000		(2,070,000)	15,515,000	1,965,000
Notes payable	14,348,346	6,481,693	(13,930,013)	6,900,026	1,140,000
Compensated absences	392,497	212,146	(142,251)	462,392	138,717
Deferred bond charges	(2,016,140)		335,352	(1,680,788)	
Total discretely presented component units	<u>44,509,703</u>	<u>6,693,839</u>	<u>(17,506,912)</u>	<u>33,696,630</u>	<u>5,243,717</u>
Total reporting entity	<u>\$ 114,063,854</u>	<u>\$ 46,219,625</u>	<u>\$ (27,752,827)</u>	<u>\$ 132,530,652</u>	<u>\$ 9,938,989</u>

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

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

Business type activities**Primary Government****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% \$ 1,298,058

\$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%. 8,085,000

\$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 d 21,362,100

\$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%. 10,450,000

Total Contracts Payable – Enterprise Funds \$ 41,195,158

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%. \$ 1,265,000

\$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%. 9,785,000

\$38,310,000 2006 Waterworks and Sewer System Revenue and Refunding Bonds due in annual installments of \$650,000 to \$1,950,000 through May 1, 2030; interest at 3.2% to 4.5%. 37,660,000

Total Revenue Bonds, Face Value \$ 48,710,000

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%. \$ 725,000

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Notes Payable

\$9,962,462 Line of Credit extended to Waterworks and Sewer Funds due in annual installments for 10 years, interest at 3%, due in quarterly installments of \$298,635 through May, 2016	\$ 9,740,979
---	--------------

Capital Leases

\$285,436 - 2004 capital lease purchase due in annual installments of \$57,087 through November 18, 2008; interest at 3.08%; net carrying value of equipment purchased \$77,674 as of year end	\$ 166,498
\$226,058 - 2005 capital lease purchase due in annual installments of \$75,353 through June 1, 2007; interest at 2.86%; net carrying value of equipment purchased \$189,855 as of year end	72,369
\$272,342 Capital lease purchase due in annual installments of \$143,419 through October 15, 2007; interest at 4.7%	272,342
\$738,515 - 1990 capital lease purchase due in monthly installments of \$5,886 through February 1, 2010; interest at 7.1 %; net carrying value of equipment purchased \$295,271 as of year end	213,545
Total Capital Leases - Enterprise Funds, Net	<u>\$ 724,754</u>

Discretely Presented Component Units:**Special Obligation bonds**

\$8,500,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1977 due in annual installments; interest at 6.75%.	\$ 4,000,000
\$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%.	<u>8,500,000</u>
Total Special Obligation Bonds	<u>\$ 12,500,000</u>

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

\$13,700 Single Family Mortgage Revenue Bonds, Series 1991A due in annual installments of \$100,000 to \$355,000; interest at 8.5%.	\$ 725,000
---	------------

Board of Trustees of the Galveston Wharves

\$5,235,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds, Series 1998A due in annual installments; interest at 3.20% to 4.30%.	4,985,000
\$4,895,000 City of Galveston, Texas Wharves and Terminal Revenue Bonds, Series 1999 due in annual installments; interest at 4.35% to 5.50%.	3,205,000
\$8,005,000 City of Galveston, Texas Wharves and Terminal Revenue Refunding Bonds Series 2004A&B, due in annual installments, interest at 3.02%	<u>6,600,000</u>

Total Revenue Bonds	<u>\$ 15,515,000</u>
---------------------	----------------------

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5%	<u>\$ 6,900,026</u>
--	---------------------

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

Primary Government

Fiscal Year Ending 9/30	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2007	1,610,000	2,003,137	1,714,186	2,026,410
2008	1,680,000	1,928,589	1,796,965	1,941,906
2009	1,750,000	1,854,767	2,354,262	1,845,420
2010	1,905,000	1,778,892	1,954,675	1,728,192
2011	1,965,000	1,710,573	2,054,152	1,633,036
2012	2,035,000	1,639,683	2,153,629	1,534,285
2013	2,105,000	1,565,983	2,253,106	1,430,347
2014	2,185,000	1,490,320	2,362,518	1,319,913
2015	2,265,000	1,409,185	2,481,865	1,204,083
2016	2,360,000	1,323,670	2,601,211	1,081,618
2017	2,450,000	1,233,100	3,692,749	939,800
2018	2,550,000	1,135,100	2,857,096	755,864
2019	2,660,000	1,031,180	2,995,723	613,030
2020	2,765,000	923,955	3,149,220	463,206
2021	2,045,000	811,975	3,302,717	305,781
2022	2,135,000	725,063	3,471,084	139,545
2023	2,235,000	632,600		
2024	1,500,000	536,619		
2025	1,565,000	470,994		
2026	1,635,000	402,525		
2027	1,710,000	328,950		
2028	1,785,000	252,000		
2029	1,865,000	171,675		
2030	1,950,000	87,750		
Total	<u>\$ 48,710,000</u>	<u>\$ 25,448,285</u>	<u>\$ 41,195,158</u>	<u>\$ 18,962,436</u>

Fiscal Year Ending 9/30	Sanitation Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2007	\$ 95,000	\$ 24,565	\$ 902,664	\$ 287,520
2008	95,000	21,003	906,105	261,890
2009	100,000	17,440	934,401	233,594
2010	105,000	14,590	963,555	204,439
2011	105,000	11,309	993,594	174,401
2012	110,000	7,765	1,024,544	143,450
2013	115,000	4,025	1,056,436	111,561
2014			1,089,290	78,705
2015			1,123,143	44,850
2016			747,247	10,806
Total	<u>\$ 725,000</u>	<u>\$ 100,697</u>	<u>\$9,740,979</u>	<u>\$ 1,551,216</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Discretely presented component units

Year Ending December 31,	Special obligation bonds		Revenue bonds	
	Principal	Interest	Principal	Interest
2006	\$ 2,000,000	\$ 670,000	\$ 1,945,000	\$ 633,081
2007	2,000,000	535,000	2,035,000	574,378
2008		467,500	2,090,000	491,089
2009		467,500	2,200,000	388,936
2010		467,500	2,310,000	284,036
2011		467,500	2,470,000	172,838
2012		467,500	2,465,000	56,207
2013		467,500		
2014		467,500		
2015	8,500,000	233,750		
Total	<u>\$ 12,500,000</u>	<u>\$ 4,711,250</u>	<u>\$ 15,515,000</u>	<u>\$ 2,600,565</u>

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

Fiscal year ending September 30	Business-type activities				Total
	Municipal Airport	Waterworks	Sewer	Drainage Fund	
2007	\$ 70,631	\$ 71,710	\$ 71,710	\$ 135,750	\$ 349,801
2008	70,631	71,709	71,710	57,087	271,137
2009	70,631			57,088	127,719
2010	29,428				29,428
Total minimum payments	241,321	143,419	143,420	249,925	778,085
Less: Interest	(27,776)	(7,249)	(7,248)	(11,058)	(81,107)
Present value of minimum lease payments	213,545	136,170	136,172	238,867	724,754
Current portion	57,213	68,327	68,327	126,381	377,461
Long term portion	<u>\$ 156,332</u>	<u>\$ 67,844</u>	<u>\$ 67,846</u>	<u>\$ 112,486</u>	<u>\$ 347,293</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.

Refunding of Debt

In December 2005, the City issued \$9,462,818.40 in General Obligation and Refunding Bonds (series 2005) with an interest rate ranging from 4.15% to 4.465%. The proceeds will be used for the purpose of street, park and transit improvements, to refund a portion of the City's General Obligation and Refunding Bonds, Series 2001 in order to lower the overall debt service requirements of the City and to pay the costs associated with the issuance of Bonds. A portion of the proceeds (\$2,669,246) was deposited into an escrow fund and used to purchase U.S. government securities. These securities and cash were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the 2001 series bonds. As a result the refunded portion of the 2001 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's general long-term debt account group.

In February 2006, the City issued \$38,310,000 in Revenue and Refunding Bonds (series 2006) with an interest rate ranging from 3.2% to 4.5%. The proceeds will be used for the purpose of

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

certain water and sanitary sewer improvements, to refund a portion of Waterworks and Sewer System Revenue Bonds, Series 2000 and to pay the costs associated with the issuance of Bonds. A portion of the proceeds (\$7,242,349) was deposited into an escrow fund and used to purchase U.S. government securities. These securities and cash were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portions of the 2000 series bonds. As a result the refunded portion of the 2000 series bonds are considered to be defeased and the liability for those bonds has been removed from the City's general long-term debt account group.

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

<u>Issue</u>	<u>Refunded Principal Outstanding</u>
Series 1994 IDC Refunded Principal	\$ 1,210,000
Series 1990 Public Improvement Bonds	141,180
Series 2001 General Obligation Bonds	2,500,000
Series 1995 IDC Refunded principal	6,355,000
Series 2000 Revenue Bonds	6,900,000

9 FUND EQUITY

Deficit Fund Balance

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

	<u>Deficit Balance</u>
Non-major governmental fund types:	
Special Revenue Funds:	
Grants and government contracts	\$ (20,917)
Capital Project Funds:	
Island Transit Capital Projects	(754)
Internal Service Funds:	
Casualty and Liability Insurance	(75,654)
Workers Compensation Insurance	(10,784)

10 CONTINGENT LIABILITIES

Grants:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of

expenditures, which may be disallowed by the grantor, cannot be determined at this time, although the City expects that any such amounts will be immaterial.

Litigation:

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

Environmental Liability:

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

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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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

Workers Compensation

The City is self-insured for workers compensation. 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 year end, and is based on requirements of Governmental Accounting Standards Board, Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

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

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

<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>
2005	\$ 322,965	\$ 576,681	\$ (414,825)	\$ 484,821
2006	484,821	437,914	(610,792)	311,943

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:

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

<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>
2005	\$ 275,024	\$ 2,546,421	\$ (2,441,927)	\$ 379,518
2006	379,518	2,368,501	(2,350,887)	397,132

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, 2005 and 2004.

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, 2005 are as follows:

<u>Year Ended December 31,</u>	<u>Minimum Payments</u>
2006	\$ 405,000
2007	405,000
2008	118,125
	<u>\$ 928,125</u>

12 MAJOR CONTRACTS AND COMMITMENTS

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

Emergency Medical Services Contract:

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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 year end.

<u>Year Ending</u> <u>September 30</u>	<u>2504 Church</u>	<u>61st Street</u> <u>Visitor's Center</u>	<u>Total</u>
2007	\$ 87,600	\$ 31,000	\$ 118,600
2008	87,600	33,000	120,600
2009	87,600	34,000	121,600
2010		36,000	36,000
2011		24,000	24,000
	<u>\$ 262,800</u>	<u>\$ 158,000</u>	<u>\$ 420,800</u>

Obligations to Concessionaire

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

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

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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

<u>Year Ending September 30</u>	<u>Concession Contract</u>	<u>Advertising and Promotion</u>	<u>Total</u>
2007	70,000	60,000	130,000
2008	70,000	60,000	130,000
2009	70,000	60,000	130,000
Totals	<u>\$ 210,000</u>	<u>\$ 180,000</u>	<u>\$ 390,000</u>

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, 2005, was \$12,500,000. The Wharves have no obligation for the special revenue bonds beyond the resources provided by the direct financing lease.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2005:

	<u>12/31/2005</u>
Minimum lease rental payments receivable	
Due within one year	\$ 3,159,106
Due after one year	24,462,519
	<u>27,621,625</u>
Unearned income, direct financing lease	
Due within one year	934,169
Due after one year	9,820,512
	<u>10,754,681</u>
Net investment in direct financing lease	<u>\$ 16,866,944</u>

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

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13***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, 2005:

	<u>12/31/2005</u>
Lease payments receivable, current	\$ 542,920
Lease payments receivable, long-term	2,273,464
Total	<u>2,816,384</u>
Unrealized income	<u>(422,242)</u>
Net investment in sales-type lease	<u>\$ 2,394,142</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 \$144,833 in 2005.

Future Minimum Lease Payments Receivable – Sales-Type Lease

<u>Year Ended December 31</u>	<u>Future Minimum Lease Payments</u>
2006	542,920
2007	488,081
2008	423,564
2009	404,576
2010	385,580
2011	366,588
2012	205,075
	<u>\$ 2,816,384</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, 2005 the amount deferred to future years was approximately \$4.7 million. 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, 2005, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Year Ended December 31	Future Lease Payments
2006	\$ 1,115,121
2007	988,884
2008	820,055
2009	789,526
2010	787,289
Thereafter	5,487,674
	\$ 9,988,549

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 852 employees and retirees, Firemen's Relief and Retirement Fund (FRRF) covers 168 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 251 employees and retirees. The City Employees' Retirement Plan for City

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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
6511 Stewart Rd. Suite 4B
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:

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Retirement Plan	Year Ending	Annual Pension Cost (APC)	Actual Contributions Made	Contributed	Net Pension Obligation (NPO)
Employees' Retirement Plan	12/31/2003	\$ 1,175,515	\$ 1,028,576	88%	\$ 146,939
for City Employees	12/31/2004	\$ 664,706	\$ 811,645	122%	\$
	12/31/2005	\$ 976,965	\$ 955,662	98%	\$
Firemen's Retirement and Retirement Fund	12/31/2003	\$ 651,799	\$ 651,799	100%	\$
	12/31/2004	\$ 713,677	\$ 713,677	100%	\$
	12/31/2005	\$ 775,852	\$ 804,587	104%	\$
Employees' Retirement Plan for Police	12/31/2003	\$ 379,709	\$ 379,709	100%	\$
	12/31/2004	\$ 1,011,632	\$ 498,174	49%	\$ 513,458
	12/31/2005	\$ 1,171,439	\$ 570,724	49%	\$1,114,173

	Employees' Retirement Plan	Firemen's Retirement Plan	Police Retirement Plan
Contribution Rates:			
City Plan Members	6.00%	14.00%	9.00%
	6.00%	12.00%	10.00%
Actuarial valuation date	01/01/05	01/01/04	01/01/05
Actuarial cost method	Entry Age Normal	Entry Age	Entry Age
Asset valuation method	Smoothed market value	Smoothed market value with a five year averaging period	Adjusted Market Value
Amortization method	Level closed dollar,	Level percentage of projected payroll, open	Level percentage of projected payroll, open
Amortization period	30	37.6	30
Actuarial assumptions:			
Inflation			4.00%
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increase	5.25%	4.50%	5.60%

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Employees Retirement Plan for Police - Net Pension Obligation Components		
NPO 12/31/04		\$ 513,458
Plus:		
Annual required contribution	\$ 1,132,930	
Interest on NPO	<u>38,509</u>	
Annual pension cost		1,171,439
Actual contributions made		<u>(570,724)</u>
NPO 12/31/05		<u>\$ 1,114,173</u>

B. Discretely Presented Component Unit Benefit Plans

Board of Trustees of the Galveston Wharves

Plan Description

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

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:

CITY OF GALVESTON, TEXAS*Notes to Financial Statements**September 30, 2006**Exhibit 13*

	<u>January 1, 2005</u>	<u>January 1, 2004</u>	<u>January 1, 2003</u>
Actuarial value of plan assets	\$ 7,866,184	\$ 7,151,956	\$ 5,932,540
Actuarial accrued liability	<u>8,635,341</u>	<u>8,040,414</u>	<u>7,359,447</u>
Total funding excess (deficit)	<u>\$ (769,157)</u>	<u>\$ (888,458)</u>	<u>\$ (1,426,907)</u>
Annual covered payroll	<u>\$ 3,328,157</u>	<u>\$ 2,947,809</u>	<u>\$ 2,512,512</u>
Ratio-over (under) funded to covered payroll	<u>-23%</u>	<u>-30%</u>	<u>-57%</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 2005 were \$395,471. At December 31, 2005 The Plan had an unfunded actuarial liability of \$769,157.

Park Board of Trustees

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

During the year the Galveston Park Board's required and actual contributions amounted to \$60,017 which was five percent (5%) of \$1,200,340 its current-year covered payroll.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

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 15, 2006 Council took action to annex Galveston Municipal Utility District 1. The District will add \$300 million in property values to the roll, or an additional 10.6%. The District did not levy a property tax for the 2006 year. Therefore, these values will not be included in the property tax projections until 2008.

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, 2006

Exhibit 13

Discretely Presented Component Unit - Governmental Types

Statement of Net Assets

September 30, 2006

	Parks Board	Tax Reinvestment Zone No. 11	Tax Reinvestment Zone No. 12	Tax Reinvestment Zone No. 13
ASSETS				
Cash and Equivalents	\$ 4,569,073	\$ 8,676	\$ 579,928	\$ 57,177
Investments	5,010			
Receivables	1,262,603			
Inventories	5,539			
Prepays	139,073			
Restricted assets	622,454			
Capital assets not being depreciated			241,128	
Capital Assets (net of accumulated depreciation)	<u>311,678,273</u>			
Total Assets	<u><u>318,282,025</u></u>	<u><u>8,676</u></u>	<u><u>821,056</u></u>	<u><u>57,177</u></u>
LIABILITIES				
Accounts payable and accrued expenses	448,871			
Due to primary government			241,128	
Due to other governmental agencies	104,021			
Deferred Revenues	8,775			
Long-term liabilities:				
Due within one year	649,459			
Due in more than one year	<u>1,579,640</u>			
Total liabilities	<u>2,790,766</u>		<u>241,128</u>	
NET ASSETS				
Invested in capital assets, net of related debt	311,399,835			
Restricted for:				
Capital projects		8,676	579,928	57,177
Debt Service	574,765			
Other	649,278			
Unrestricted	<u>2,867,381</u>			
Total net assets	<u><u>\$ 315,491,259</u></u>	<u><u>\$ 8,676</u></u>	<u><u>\$ 579,928</u></u>	<u><u>\$ 57,177</u></u>

Tax Reinvestment Zone No. 14	Public Improvement District No. 1	Total
\$ 168,499	\$ 19,467	\$ 5,402,820
		5,010
	69,090	1,331,693
		5,539
		139,073
		622,454
		241,128
		311,678,273
<u>168,499</u>	<u>88,557</u>	<u>319,425,990</u>
		448,871
		241,128
		104,021
		8,775
		649,459
		1,579,640
		<u>3,031,894</u>
		311,399,835
168,499	88,557	902,837
		574,765
		649,278
		2,867,381
<u>\$ 168,499</u>	<u>\$ 88,557</u>	<u>\$ 316,394,096</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Discretely Presented Component Unit - Governmental Types

Statement of Activities

For the year ended September 30, 2006

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions	Park Board of Trustees	Component Tax Reinvestment Zone No. 11
Component Units					
Governmental Activities					
Park Board of Trustees	\$ 20,258,248	\$ 4,664,241	\$ 515,337	\$ (15,078,670)	
Tax Reinvestment Zone No. 11					
Tax Reinvestment Zone No. 12	(49)				
Tax Reinvestment Zone No. 13					
Tax Reinvestment Zone No. 14	1,200				
Public Improvement District No. 1					
Totals	<u>\$ 20,259,399</u>	<u>\$ 4,664,241</u>	<u>\$ 515,337</u>	<u>\$ (15,078,670)</u>	<u>\$</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					8,458
Special assessments					
Sales Taxes				987,034	
Hotel Occupancy Taxes				5,862,763	
Unrestricted investment earnings					218
Miscellaneous				134,739	
Capital asset contributions				3,798,130	
Total general revenues and transfers				<u>10,782,666</u>	<u>8,676</u>
Change in net assets				(4,296,004)	8,676
Net assets - beginning				319,787,263	
Net assets - ending				<u>\$ 315,491,259</u>	<u>\$ 8,676</u>

and Changes in Net Assets

Unit				
Tax Reinvestment Zone No. 12	Tax Reinvestment Zone No. 13	Tax Reinvestment Zone No. 14	Public Improvement District No. 1	Total
				\$ (15,078,670)
49				49
		(1,200)		(1,200)
<u>\$ 49</u>	<u>\$</u>	<u>\$ (1,200)</u>	<u>\$</u>	<u>\$ (15,079,821)</u>
229,111	56,579	106,188		400,336
			88,200	88,200
				987,034
				5,862,763
13,440	598	1,511	357	16,124
				134,739
				3,798,130
<u>242,551</u>	<u>57,177</u>	<u>107,699</u>	<u>88,557</u>	<u>11,287,326</u>
242,600	57,177	106,499	88,557	(3,792,495)
337,328		62,000		320,186,591
<u>\$ 579,928</u>	<u>\$ 57,177</u>	<u>\$ 168,499</u>	<u>\$ 88,557</u>	<u>\$ 316,394,096</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Discretely Presented Component Unit - Business Activity Types

Statement of Net Assets

December 31, 2005

	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
ASSETS				
Cash and Equivalents	\$ 4,043,494	\$ 16,992	\$ 107,722	\$ 4,168,208
Investments		151,635	1,150,911	1,302,546
Receivables	3,476,699	1,418	546,224	4,024,341
Internal Balances		(8,376)	8,376	
Prepays	391,041			391,041
Restricted assets	13,069,586			13,069,586
Long term receivable from component unit				
Net investment in direct financing and capital leases - net	16,493,229			16,493,229
Capital assets not being depreciated	14,271,375	17,504		14,288,879
Capital Assets (net of accumulated depreciation)	61,306,141			61,306,141
Total Assets	<u>113,051,565</u>	<u>179,173</u>	<u>1,813,233</u>	<u>115,043,971</u>
LIABILITIES				
Accounts payable and accrued expenses	2,750,710	15,212	9,576	2,775,498
Due to other governmental agencies	197,072			197,072
Due to primary government	19,323,672			19,323,672
Deferred Revenues	4,694,098			4,694,098
Accrued interest	1,015,069		21,250	1,036,319
Long-term liabilities				
Due within one year	5,133,717		110,000	5,243,717
Due in more than one year	27,837,913		615,000	28,452,913
Total liabilities	<u>60,952,251</u>	<u>15,212</u>	<u>755,826</u>	<u>61,723,289</u>
NET ASSETS				
Invested in capital assets, net of related debt	41,419,331			41,419,331
Restricted for:				
Debt Service	4,304,397		51,155	4,355,552
Unrestricted	6,375,586	163,961	1,006,252	7,545,799
Total net assets	<u>\$ 52,099,314</u>	<u>\$ 163,961</u>	<u>\$ 1,057,407</u>	<u>\$53,320,682</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2006

Exhibit 13

Discretely Presented Component Unit - Business Activity Types

Statement of Activities

For the year ended December 31, 2005

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Capital Grants and Contributions	Component Unit			Total
				Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	
Component Units							
Business-type Activities							
Board of Trustees of Galveston Wharves	\$ 17,290,152	\$ 18,280,868	\$ 864,889	\$ 1,855,605			\$ 1,855,605
Galveston Housing Finance Corporation	38,092				(38,092)		(38,092)
Galveston Property Finance Authority	98,819	63,687				(35,132)	(35,132)
Totals	<u>\$ 17,427,063</u>	<u>\$ 18,344,555</u>	<u>\$ 864,889</u>	<u>\$ 1,855,605</u>	<u>\$ (38,092)</u>	<u>\$ (35,132)</u>	<u>\$ 1,782,381</u>
General revenues:							
Unrestricted investment earnings				620,926	3,242	35,937	660,105
Miscellaneous				5,439	2,713		8,152
Transfers					8,493	(8,493)	
Total general revenues, special items, and trans				<u>626,365</u>	<u>14,448</u>	<u>27,444</u>	<u>668,257</u>
Change in net assets				2,481,970	(23,644)	(7,688)	2,450,638
Net assets - beginning				49,617,344	187,605	1,065,095	50,870,044
Net assets - ending				<u>\$ 52,099,314</u>	<u>\$ 163,961</u>	<u>\$ 1,057,407</u>	<u>\$ 53,320,682</u>

This page is intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

Primary Government

SCHEDULES OF FUNDING PROGRESS						
Employees' Retirement Plan for City Employees (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2003	\$ 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%

SCHEDULES OF FUNDING PROGRESS						
Firemen's Relief and Retirement Fund (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2000	\$ 24,590,702	\$ 27,011,421	\$ 2,420,719	91.0%	\$ 4,181,238	57.9%
01/01/2002	\$ 26,399,756	\$ 32,527,226	\$ 6,127,470	81.2%	\$ 4,387,586	139.7%
01/01/2004	\$ 26,956,845	\$ 34,723,058	\$ 7,766,213	77.6%	\$ 4,814,360	161.3%

SCHEDULES OF FUNDING PROGRESS						
Employees' Retirement Plan for Police (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2003	\$ 21,012,541	\$ 31,601,696	\$ 10,589,155	66.5%	\$ 6,803,316	155.6%
01/01/2004	\$ 23,438,264	\$ 34,129,588	\$ 10,691,324	68.7%	\$ 6,744,215	158.5%
01/01/2005	\$ 24,829,733	\$ 38,866,978	\$ 14,037,245	63.9%	\$ 7,118,514	197.2%

Discretely presented component unit

SCHEDULES OF FUNDING PROGRESS						
Board of Trustees of Galveston Wharves Pension Plan (Unaudited)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
01/01/2003	\$ 5,932,540	\$ 7,359,447	\$ 1,426,907	80.6%	\$ 2,512,512	56.8%
01/01/2004	\$ 7,151,956	\$ 8,040,414	\$ 888,458	89.0%	\$ 2,947,809	30.1%
01/01/2005	\$ 7,866,184	\$ 8,635,341	\$ 769,157	91.1%	\$ 3,328,157	23.1%

* Firemens' Relief and Retirement Fund actuarial valuation as of January 1, 2004

CITY OF GALVESTON, TEXAS

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

December 31, 2005

Unaudited

Exhibit 14

Page 2 of 2

THREE YEAR TREND INFORMATION				
-------------------------------------	--	--	--	--

Retirement Plan	Year Ending	Annual Required Contribution (ARC)	Contributed	Net Pension Obligation
-----------------	-------------	------------------------------------	-------------	------------------------

Primary Government

Employees' Retirement Plan for City Employees	12/31/2003	\$ 1,175,515	88%	\$ 146,939
	12/31/2004	\$ 664,706	122%	\$
	12/31/2005	\$ 976,965	98%	\$

Firemen's Retirement and Retirement Fund	12/31/2003	\$ 651,799	100%	\$
	12/31/2004	\$ 713,677	100%	\$
	12/31/2005	\$ 775,852	100%	\$

Employees' Retirement Plan for Police	12/31/2003	\$ 379,709	100%	\$
	12/31/2004	\$ 1,011,632	49%	\$ 513,458
	12/31/2005	\$ 1,171,439	49%	\$ 1,114,173

Discretely presented component unit

Galveston Wharves Pension Plan	12/31/2003	\$ 355,156	100%	\$
	12/31/2004	\$ 348,879	100%	\$
	12/31/2005	\$ 395,471	100%	\$

This page is intentionally left blank

GENERAL FUND

This page is intentionally left blank

CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Exhibit A-1

	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
General government:			
Legislative	\$ 399,950	\$ 377,857	\$ 22,093
Judicial	564,614	537,543	27,071
Executive	1,237,438	1,152,882	84,556
City auditor	33,453	27,574	5,879
Finance	1,896,427	1,860,317	36,110
Legal	544,027	513,990	30,037
Personnel	268,287	266,233	2,054
Taxation	134,400	121,224	13,176
Total general government	<u>5,078,596</u>	<u>4,857,620</u>	<u>220,976</u>
Public safety:			
Police	14,258,429	13,908,602	349,827
Special events	520,000	495,021	24,979
Fire	8,481,190	8,477,503	3,687
Emergency medical service	391,000	390,805	195
Emergency management	72,313	71,753	560
Total public safety	<u>23,722,932</u>	<u>23,343,684</u>	<u>379,248</u>
Public works and traffic	3,190,934	2,885,710	465,709
Culture and recreation	1,644,334	1,619,166	25,168
Planning and community development	1,602,580	1,520,684	81,896
Transportation system	<u>782,000</u>	<u>755,617</u>	<u>26,383</u>
Total expenditures	<u>\$ 36,021,376</u>	<u>\$ 34,982,481</u>	<u>\$ 1,038,895</u>

This page is intentionally left blank

CITY OF GALVESTON, TEXAS
NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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.

CITY OF GALVESTON, TEXAS
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

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.

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

This page is intentionally left blank

CITY OF GALVESTON, TEXAS
Combining Balance Sheet
Non Major Governmental Funds
September 30, 2006

	<i>Special Revenue Funds</i>			
	Rosenberg Library	Industrial Development Corporation	Parks and Recreation Improvement	Moody Civic Center
ASSETS				
Cash and cash equivalents	\$ 124,397	\$	\$ 405,820	\$ 15,040
Accounts receivable, net	83,723	2,000		
Receivable from other governments		753,933		
Total assets	<u>\$ 208,120</u>	<u>\$ 755,933</u>	<u>\$ 405,820</u>	<u>\$ 15,040</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$ 188,983	\$	\$
Due to other funds				
Payable to other governments				
Deferred revenue	83,723			
Advances from other governments				
Total liabilities	<u>83,723</u>	<u>188,983</u>	<u></u>	<u></u>
 Fund balances:				
Reserved for:				
Capital Projects				
Debt service				
Industrial Development Corp. Bonds		261,578		
Other bonded debt				
Unreserved	124,397	305,372	405,820	15,040
Total fund balances	<u>124,397</u>	<u>566,950</u>	<u>405,820</u>	<u>15,040</u>
Total liabilities and fund balances	<u>\$ 208,120</u>	<u>\$ 755,933</u>	<u>\$ 405,820</u>	<u>\$ 15,040</u>

Street Improvements	Grants and Government Contracts	Project Specific Programs	Convention Center Funds	<i>Debt Service Funds</i>	
				Debt Service Fund	Hotel Occupancy Tax Debt
\$ 718	\$ 799,714 937,479 216,418	\$ 1,638,902 10,000 22,094	\$ 1,514,131	\$ 3,469,882 107,113	\$ 2,933,834
<u>\$ 718</u>	<u>\$ 1,953,611</u>	<u>\$ 1,670,996</u>	<u>\$ 1,514,131</u>	<u>\$ 3,576,995</u>	<u>\$ 2,933,834</u>
\$	\$ 123,847 2,991 1,840,158 7,532	\$ 16,596 26,726 138,977	\$ 431,365	\$ 2,077 107,113	\$
	<u>1,974,528</u>	<u>182,299</u>	<u>431,365</u>	<u>109,190</u>	
				1,631,021 1,836,784	2,933,834
<u>718</u>	<u>(20,917)</u>	<u>1,488,697</u>	<u>1,082,766</u>	<u>3,467,805</u>	<u>2,933,834</u>
<u>\$ 718</u>	<u>\$ 1,953,611</u>	<u>\$ 1,670,996</u>	<u>\$ 1,514,131</u>	<u>\$ 3,576,995</u>	<u>\$ 2,933,834</u>

CITY OF GALVESTON, TEXAS
 Combining Balance Sheet
 Non Major Governmental Funds
 September 30, 2006

	<i>Capital Project Funds</i>			
	Public Improvements	Public Safety Improvements	Drainage and Street Improvements	Sewer Improvements
ASSETS				
Cash and cash equivalents	\$ 1,029	\$ 1,141	\$ 1,419,036	\$ 3,580,266
Accounts receivable, net				
Receivable from other governments			2,824	
Total assets	<u>\$ 1,029</u>	<u>\$ 1,141</u>	<u>\$ 1,421,860</u>	<u>\$ 3,580,266</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$	\$ 2,541	\$ 122,437
Due to other funds				
Payable to other governments				
Deferred revenue				
Advances from other governments				
Total liabilities			<u>2,541</u>	<u>122,437</u>
 Fund balances:				
Reserved for:				
Capital Projects			1,419,319	3,457,829
Debt service				
Industrial Development Corp. Bonds				
Other bonded debt				
Unreserved	1,029	1,141		
Total fund balances	<u>1,029</u>	<u>1,141</u>	<u>1,419,319</u>	<u>3,457,829</u>
Total liabilities and fund balances	<u>\$ 1,029</u>	<u>\$ 1,141</u>	<u>\$ 1,421,860</u>	<u>\$ 3,580,266</u>

Exhibit B-1
Page 2 of 2

<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>General Obligation Bond 2005</u>	<u>Total Governmental Funds</u>
\$ 1,612,802	\$	\$ 7,198,628	\$ 24,715,340
	285,133		1,140,315
<u>\$ 1,612,802</u>	<u>\$ 285,133</u>	<u>\$ 7,198,628</u>	<u>\$ 27,136,057</u>
\$ 203,895	\$ 79,749	\$ 12,250	\$ 1,183,740
	104,805		104,805
	101,333		29,717
			2,271,304
			7,532
<u>203,895</u>	<u>285,887</u>	<u>12,250</u>	<u>3,597,098</u>
1,408,907		7,186,378	13,472,433
			1,892,599
			4,770,618
	(754)		3,403,309
<u>1,408,907</u>	<u>(754)</u>	<u>7,186,378</u>	<u>23,538,959</u>
<u>\$ 1,612,802</u>	<u>\$ 285,133</u>	<u>\$ 7,198,628</u>	<u>\$ 27,136,057</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, 2006

	<i>Special Revenue Funds</i>			
	<u>Rosenberg Library</u>	<u>Industrial Development Corporation</u>	<u>Parks and Recreation Improvement</u>	<u>Moody Civic Center</u>
REVENUES				
Property Taxes	\$ 1,434,280	\$	\$	\$
Sales tax		4,098,677		
Hotel occupancy taxes				
Intergovernmental				
Charges for services				
Investment earnings	2,189	101,601	20,006	729
Miscellaneous				
Total revenues	<u>1,436,469</u>	<u>4,200,278</u>	<u>20,006</u>	<u>729</u>
EXPENDITURES				
Current:				
General government				
Public Safety				
Highways and roads				
Culture and recreation	1,378,122	1,024,669		
Education				
Planning and community development				
Transportation				
Debt Service				
Principal				
Interest and other charges				
Capital Outlay				
Total Expenditures	<u>1,378,122</u>	<u>1,024,669</u>	<u></u>	<u></u>
Excess (deficiency) of revenues over expenditures	<u>58,347</u>	<u>3,175,609</u>	<u>20,006</u>	<u>729</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net				
Proceeds from capital leases				
Other source				
Payments to escrow agent				
Transfers in				
Transfers out		(3,412,354)		
Total other financing sources and uses	<u></u>	<u>(3,412,354)</u>	<u></u>	<u></u>
Net change in fund balances	58,347	(236,745)	20,006	729
Fund balances - beginning	66,050	803,695	385,814	14,311
Fund balances - ending	<u>\$ 124,397</u>	<u>\$ 566,950</u>	<u>\$ 405,820</u>	<u>\$ 15,040</u>

				<i>Debt Service Funds</i>	
<u>Street Improvements</u>	<u>Grants and Government Contracts</u>	<u>Project Specific Programs</u>	<u>Convention Center Funds</u>	<u>Debt Service Fund</u>	<u>Hotel Occupancy Tax Debt Service Fund</u>
\$	\$	\$	\$	\$ 1,968,634	\$
			2,076,389		2,045,715
	2,481,661	132,447			
	356,504	316,449			
413	22,398	84,944	48,523	138,421	124,890
	30,000	130,031			
413	2,890,563	663,871	2,124,912	2,107,055	2,170,605
		147,475			
	319,008	200,074			
	10,291	31,971	2,117,962		
	1,860,711	83,825			
		16,048			
				1,614,454	350,000
				1,794,868	1,492,062
19,460	641,312				
19,460	2,831,322	479,393	2,117,962	3,409,322	1,842,062
(19,047)	59,241	184,478	6,950	(1,302,267)	328,543
				2,889,074	
				(2,669,235)	
				1,742,956	10,939
			(10,939)		
			(10,939)	1,962,795	10,939
(19,047)	59,241	184,478	(3,989)	660,528	339,482
19,765	(80,158)	1,304,219	1,086,755	2,807,277	2,594,352
\$ 718	\$ (20,917)	\$ 1,488,697	\$ 1,082,766	\$ 3,467,805	\$ 2,933,834

CITY OF GALVESTON, TEXAS

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances

Non Major Governmental Funds

For the Year Ended September 30, 2006

Capital Project Funds

	<u>Public Improvements</u>	<u>Public Safety Improvements</u>	<u>Drainage and Street Improvements</u>	<u>Sewer Improvements</u>
REVENUES				
Property Taxes	\$	\$	\$	\$
Sales tax				
Hotel occupancy taxes				
Intergovernmental				
Charges for services				
Investment earnings	29	32	39,974	129,725
Miscellaneous				
Total revenues	<u>29</u>	<u>32</u>	<u>39,974</u>	<u>129,725</u>
EXPENDITURES				
Current:				
General government				
Public Safety				
Highways and roads			69,652	1,018
Culture and recreation				
Education				
Planning and community development				
Transportation				
Debt Service				
Principal			34,457	
Interest and other charges			1,175	
Capital Outlay			3,652	181,820
Total Expenditures			<u>108,936</u>	<u>182,838</u>
Excess (deficiency) of revenues over expenditures	<u>29</u>	<u>32</u>	<u>(68,962)</u>	<u>(53,113)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt, net				
Proceeds from capital leases				
Other source				
Other use				
Transfers in			667,485	1,001,913
Transfers out				
Total other financing sources and uses			<u>667,485</u>	<u>1,001,913</u>
Net change in fund balances	29	32	598,523	948,800
Fund balances - beginning	1,000	1,109	820,796	2,509,029
Fund balances - ending	<u>\$ 1,029</u>	<u>\$ 1,141</u>	<u>\$ 1,419,319</u>	<u>\$ 3,457,829</u>

Exhibit B-2
Page 2 of 2

<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>General Obligation Bond 2005 Capital Project</u>	<u>Total Governmental Funds</u>
\$	\$	\$	\$ 3,402,914
			4,098,677
			4,122,104
	867,766		3,481,874
			672,953
101,860	942	247,448	1,064,124
	150		160,181
<u>101,860</u>	<u>868,858</u>	<u>247,448</u>	<u>17,002,827</u>
			147,475
			519,082
16,308			86,978
131			4,563,146
			1,944,536
	133,081		149,129
			1,998,911
			3,288,105
1,503,172	850,461	12,250	3,212,127
<u>1,519,611</u>	<u>983,542</u>	<u>12,250</u>	<u>15,909,489</u>
<u>(1,417,751)</u>	<u>(114,684)</u>	<u>235,198</u>	<u>1,093,338</u>
		6,951,180	9,840,254
			(2,669,235)
			3,423,293
			(3,423,293)
		<u>6,951,180</u>	<u>7,171,019</u>
(1,417,751)	(114,684)	7,186,378	8,264,357
2,826,658	113,930		15,274,602
<u>\$ 1,408,907</u>	<u>\$ (754)</u>	<u>\$ 7,186,378</u>	<u>\$ 23,538,959</u>

CITY OF GALVESTON, TEXAS

Special Revenue Funds

Island Transit Fund

*Schedule of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual (Budgetary basis)
For the Fiscal Year Ended September 30, 2006*

Exhibit B-3

	<u>Final Budget</u>	<u>Budgetary Basis Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues			
Intergovernmental-Federal	\$ 1,339,941	\$ 1,211,978	\$ (127,963)
Intergovernmental-State	368,744	368,744	
Intergovernmental-Local	582,000	584,328	2,328
Fare box revenues	230,000	279,798	49,798
Charges for services	350,000	394,510	44,510
Other	25,000	20,138	(4,862)
Total operating revenues	<u>2,895,685</u>	<u>2,859,496</u>	<u>(36,189)</u>
Expenditures			
Current			
Transportation system:			
Transit system:			
Personal services	1,580,794	1,324,442	256,352
Materials and supplies	70,000	66,696	3,304
Contractual services	429,047	420,723	8,324
Other charges	86,790	86,790	
Total transit system expenditures	<u>2,166,631</u>	<u>1,898,651</u>	<u>267,980</u>
Maintenance:			
Personal services	823,475	807,110	16,365
Materials and supplies	208,811	194,097	14,714
Contractual services	79,919	93,939	(14,020)
Other charges	(64,406)	(11,008)	(53,398)
Total maintenance expenditures	<u>1,047,799</u>	<u>1,084,138</u>	<u>(36,339)</u>
Administration:			
Personal services	184,629	169,521	15,108
Materials and supplies	69,781	65,151	4,630
Contractual services	85,469	79,562	5,907
Other charges	25,850	25,516	334
Total administration expenditures	<u>365,729</u>	<u>339,750</u>	<u>25,979</u>
Total transportation system	<u>3,580,159</u>	<u>3,322,539</u>	<u>257,620</u>
Revenues and other sources over (under) expenditures	<u>\$ (684,474)</u>	(463,043)	<u>\$ 221,431</u>
Fund balance at beginning of year (budgetary basis)		163,994	
Fund balance at end of year (budgetary basis)		<u>\$ (299,049)</u>	

CITY OF GALVESTON, TEXAS
Special Revenue Funds
Rosenberg Library Fund
Schedule of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual (Budgetary basis)
For the Fiscal Year Ended September 30, 2006

Exhibit B-4

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
Revenues:			
Property taxes - current	\$ 1,378,122	\$ 1,395,767	\$ 17,645
Property taxes - delinquent		38,513	38,513
Interest income		2,189	2,189
Total revenues	<u>1,378,122</u>	<u>1,436,469</u>	<u>58,347</u>
Expenditures:			
Current:			
Culture and recreation			
Payments to Rosenberg Library	<u>1,378,122</u>	<u>1,378,124</u>	<u>(2)</u>
Revenues over (under) expenditures		58,345	58,345
Fund balance at beginning of year	<u>36,871</u>	<u>36,871</u>	
Fund balance at end of year	<u>\$ 36,871</u>	<u>\$ 95,216</u>	<u>\$ 58,345</u>

CITY OF GALVESTON, TEXAS

Debt Service Fund

Exhibit B-5

*Schedule of Revenues, Expenditures, and Changes in
Fund Balances - Budget and Actual (Budgetary basis)
For the Fiscal Year Ended September 30, 2006*

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
Revenues:			
Property taxes	\$ 1,946,102	\$ 1,968,634	\$ 22,532
Earnings on investments	76,000	138,421	62,421
Total revenues	<u>2,022,102</u>	<u>2,107,055</u>	<u>84,953</u>
Expenditures:			
Principal retirement	1,649,454	1,614,454	35,000
Interest and fiscal agent fees	<u>1,592,883</u>	<u>1,794,868</u>	<u>(201,985)</u>
Total expenditures	<u>3,242,337</u>	<u>3,409,322</u>	<u>(166,985)</u>
Revenues over (under) expenditures	(1,220,235)	(1,302,267)	(82,032)
Other financing sources:			
Proceeds from sale of refunding bonds		2,889,074	2,889,074
Payment to refunding bond escrow agent		(2,669,235)	(2,669,235)
Transfer in:			
Industrial Development Corporation	<u>1,333,235</u>	<u>1,742,956</u>	<u>409,721</u>
Total other financing sources	1,333,235	1,962,795	629,560
Revenues and other financing sources over (under) expenditures and other financing (uses)	113,000	660,528	547,528
Fund balance at beginning of year	<u>2,807,277</u>	<u>2,807,277</u>	
Fund balance at end of year	<u>\$ 2,920,277</u>	<u>\$ 3,467,805</u>	<u>\$ 547,528</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**Other Enterprise Funds**September 30, 2006*

	Enterprise Funds		
	Sanitation	Drainage	Airport
ASSETS			
Current assets:			
Cash and temporary investments	\$ 976,385	\$ 146,493	\$ 229,291
Accounts receivable, net	1,197,422	636,961	61,150
Inventories			
Prepays	3,721	2,481	
Restricted cash	149,996	1,302,976	
Total current assets	<u>2,327,524</u>	<u>2,088,911</u>	<u>290,441</u>
Non-current assets:			
Capital assets (net of depreciation)	<u>1,710,579</u>	<u>1,380,511</u>	<u>8,550,099</u>
Total assets	<u>\$ 4,038,103</u>	<u>\$ 3,469,422</u>	<u>\$ 8,840,540</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 585,476	\$ 251,082	\$ 10,226
Salaries payable	61,114	29,621	10,805
Accrued interest payable	8,188		
Deferred revenue	10,450		55,261
Long term debt - current portion	107,576	129,347	57,213
Total current liabilities	<u>772,804</u>	<u>410,050</u>	<u>133,505</u>
Non-current liabilities:			
Long term debt	817,246	210,455	200,725
Total liabilities	<u>1,590,050</u>	<u>620,505</u>	<u>334,230</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,016,010	1,141,644	8,336,554
Restricted for debt service	111,377		
Unrestricted	<u>1,320,666</u>	<u>1,707,273</u>	<u>169,756</u>
Total net assets	<u>\$ 2,448,053</u>	<u>\$ 2,848,917</u>	<u>\$ 8,506,310</u>

Exhibit C-1

<u>Golf Course</u>	<u>Total</u>
\$ 87,778	\$ 1,439,947
	1,895,533
24,087	24,087
	6,202
	1,452,972
<u>111,865</u>	<u>4,818,741</u>
2,428,256	14,069,445
<u>\$ 2,540,121</u>	<u>\$ 18,888,186</u>
\$ 8,024	\$ 854,808
18,282	119,822
	8,188
	65,711
	294,136
<u>26,306</u>	<u>1,342,665</u>
99,171	1,327,597
<u>125,477</u>	<u>2,670,262</u>
2,428,256	12,922,464
	111,377
(13,612)	3,184,083
<u>\$ 2,414,644</u>	<u>\$ 16,217,924</u>

CITY OF GALVESTON, TEXAS

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Other Enterprise Funds

For the Year Ended September 30, 2006

	Enterprise Funds		
	Sanitation	Drainage	Airport
REVENUES			
Charges for services	\$ 4,238,526	\$ 2,677,890	\$ 937,169
Miscellaneous	1,203	32,643	242
Total operating revenues	<u>4,239,729</u>	<u>2,710,533</u>	<u>937,411</u>
OPERATING EXPENSES			
Personal services	1,891,159	806,106	333,392
Contractual services	1,094,158	326,000	84,031
Other charges	89,312	66,096	143,402
Materials and supplies	54,095	94,498	130,358
Administrative service charge	160,000	36,000	41,000
Depreciation	262,749	17,741	394,849
Total Operating Expenses	<u>3,551,473</u>	<u>1,346,441</u>	<u>1,127,032</u>
Operating income (loss)	<u>688,256</u>	<u>1,364,092</u>	<u>(189,621)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	44,906	58,385	17,759
Operating grants and contributions			2,680,324
Interest expense	(26,940)	(10,724)	(17,355)
Total non-operating revenue (expenses)	<u>17,966</u>	<u>47,661</u>	<u>2,680,728</u>
Income (loss) before contributions and transfers	<u>706,222</u>	<u>1,411,753</u>	<u>2,491,107</u>
Transfers in			
Transfers out	<u>(200,000)</u>		
Change in net assets	<u>506,222</u>	<u>1,411,753</u>	<u>2,491,107</u>
Total net assets - beginning	<u>1,941,831</u>	<u>1,437,164</u>	<u>6,015,203</u>
Total net assets - ending	<u>\$ 2,448,053</u>	<u>\$ 2,848,917</u>	<u>\$ 8,506,310</u>

Exhibit C-2

<u>Golf Course</u>	<u>Total</u>
\$ 825,671	\$ 8,679,256
1,152	35,240
<u>826,823</u>	<u>8,714,496</u>
516,296	3,546,953
163,245	1,667,434
34,556	333,366
241,353	520,304
	237,000
82,029	757,368
<u>1,037,479</u>	<u>7,062,425</u>
<u>(210,656)</u>	<u>1,652,071</u>
3,337	124,387
	2,680,324
	(55,019)
<u>3,337</u>	<u>2,749,692</u>
<u>(207,319)</u>	<u>4,401,763</u>
100,000	100,000
	(200,000)
<u>(107,319)</u>	<u>4,301,763</u>
<u>2,521,963</u>	<u>11,916,161</u>
<u>\$ 2,414,644</u>	<u>\$ 16,217,924</u>

CITY OF GALVESTON, TEXAS
Combining Statements of Cash Flows
Non-Major Enterprise Funds
For the Fiscal Year Ended September 30, 2006

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>
Cash flows from operating activities:			
Cash received from customers	\$ 4,047,310	\$ 2,528,915	\$ 962,005
Cash payments to suppliers for goods and services	(906,694)	(250,331)	(367,243)
Cash payments to employees	(1,938,482)	(764,066)	(328,814)
Administrative service charge	(160,000)	(36,000)	(41,000)
Net cash provided by (used for) operating activities	<u>1,042,134</u>	<u>1,478,518</u>	<u>224,948</u>
Cash flows from noncapital and related financing activities:			
Interfund borrowings			
Interfund transfers in			
Interfund transfers out	(200,000)		
Net cash provided by (used for) noncapital and related financing activities	<u>(200,000)</u>		
Cash flows from capital and related financing activities:			
Proceeds from capital leases			
Payments for capital acquisitions	(311,281)	(573,050)	(2,725,339)
Principal paid on bonds	(95,000)		
Interest paid on bonds	(28,128)		
Principal paid on capital leases		(117,367)	(49,307)
Interest paid on capital leases		(15,073)	(17,328)
Contributed capital			2,624,426
Net cash provided by (used for) capital and related financing activities	<u>(434,409)</u>	<u>(705,490)</u>	<u>(167,548)</u>
Cash flows from investing activities:			
Interest on investments	45,037	58,558	18,198
Net increase (decrease) in equity in pooled cash and investments	452,762	831,586	75,598
Cash and temporary investments, beginning of year	673,619	617,883	153,693
Cash and temporary investments, end of year	<u>\$ 1,126,381</u>	<u>\$ 1,449,469</u>	<u>\$ 229,291</u>
Cash and temporary investments per balance sheet			
Unrestricted	\$ 976,385	\$ 146,493	\$ 229,291
Restricted	149,996	1,302,976	
Cash and temporary investments, end of year	<u>\$ 1,126,381</u>	<u>\$ 1,449,469</u>	<u>\$ 229,291</u>

Exhibit C-3
Page 1 of 2

<u>Golf Course</u>	<u>Totals</u>
\$ 828,866	\$ 8,367,096
(421,094)	(1,945,362)
(488,571)	(3,519,933)
<u>(9,000)</u>	<u>(246,000)</u>
<u>(89,799)</u>	<u>2,655,801</u>
(6,300)	(6,300)
100,000	100,000
<u> </u>	<u>(200,000)</u>
<u>93,700</u>	<u>(106,300)</u>
	(3,609,670)
	(95,000)
	(28,128)
	(166,674)
	(32,401)
<u> </u>	<u>2,624,426</u>
<u> </u>	<u>(1,307,447)</u>
<u>3,338</u>	<u>125,131</u>
7,239	1,367,185
80,539	1,525,734
<u>\$ 87,778</u>	<u>\$ 2,892,919</u>
\$ 87,778	\$ 1,439,947
<u> </u>	<u>1,452,972</u>
<u>\$ 87,778</u>	<u>\$ 2,892,919</u>

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>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income (loss)	\$ 688,256	\$ 1,364,092	\$ (189,621)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization and depreciation expense	264,992	17,741	394,849
(Increase) decrease in accounts receivable	(208,224)	(187,841)	19,000
Decrease in interfund receivable			(8,877)
(Increase) decrease in deferred charges			
(Increase) decrease in due from other governments	15,805	6,223	
(Increase) decrease in inventory and prepaid	(177)		
Increase (decrease) in salaries and benefits payable	(8,547)	2,492	(2,477)
Increase (decrease) in accounts payable	327,255	236,263	(571)
Increase (decrease) in deferred revenue	1,550		5,594
Increase (decrease) in estimated liability claims	(75,248)		
Increase (decrease) in compensated absences payable	36,472	39,548	7,051
Total adjustments	<u>353,878</u>	<u>114,426</u>	<u>414,569</u>
Net cash provided by (used for) operating activities	<u>\$ 1,042,134</u>	<u>\$ 1,478,518</u>	<u>\$ 224,948</u>

Exhibit C-3
Page 2 of 2

<u>Golf Course</u>	<u>Totals</u>
\$ (210,656)	\$ 1,652,071
82,029	759,611
18	(377,047)
	(8,877)
	22,028
22,038	21,861
1,391	(7,141)
2,214	565,161
	7,144
	(75,248)
13,167	96,238
<u>120,857</u>	<u>1,003,730</u>
<u>\$ (89,799)</u>	<u>\$ 2,655,801</u>

CITY OF GALVESTON, TEXAS
WATER SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Exhibit C-4

	Budgeted Amounts		Actual Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
OPERATING REVENUES:						
Charges for sales and services:						
Water sales	\$ 12,411,719	\$ 12,411,719	\$ 13,750,384	\$	\$ 13,750,384	\$ 1,338,665
Tap fees	285,000	285,000	276,524		276,524	(8476)
Other	147,200	147,200	154,606		154,606	7406
Total operating revenues	<u>12,843,919</u>	<u>12,843,919</u>	<u>14,181,514</u>		<u>14,181,514</u>	<u>1,337,595</u>
OPERATING EXPENSES:						
Personal services	1,489,934	1,478,663	1,384,530		1,384,530	94,133
Materials and supplies	716,751	929,099	880,808		880,808	48,291
Contractual services	493,186	504,697	478,983		478,983	25,714
Other charges	166,395	178,415	187,274		187,274	(8,859)
Administrative service charge	503,000	503,000	503,000		503,000	
Surface water contract	6,833,345	6,833,345	5,192,997	1,634,877	6,827,874	5,471
Depreciation			2,633,987	(2,633,987)		
Total operating expenses	<u>10,202,611</u>	<u>10,427,219</u>	<u>11,261,579</u>	<u>(999,110)</u>	<u>10,262,469</u>	<u>164,750</u>
Operating income (loss)	<u>2,641,308</u>	<u>2,416,700</u>	<u>2,919,935</u>	<u>999,110</u>	<u>3,919,045</u>	<u>1,502,345</u>
NON-OPERATING REVENUES						
(EXPENSES):						
Interest earned	14,000	14,000	911,919		911,919	897,919
Interest expense	(995,948)	(413,975)	(585,708)	341,293	(244,415)	169,560
Principal expenditure	(722,828)	(601,121)		(601,121)	(601,121)	
Capital outlay improvements	(330,000)	(830,000)		(830,000)	(830,000)	
Capital Outlay	(30,000)	(50,163)		(30,000)	(30,000)	20,163
Gain (loss) on retirement of capital asset	1,000	1,000	(270,826)	270,826		(1,000)
Amortization of bond issuance costs	(108,451)	(108,451)	(119,366)		(119,366)	(10,915)
Total nonoperating revenues (expenses)	<u>(2,172,227)</u>	<u>(1,988,710)</u>	<u>(63,981)</u>	<u>(849,002)</u>	<u>(912,983)</u>	<u>1,075,727</u>
Income (loss) before operating transfers and capital contributions	469,081	427,990	2,855,954	150,108	3,006,062	2,578,072
Capital contributions						
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Change in net assets	<u>269,081</u>	<u>227,990</u>	<u>2,655,954</u>	<u>150,108</u>	<u>2,806,062</u>	<u>2,578,072</u>
Net assets at beginning of year	<u>22,942,128</u>	<u>22,942,128</u>	<u>22,942,128</u>		<u>22,942,128</u>	
Net assets at end of year	<u>\$ 23,211,209</u>	<u>\$ 23,170,118</u>	<u>\$ 25,598,082</u>	<u>\$ 150,108</u>	<u>\$ 25,748,190</u>	<u>\$ 2,578,072</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, 2006

Exhibit C-5

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
OPERATING REVENUES:						
Charges for sales and services:						
Sewer charges	\$ 9,945,873	\$ 9,945,873	\$ 11,186,702	\$	\$ 11,186,702	\$ 1,240,829
Tap fees	69,000	69,000	50,996		50,996	(18,004)
Waste hauler fees	165,000	165,000	161,927		161,927	(3,073)
Other	149,400	149,400	170,512		170,512	21,112
Total operating revenues	<u>10,329,273</u>	<u>10,329,273</u>	<u>11,570,137</u>		<u>11,570,137</u>	<u>1,240,864</u>
OPERATING EXPENSES:						
Personal services	3,057,968	3,025,517	2,949,976		2,949,976	75,541
Materials and supplies	1,436,115	1,525,869	1,459,443		1,459,443	66,426
Contractual services	1,064,964	1,090,667	1,031,867		1,031,867	58,800
Other charges	263,705	278,776	250,642		250,642	28,134
Administrative service charge	307,000	307,000	307,000		307,000	
Depreciation			2,204,431	(2,204,431)		
Total operating expenses	<u>6,129,752</u>	<u>6,227,829</u>	<u>8,203,359</u>	<u>(2,204,431)</u>	<u>5,998,928</u>	<u>228,901</u>
Operating income (loss)	<u>4,199,521</u>	<u>4,101,444</u>	<u>3,366,778</u>	<u>2,204,431</u>	<u>5,571,209</u>	<u>1,469,765</u>
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	29,000	29,000	718,771		718,771	689,771
Interest expense	(1,394,391)	(539,164)	(1,063,805)	545,684	(518,121)	21,043
Principal expenditure	(1,174,609)	(1,055,361)		(1,055,361)	(1,055,361)	
Capital Outlay Improvements	(1,600,000)	(2,500,000)		(2,500,000)	(2,500,000)	
Capital Outlay	(30,000)	(50,163)		(30,000)	(30,000)	20,163
Gain (loss) on retirement of capital asset						
Amortization of bond issuance costs	(8,760)	(8,760)	(27,919)		(27,919)	(19,159)
Total nonoperating revenues (expenses)	<u>(4,178,760)</u>	<u>(4,124,448)</u>	<u>(372,953)</u>	<u>(3,039,677)</u>	<u>(3,412,630)</u>	<u>711,818</u>
Income (loss) before operating transfers and capital contributions	20,761	(23,004)	2,993,825	(835,246)	2,158,579	2,181,583
Capital contributions						
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Change in net assets	(179,239)	(223,004)	2,793,825	(835,246)	1,958,579	2,181,583
Net assets at beginning of year	41,326,470	41,326,470	41,326,470		41,326,470	
Net assets at end of year	<u>\$ 41,147,231</u>	<u>\$ 41,103,466</u>	<u>\$ 44,120,295</u>	<u>\$ (835,246)</u>	<u>\$ 43,285,049</u>	<u>\$ 2,181,583</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, 2006

Exhibit C-6

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
OPERATING REVENUES:						
Charges for sales and services	\$ 3,991,514	\$ 3,991,514	\$ 4,238,526	\$	\$ 4,238,526	\$ 247,012
Other	1,000	1,000	1,203		1,203	203
Total operating revenues	<u>3,992,514</u>	<u>3,992,514</u>	<u>4,239,729</u>		<u>4,239,729</u>	<u>247,215</u>
OPERATING EXPENSES:						
Personal services	1,971,218	1,926,418	1,891,159		1,891,159	35,259
Materials and supplies	49,593	57,841	54,095		54,095	3,746
Contractual services	1,073,892	1,110,444	1,094,158		1,094,158	16,286
Other charges	119,974	119,974	89,312		89,312	30,662
Administrative service charge	160,000	160,000	160,000		160,000	
Depreciation			262,749	(262,749)	-	
Total operating expenses	<u>3,374,677</u>	<u>3,374,677</u>	<u>3,551,473</u>	<u>(262,749)</u>	<u>3,288,724</u>	<u>85,953</u>
Operating income (loss)	617,837	617,837	688,256	262,749	951,005	333,168
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	13,000	13,000	44,906		44,906	31,906
Interest expense	(28,158)	(28,158)	(26,940)		(26,940)	1,218
Principal Expenditure	(95,000)	(95,000)		(95,000)	(95,000)	
Capital Outlay - Software	(12,000)	(12,000)		(12,000)	(12,000)	
Capital Outlay - Improvements	(330,000)	(330,000)		(299,281)	(299,281)	30,719
Gain (loss) on retirement of capital asset						
Total nonoperating revenues (expenses)	<u>(452,158)</u>	<u>(452,158)</u>	<u>17,966</u>	<u>(406,281)</u>	<u>(388,315)</u>	<u>63,843</u>
Income (loss) before operating transfers:	165,679	165,679	706,222	(143,532)	562,690	397,011
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Changes in net assets	(34,321)	(34,321)	506,222	(143,532)	362,690	397,011
Net assets at beginning of year	1,941,831	1,941,831	1,941,831		1,941,831	
Net assets at end of year	<u>\$ 1,907,510</u>	<u>\$ 1,907,510</u>	<u>\$ 2,448,053</u>	<u>\$ (143,532)</u>	<u>\$ 2,304,521</u>	<u>\$ 397,011</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, 2006

Exhibit C-7

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
OPERATING REVENUES:						
Charges for sales and services	\$ 2,404,667	\$ 2,404,667	\$ 2,677,890	\$	\$ 2,677,890	\$ 273,223
Other	37,000	37,000	32,643		32,643	(4,357)
Total operating revenues	<u>2,441,667</u>	<u>2,441,667</u>	<u>2,710,533</u>		<u>2,710,533</u>	<u>268,866</u>
OPERATING EXPENSES:						
Personal services	802,101	809,541	806,106		806,106	3,435
Materials and supplies	79,724	106,546	94,498		94,498	12,048
Contractual services	397,877	399,033	326,000		326,000	73,033
Other charges	62,073	62,073	59,385		59,385	2,688
Administrative service charge	36,000	36,000	36,000		36,000	
Depreciation			17,741	(17,741)	-	
Total operating expenses	<u>1,377,775</u>	<u>1,413,193</u>	<u>1,339,730</u>	<u>(17,741)</u>	<u>1,321,989</u>	<u>91,204</u>
Operating income (loss)	1,063,892	1,028,474	1,370,803	17,741	1,388,544	360,070
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	7,888	7,888	58,386		58,386	50,498
Interest expense	(10,724)	(10,724)	(10,724)		(10,724)	
Principal Expenditure	(83,658)	(83,658)		(83,658)	(83,658)	
Capital Outlay - Software	(8,000)	(8,000)		(8,000)	(8,000)	
Capital Outlay - Improvements	(1,600,000)	(1,600,000)		(1,600,000)	(1,600,000)	
Gain (loss) on retirement of capital asset						
Total non-operating revenues (expenses)	<u>(1,694,494)</u>	<u>(1,694,494)</u>	<u>47,662</u>	<u>(1,691,658)</u>	<u>(1,643,996)</u>	<u>50,498</u>
Income (loss) before capital contributions	(630,602)	(666,020)	1,418,465	(1,673,917)	(255,452)	410,568
Capital contributions						
Changes in net assets	(630,602)	(666,020)	1,418,465	(1,673,917)	(255,452)	410,568
Net assets at beginning of year	1,430,452	1,430,452	1,430,452		1,430,452	
Net assets at end of year	<u>\$ 799,850</u>	<u>\$ 764,432</u>	<u>\$ 2,848,917</u>	<u>\$ (1,673,917)</u>	<u>\$ 1,175,000</u>	<u>\$ 410,568</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, 2006

Exhibit C-8

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
OPERATING REVENUES:						
Charges for sales and services:						
Building rental	\$ 153,684	\$ 153,684	\$ 108,757	\$	\$ 108,757	\$ (44,927)
Hangar rental	74,021	74,021	72,724		72,724	(1,297)
Terminal space rental	55,446	55,446	61,066		61,066	5,620
Land lease rental	390,712	390,712	486,010		486,010	95,298
Oil company receipts	48,476	48,476	62,212		62,212	13,736
Other	162,700	162,700	146,642		146,642	(16,058)
Total operating revenues	<u>885,039</u>	<u>885,039</u>	<u>937,411</u>		<u>937,411</u>	<u>52,372</u>
OPERATING EXPENSES:						
Personal services	378,574	326,883	333,392		333,392	(6,509)
Materials and supplies	93,884	131,795	130,358		130,358	1,437
Contractual services	74,764	85,368	84,031		84,031	1,337
Other charges & bad debt expense	121,321	122,771	143,402		143,402	(20,631)
Administrative service charge	41,000	41,000	41,000		41,000	-
Depreciation			394,849	(394,849)	-	-
Total operating expenses	<u>709,543</u>	<u>707,817</u>	<u>1,127,032</u>	<u>(394,849)</u>	<u>732,183</u>	<u>(24,366)</u>
Operating income (loss)	<u>175,496</u>	<u>177,222</u>	<u>(189,621)</u>	<u>394,849</u>	<u>205,228</u>	<u>28,006</u>
NON-OPERATING REVENUES						
(EXPENSES):						
Interest earned	7,000	7,000	17,758		17,758	10,758
Interest expense	(17,354)	(17,354)	(17,354)		(17,354)	-
Capital outlay - improvements	(120,000)	(130,286)		(130,286)	(130,286)	-
Principal expenditure	(53,276)	(45,876)		(53,276)	(53,276)	(7,400)
Total nonoperating revenues (expenses)	<u>(183,630)</u>	<u>(186,516)</u>	<u>404</u>	<u>(183,562)</u>	<u>(183,158)</u>	<u>3,358</u>
Income (loss) before capital contributions	(8,134)	(9,294)	(189,217)	211,287	22,070	31,364
Operating grants and contributions		-	2,680,324	(2,680,324)	-	-
Changes in net assets	(8,134)	(9,294)	2,491,107	(2,469,037)	22,070	31,364
Net assets at beginning of year	6,015,203	6,015,203	6,015,203		6,015,203	-
Net assets at end of year	<u>\$ 6,007,069</u>	<u>\$ 6,005,909</u>	<u>\$ 8,506,310</u>	<u>\$ (2,469,037)</u>	<u>\$ 6,037,273</u>	<u>\$ 31,364</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, 2006

Exhibit C-9

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>	<u>Budgetary Basis</u>	
OPERATING REVENUES:						
Charges for sales and services:	\$ 967,000	\$ 967,000	\$ 825,671	\$	\$ 825,671	\$ (141,329)
Other	4,200	4,200	1,152		1,152	(3,048)
Total operating revenues	<u>971,200</u>	<u>971,200</u>	<u>826,823</u>		<u>826,823</u>	<u>(144,377)</u>
OPERATING EXPENSES:						
Personal services	532,026	522,667	516,296		516,296	6,371
Materials and supplies	248,375	249,790	241,353		241,353	8,437
Contractual services	181,146	189,090	163,245		163,245	25,845
Other charges	36,813	36,813	34,556		34,556	2,257
Depreciation			82,029	(82,029)		
Total operating expenses	<u>998,360</u>	<u>998,360</u>	<u>1,037,479</u>	<u>(82,029)</u>	<u>955,450</u>	<u>42,910</u>
Operating income (loss)	<u>(27,160)</u>	<u>(27,160)</u>	<u>(210,656)</u>	<u>82,029</u>	<u>(128,627)</u>	<u>(101,467)</u>
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	200	200	3,338		3,338	3,138
Interest expense						
Capital outlay - improvements						
Principal expenditure						
Total nonoperating revenues (expenses)	<u>200</u>	<u>200</u>	<u>3,338</u>		<u>3,338</u>	<u>3,138</u>
Income (loss) before capital contributions	(26,960)	(26,960)	(207,318)	82,029	(125,289)	(98,329)
Operating transfers in	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>		<u>100,000</u>	
Changes in net assets	73,040	73,040	(107,318)	82,029	(25,289)	(98,329)
Net assets at beginning of year	<u>8,613,627</u>	<u>8,613,627</u>	<u>8,613,627</u>		<u>8,613,627</u>	
Net assets at end of year	<u>\$ 8,686,667</u>	<u>\$ 8,686,667</u>	<u>\$ 8,506,309</u>	<u>\$ 82,029</u>	<u>\$ 8,588,338</u>	<u>\$ (98,329)</u>

This page is intentionally left blank

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

Combining Statement of Net Assets

Internal Service Funds

September 30, 2006

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
ASSETS			
Current assets:			
Cash and temporary investments	\$ 91,936	\$	\$ 251,960
Accounts receivable, net	197,494		
Inventories	104,291		7,906
Prepays		182,595	
Total current assets	<u>393,721</u>	<u>182,595</u>	<u>259,866</u>
Non-current assets:			
Capital assets (net of depreciation)			
Buildings			743,648
Equipment and Furniture	162,717		132,391
Total non-current assets	<u>162,717</u>		<u>876,039</u>
Total assets	<u>\$ 556,438</u>	<u>\$ 182,595</u>	<u>\$ 1,135,905</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 141,461	\$ 76,156	\$ 60,397
Salaries payable	29,791	5,599	23,399
Due to other funds		138,647	
Long term debt - current portion		24,000	
Total current liabilities	<u>171,252</u>	<u>244,402</u>	<u>83,796</u>
Non-current liabilities:			
Long term debt - noncurrent portion	136,870	13,847	120,931
Total liabilities	<u>308,122</u>	<u>258,249</u>	<u>204,727</u>
NET ASSETS			
Invested in capital assets, net of related debt	162,717		876,039
Unrestricted	85,599	(75,654)	55,139
Total net assets	<u>\$ 248,316</u>	<u>\$ (75,654)</u>	<u>\$ 931,178</u>

Exhibit D-1

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 26,701	\$ 324,846	\$ 2,835,803 (1,920)	\$ 3,531,246 195,574 112,197 182,595
<u>26,701</u>	<u>324,846</u>	<u>2,833,883</u>	<u>4,021,612</u>
			743,648 295,108
			<u>1,038,756</u>
<u>\$ 26,701</u>	<u>\$ 324,846</u>	<u>\$ 2,833,883</u>	<u>\$ 5,060,368</u>
\$ 23,528 42	\$ 23,687	\$ 85,178	\$ 410,407 58,831 138,647 24,000
<u>23,570</u>	<u>23,687</u>	<u>85,178</u>	<u>631,885</u>
	311,943	397,132	980,723
<u>23,570</u>	<u>335,630</u>	<u>482,310</u>	<u>1,612,608</u>
			1,038,756
3,131	(10,784)	2,351,573	2,409,004
<u>\$ 3,131</u>	<u>\$ (10,784)</u>	<u>\$ 2,351,573</u>	<u>\$ 3,447,760</u>

CITY OF GALVESTON, TEXAS*Combining Statement of Revenues, Expenses and Changes in Fund Net Assets**Internal Service Funds**For the Year Ended September 30, 2006*

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
REVENUES			
Charges for services	\$ 3,758,121	\$ 1,738,872	\$ 1,823,820
Miscellaneous	30,516		
Total operating revenues	<u>3,788,637</u>	<u>1,738,872</u>	<u>1,823,820</u>
OPERATING EXPENSES			
Personal services	831,671	128,922	618,651
Contractual services	386,573	84,114	575,805
Other charges	288,373	169,197	42,193
Materials and supplies	2,296,117	2,756	405,827
Insurance policies in force		1,044,452	
Insurance claims and expenses		170,990	
Depreciation	25,849		61,535
Total operating expenses	<u>3,828,583</u>	<u>1,600,431</u>	<u>1,704,011</u>
Operating income (loss)	<u>(39,946)</u>	<u>138,441</u>	<u>119,809</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	2,200		4,129
Total non-operating revenue (expenses)	<u>2,200</u>		<u>4,129</u>
Change in net assets	(37,746)	138,441	123,938
Total net assets - beginning	<u>286,062</u>	<u>(214,095)</u>	<u>807,240</u>
Total net assets - ending	<u>\$ 248,316</u>	<u>\$ (75,654)</u>	<u>\$ 931,178</u>

Exhibit D-2

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 168,995	\$ 766,277	\$ 3,709,286	\$ 11,965,371
			30,516
<u>168,995</u>	<u>766,277</u>	<u>3,709,286</u>	<u>11,995,887</u>
123,341			1,702,585
33,332	68,192		1,148,016
5,074	94,537	292,571	891,945
7,295			2,711,995
		382,633	1,427,085
	400,294	2,543,997	3,115,281
			87,384
<u>169,042</u>	<u>563,023</u>	<u>3,219,201</u>	<u>11,084,291</u>
<u>(47)</u>	<u>203,254</u>	<u>490,085</u>	<u>911,596</u>
<u>48</u>	<u>1,051</u>	<u>117,901</u>	<u>125,329</u>
<u>48</u>	<u>1,051</u>	<u>117,901</u>	<u>125,329</u>
<u>1</u>	<u>204,305</u>	<u>607,986</u>	<u>1,036,925</u>
<u>3,130</u>	<u>(215,089)</u>	<u>1,743,587</u>	<u>2,410,835</u>
<u>\$ 3,131</u>	<u>\$ (10,784)</u>	<u>\$ 2,351,573</u>	<u>\$ 3,447,760</u>

CITY OF GALVESTON, TEXAS
Combining Statements of Cash Flows
Internal Service Funds
For the Fiscal Year Ended September 30, 2006

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Cash flows from operating activities:			
Cash received from customers	\$ 3,744,241	\$ 1,774,171	\$ 1,840,209
Cash payments to suppliers for goods and services	(3,043,830)	(1,771,450)	(1,012,010)
Cash payments to employees	(842,275)		(622,404)
Other operating revenue		(141,369)	
Net cash provided by (used for) operating activities	<u>(141,864)</u>	<u>(138,648)</u>	<u>205,795</u>
Cash flows from noncapital and related financing activities:			
Interfund transfers in and borrowings		138,648	
		<u>138,648</u>	
Cash flows from capital and related financing activities:			
Proceeds from sale of capital assets			
Payment for capital acquisitions	(16,884)		(114,300)
Principal paid on capital leases			
Interest paid on capital leases			
Net cash provided by (used for) capital and related financing activities	<u>(16,884)</u>		<u>(114,300)</u>
Cash flows from investing activities:			
Interest on investments	2,200		
	<u>2,200</u>		
Net increase (decrease) in cash and temporary investments	(156,548)		91,495
Cash and temporary investments, beginning of year	248,484		160,465
Cash and temporary investments, end of year	<u>\$ 91,936</u>	<u>\$</u>	<u>\$ 251,960</u>
Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities			
Operating income (loss)	\$ (39,946)	\$ 138,441	\$ 119,809
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Depreciation expense	25,849		61,535
Decrease (increase) in accounts receivable	(50,287)	35,416	16,389
Decrease (increase) in due to other funds	5,887		
Decrease (increase) in inventory and prepaid items	(3,839)	824	634
Increase (decrease) in salaries payable	(3,779)	(5,807)	(9,663)
Increase (decrease) in accounts payable	(68,924)	(300,882)	11,181
Increase (decrease) in compensated absences	7,839	(6,640)	5,910
Increase (decrease) in claims payable	(14,664)		
Total adjustments	<u>(101,918)</u>	<u>(277,089)</u>	<u>85,986</u>
Net cash provided by (used for) operating activities	<u>\$ (141,864)</u>	<u>\$ (138,648)</u>	<u>\$ 205,795</u>

Schedule of Noncash Investing, Capital and Financing Activities
Assets acquired through capital lease issuance

Exhibit D-3

Workers Compensation Insurance	Health and Life Insurance	Total
\$ 990,669 (666,874)	\$ 3,708,953 (3,281,093)	\$ 12,227,191 (9,820,958) (1,604,635) (138,208)
<u>323,795</u>	<u>427,860</u>	<u>663,390</u>
	352,021	490,669
	<u>352,021</u>	<u>490,669</u>
		-
		(131,184)
		-
		-
		<u>(131,184)</u>
<u>1,051</u>	<u>118,567</u>	<u>121,865</u>
324,846	898,448	1,144,740
	<u>1,937,355</u>	<u>2,386,506</u>
<u>\$ 324,846</u>	<u>\$ 2,835,803</u>	<u>\$ 3,531,246</u>
<u>\$ 203,254</u>	<u>\$ 490,085</u>	<u>\$ 911,596</u>
		87,384
224,392	16,374	245,397
		5,887
69,634		67,253
		(30,160)
(173,485)	(96,213)	(634,055)
		7,138
	17,614	2,950
<u>120,541</u>	<u>(62,225)</u>	<u>(248,206)</u>
<u>\$ 323,795</u>	<u>\$ 427,860</u>	<u>\$ 663,390</u>

This page is intentionally left blank

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, 2005.

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

CITY OF GALVESTON, TEXAS

Statement of Fiduciary Net Assets

Fiduciary Funds

December 31, 2005

Exhibit E-1

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	City of Galveston Firemen's Relief and Retirement Fund	Total
ASSETS				
Cash and cash equivalents	\$ 822,762	\$ 1,317,288	\$ 1,322,782	\$ 3,462,832
Receivables:				
Interest and Dividends	107,699	24,778	37,115	169,592
Loans to participants	219,673			219,673
From employer		216,411		216,411
Total receivables	<u>327,372</u>	<u>241,189</u>	<u>37,115</u>	<u>605,676</u>
Investments:				
U.S. Government Agencies	2,976,784			2,976,784
Corporate and foreign bonds	5,457,881			5,457,881
Common Equity Securities	13,349,621	22,071,892	17,000,036	52,421,549
Mutual Funds	1,196,580	10,369,758	4,701,394	16,267,732
Fixed income funds			8,227,267	8,227,267
Total investments	<u>22,980,866</u>	<u>32,441,650</u>	<u>29,928,697</u>	<u>85,351,213</u>
Prepaid benefits	<u>203,279</u>			<u>203,279</u>
Total assets	<u>\$ 24,334,279</u>	<u>\$ 34,000,127</u>	<u>\$ 31,288,594</u>	<u>\$ 89,623,000</u>
LIABILITIES				
Accounts payable	\$ 36,482	\$ 69,082	\$ 58,453	\$ 164,017
NET ASSETS				
Held in trust for benefits and other purposes	<u>\$ 24,297,797</u>	<u>\$ 33,931,045</u>	<u>\$ 31,230,141</u>	<u>\$ 89,458,983</u>

CITY OF GALVESTON, TEXAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended December 31, 2005

Exhibit E-2

	<u>City of Galveston Employee's Retirement Plan for Police</u>	<u>City of Galveston Employee's Retirement Plan for Employees</u>	<u>City of Galveston Firemen's Relief and Retirement Fund</u>	<u>Total</u>
ADDITIONS				
Contributions:				
Employer	\$ 570,724	\$ 955,662	\$ 804,587	\$ 2,330,973
Plan Members	790,198	932,312	693,206	2,415,716
Total contributions	<u>1,360,922</u>	<u>1,887,974</u>	<u>1,497,793</u>	<u>4,746,689</u>
Investment earnings:				
Net increase in fair value of investments	331,607	1,011,490	1,406,060	2,749,157
Interest	445,770	455,067	532,184	1,433,021
Dividends	309,367	560,215	253,458	1,123,040
Investment activity expense	<u>(194,997)</u>	<u>(241,890)</u>	<u>(160,431)</u>	<u>(597,318)</u>
Total net investment earnings	<u>891,747</u>	<u>1,784,882</u>	<u>2,031,271</u>	<u>4,707,900</u>
Other income	<u> </u>	<u>337</u>	<u> </u>	<u>337</u>
Total additions	<u>2,252,669</u>	<u>3,673,193</u>	<u>3,529,064</u>	<u>9,454,926</u>
Total investments				
DEDUCTIONS				
Benefits	2,730,526	2,965,019	1,498,340	7,193,885
Administrative	<u>59,823</u>	<u>77,623</u>	<u>55,389</u>	<u>192,835</u>
Total deductions	2,790,349	3,042,642	1,553,729	7,386,720
Change in net assets	(537,680)	630,551	1,975,335	2,068,206
Net assets - beginning	24,835,477	33,300,494	29,254,806	87,390,777
Net assets - ending	<u>\$ 24,297,797</u>	<u>\$ 33,931,045</u>	<u>\$ 31,230,141</u>	<u>\$ 89,458,983</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Exhibit E-3

	September 30, 2005	Additions	Deletions	September 30, 2006
ASSETS				
Cash and temporary investments	\$ 259,569	\$ 565,052	(515,540)	\$ 309,081
Accounts receivable	66	9	(75)	
Total assets	<u>\$ 259,635</u>	<u>\$ 565,061</u>	<u>\$ (515,615)</u>	<u>\$ 309,081</u>
LIABILITIES				
Accounts Payable and other current liabilities	14,337	105,086	(101,054)	18,369
Due to other Funds	(56,211)			(56,211)
Refunds payable and others	288,568	488,349	(429,994)	346,923
Total liabilities	<u>\$ 246,694</u>	<u>\$ 593,435</u>	<u>\$ (531,048)</u>	<u>\$ 309,081</u>

UNAUDITED STATISTICAL SECTION

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

Exhibit I

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 14,956	\$ 23,872	\$ 29,356	\$ 25,631
Restricted	4,944	4,921	4,894	10,791
Unrestricted	9,167	7,845	8,012	11,081
Total governmental activities net assets	<u>\$ 29,067</u>	<u>\$ 36,638</u>	<u>\$ 42,262</u>	<u>\$ 47,504</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 40,480	\$ 64,284	\$ 70,442	\$ 71,492
Restricted	8,495	6,367	3,301	9,502
Unrestricted	17,573	2,123	3,069	5,817
Total business-type activities net assets	<u>\$ 66,548</u>	<u>\$ 72,774</u>	<u>\$ 76,812</u>	<u>\$ 86,811</u>
Primary government				
Invested in capital assets, net of related debt	\$ 55,436	\$ 88,156	\$ 99,798	\$ 97,124
Restricted	13,439	11,288	8,195	20,293
Unrestricted	26,740	9,968	11,081	16,898
Total primary government net assets	<u>\$ 95,615</u>	<u>\$ 109,412</u>	<u>\$ 119,074</u>	<u>\$ 134,314</u>

* The City of Galveston, Texas implemented GASB Statement No. 34 in 2003.

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

Exhibit II
Page 1 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses				
Governmental activities:				
General government	\$ 3,961,298	\$ 3,625,563	\$ 4,662,321	\$ 4,924,411
Public safety	20,711,789	20,638,059	24,110,503	24,875,593
Public works	7,113,207	4,997,292	4,331,625	5,112,987
Culture and recreation	3,800,062	1,419,056	5,210,558	7,025,024
Planning and Community Dev.	4,202,456	4,224,986	2,374,787	4,202,068
Transportation system	6,052,419	6,579,590	4,031,799	4,268,665
Interest on long-term debt	3,236,332	3,208,444	2,866,391	3,649,351
Total governmental activities expenses	<u>49,077,563</u>	<u>44,692,990</u>	<u>47,587,984</u>	<u>54,058,099</u>
Business-type activities:				
Waterworks	9,653,918	10,012,254	10,956,372	11,849,441
Sewer system	7,444,842	7,248,583	7,920,787	9,228,575
Sanitation	2,987,519	3,076,830	3,375,991	3,541,264
Drainage	760,870	637,251	1,085,200	1,342,450
Airport	843,172	934,268	932,435	1,128,028
Golf Course	1,130,419	1,091,943	1,010,417	1,028,024
Total business-type activities expenses	<u>22,820,740</u>	<u>23,001,129</u>	<u>25,281,202</u>	<u>28,117,782</u>
Total primary government expenses	<u>\$ 71,898,303</u>	<u>\$ 67,694,119</u>	<u>\$ 72,869,186</u>	<u>\$ 82,175,881</u>
Program Revenue				
Governmental activities:				
Charges for services:				
General government	\$ 1,254,438	\$ 1,056,000	\$ 1,253,683	\$ 1,322,167
Public safety	2,548,336	3,033,772	2,451,449	2,738,636
Public works	44,297	39,393	25,752	19,358
Culture and recreation	5,326	82,883	39,822	6,082
Planning and Community Dev.	1,147,082	2,207,421	2,272,918	2,231,132
Transportation system	629,998	643,129	521,983	698,016
Operating grants and contributions				
Public safety	588,715	408,163	1,090,530	955,858
Culture and recreation	38,318	18,883	95,268	83,220
Planning and Community Dev.	2,983,749	2,086,032	1,558,601	2,199,293
Transportation system	2,683,668	2,484,876	2,294,933	2,396,257
Culture and recreation			115,571	
Transportation system	1,928,318	3,426,381	2,440,149	1,574,613
Total governmental activities program revenues	<u>13,852,245</u>	<u>15,486,933</u>	<u>14,160,659</u>	<u>14,224,632</u>
Business-type activities:				
Charges for services:				
Waterworks	9,692,615	10,104,912	11,229,501	14,173,108
Sewer System	7,446,747	8,017,907	9,409,161	11,394,543
Sanitation	3,552,205	3,606,316	3,932,120	4,239,729
Drainage	748,821	779,724	1,816,049	2,710,533
Airport	831,666	853,315	874,962	937,411
Golf Course	946,211	927,859	912,291	826,823
Operating grants and contributions				
Capital grants and contributions	1,361,755	5,481,578	1,177,667	2,680,324
Total business-type activities program revenues	<u>24,580,020</u>	<u>29,771,611</u>	<u>29,351,751</u>	<u>36,962,471</u>
Total primary government program revenues	<u>\$ 38,432,265</u>	<u>\$ 45,258,544</u>	<u>\$ 43,512,410</u>	<u>\$ 51,187,103</u>
Net (Expense)/Revenue				
Governmental activities	\$(35,225,318)	\$(29,206,057)	\$(33,427,325)	\$(39,833,467)
Business-type activities	1,759,280	6,770,482	4,070,549	8,844,689
Total primary government net expense	<u>\$(33,466,038)</u>	<u>\$(22,435,575)</u>	<u>\$(29,356,776)</u>	<u>\$(30,988,778)</u>

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

Exhibit II
Page 2 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes, levied for general purposes	\$ 12,061,238	\$ 13,215,080	\$ 13,838,149	\$ 15,480,403
Sales and use taxes	13,339,761	13,689,462	14,424,663	16,849,450
Hotel Occupancy Taxes	4,979,530	2,965,811	3,418,086	4,122,104
Franchise taxes	4,824,484	4,841,443	4,879,699	5,148,416
Payments in lieu of taxes	1,155,303	567,848	596,461	655,190
Net loss on sale of asset		(72,188)		
Unrestricted investment earnings	732,648		753,269	1,649,987
Miscellaneous	1,196,276	420,135	641,345	669,107
Capital contributions		549,675		
Transfers	(150,000)	600,000	500,000	500,000
Total governmental activities	<u>38,139,240</u>	<u>36,777,266</u>	<u>39,051,672</u>	<u>45,074,657</u>
Business-type activities:				
Net loss on sale of asset		(124,776)	19,900	(270,826)
Unrestricted investment earnings	350,234	179,456	447,048	1,755,082
Miscellaneous	(56,921)	1,797		169,722
Transfers	150,000	(600,000)	(500,000)	(500,000)
Total business-type activities	<u>443,313</u>	<u>(543,523)</u>	<u>(33,052)</u>	<u>1,153,978</u>
Total primary government	<u>\$ 38,582,553</u>	<u>\$ 36,233,743</u>	<u>\$ 39,018,620</u>	<u>\$ 46,228,635</u>
Change in Net Assets				
Governmental activities	\$ 2,913,922	\$ 7,571,209	\$ 5,624,347	\$ 5,241,190
Business-type activities	2,202,593	6,226,959	4,037,497	9,998,667
Total primary government	<u>\$ 5,116,515</u>	<u>\$ 13,798,168</u>	<u>\$ 9,661,844</u>	<u>\$ 15,239,857</u>

* The City of Galveston, Texas implemented GASB Statement No. 34 in 2003.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
General fund				
Reserved	\$ 765,895	\$ 812,822	\$ 1,006,407	\$ 1,129,742
Unreserved	396,789	1,190,147	1,665,366	2,188,846
Total general fund	<u>\$ 1,162,684</u>	<u>\$ 2,002,969</u>	<u>\$ 2,671,773</u>	<u>\$ 3,318,588</u>
All other governmental funds				
Reserved	\$ 79,622,182	\$ 89,008,574	\$ 98,734,119	\$ 102,049,307
Unreserved		2,426,603	3,303,283	4,278,228
Unreserved, report in:				
Capital project funds				
Special Revenue funds	452,474	1,590,974	1,098,282	269,991
Total other governmental funds	<u>\$ 80,074,656</u>	<u>\$ 93,026,151</u>	<u>\$ 103,135,684</u>	<u>\$ 106,597,526</u>

Exhibit III

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 1,129,542	\$ 1,234,722	\$ 592,523	\$ 480,561	\$ 593,765	\$ 334,920
2,188,846	4,683,830	6,064,743	7,293,827	8,777,795	11,765,355
<u>\$ 3,318,388</u>	<u>\$ 5,918,552</u>	<u>\$ 6,657,266</u>	<u>\$ 7,774,388</u>	<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>
\$ 102,052,636	\$ 94,337,975	\$ 34,970,343	\$ 7,463,893	\$ 13,577,627	\$ 20,391,385
4,278,228	47,988,259	194,337	5,875,754		142,402
					1,416
<u>266,862</u>	<u>2,197,340</u>	<u>2,337,869</u>	<u>2,347,900</u>	<u>1,812,875</u>	<u>3,401,893</u>
<u>\$ 106,597,726</u>	<u>\$ 144,523,574</u>	<u>\$ 37,502,549</u>	<u>\$ 15,687,547</u>	<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues				
Taxes:				
Property taxes	\$ 9,289,272	\$ 9,671,598	\$ 9,313,827	\$ 9,863,934
Sales and use taxes	7,559,341	7,935,946	8,592,803	9,205,783
Franchise taxes	3,845,031	3,772,582	4,361,024	4,518,987
Hotel occupancy				
Fines and forfeitures	1,347,405	1,591,543	1,682,468	1,757,325
Licenses and permits	424,449	459,177	398,011	462,939
Intergovernmental	3,046,876	4,070,571	7,031,295	5,051,429
Charges for services	1,696,991	1,790,317	1,628,048	1,797,276
Investment earnings	655,797	635,976	547,181	478,547
Miscellaneous	3,865,973	3,540,202	4,271,553	3,982,953
Payments in lieu of taxes				
Total Revenues	<u>31,731,135</u>	<u>33,467,912</u>	<u>37,826,210</u>	<u>37,119,173</u>
Expenditures				
General government	2,236,073	2,368,826	3,164,359	3,162,068
Public safety	11,517,481	12,474,926	14,155,264	16,130,990
Public works	1,869,292	2,416,306	2,571,315	2,547,881
Culture and recreation	1,140,768	974,481	1,144,718	1,099,511
Planning and Community Dev	1,865,969	3,007,129	2,920,335	1,572,758
Transportation	573,299	655,443	3,458,723	2,585,280
Other	6,836,333	7,125,888	8,691,395	6,131,419
Capital outlay	4,227,316	2,804,957	1,384,794	2,140,833
Debt service:				
Principal	1,414,968	1,468,620	1,434,424	1,322,151
Interest and other charges	1,192,389	1,169,147	1,214,677	1,290,517
Total expenditures	<u>32,873,888</u>	<u>34,465,723</u>	<u>40,140,004</u>	<u>37,983,408</u>
Excess of revenues over (under) expenditures	(1,142,753)	(997,811)	(2,313,794)	(864,235)
Other Financing Sources (Uses)				
Transfers in	2,128,971	1,365,804	1,371,402	2,363,194
Transfers out	(1,837,352)	(1,365,804)	(1,371,402)	(2,450,407)
Bonds issued				
Payments to refunded bond escrow agent				
Capital leases		511,726	1,572,343	231,455
Sale of capital assets		555,000		
Total other financing sources (uses)	<u>291,619</u>	<u>1,066,726</u>	<u>1,572,343</u>	<u>144,242</u>
Net change in fund balances	<u>\$ (851,134)</u>	<u>\$ 68,915</u>	<u>\$ (741,451)</u>	<u>\$ (719,993)</u>
Debt service as a percentage of noncapital expenditures	15.6%	14.5%	12.6%	11.4%

Exhibit IV

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
\$ 10,636,480	\$ 11,660,813	\$ 12,147,194	\$ 13,186,960	\$ 13,883,642	\$ 15,570,356
12,802,191	12,757,466	13,339,761	13,689,462	14,424,663	16,849,450
5,472,040	4,680,348	4,824,484	4,841,443	4,879,699	5,148,416
					4,122,104
1,665,389	1,919,173	1,835,900	1,764,861	2,330,349	1,828,036
461,130	970,459	882,048	1,179,514	1,313,886	1,577,415
6,456,727	6,700,295	8,212,693	8,421,167	7,295,013	7,185,304
2,920,992	2,615,041	2,692,018	2,841,201	3,432,738	3,533,981
835,654	654,674	716,787	395,202	682,679	1,523,724
1,442,479	1,696,143	7,433,637	4,841,764	4,737,887	791,144
					655,190
<u>42,693,082</u>	<u>43,654,412</u>	<u>52,084,522</u>	<u>51,161,574</u>	<u>52,980,556</u>	<u>58,785,120</u>
4,499,673	4,116,076	3,988,181	4,213,164	4,624,844	5,005,095
19,856,393	20,249,092	19,784,935	20,297,811	22,197,995	23,518,717
2,822,852	2,725,219	2,807,218	2,777,669	2,732,340	3,152,531
2,244,369	2,498,976	3,102,454	3,363,044	3,566,928	6,071,320
2,376,734	4,259,306	4,353,386	4,394,758	3,766,931	3,762,075
4,181,645	3,780,732	3,870,762	3,703,654	4,102,026	4,355,966
781,368	776,488				
2,461,694	4,457,737	21,006,276	28,812,375	6,489,761	3,473,537
1,150,332	1,415,252	2,334,328	2,403,386	2,336,783	2,638,390
1,223,679	1,158,490	3,234,649	3,145,796	2,977,186	3,321,250
<u>41,598,739</u>	<u>45,437,368</u>	<u>64,482,189</u>	<u>73,111,657</u>	<u>52,794,794</u>	<u>55,298,881</u>
1,094,343	(1,782,956)	(12,397,667)	(21,950,083)	185,762	3,486,239
1,961,125	5,043,951		533,036	600,000	4,023,293
(1,961,125)	(5,043,951)	(150,000)		(100,000)	(3,523,293)
14,915,677	42,340,085				9,840,254
(1,098,590)	(9,610,618)				(2,669,235)
		195,785	95,720	349,786	
			623,447	264,629	118,052
<u>13,817,087</u>	<u>32,729,467</u>	<u>45,785</u>	<u>1,252,203</u>	<u>1,114,415</u>	<u>7,789,071</u>
<u>\$ 14,911,430</u>	<u>\$ 30,946,511</u>	<u>\$ (12,351,882)</u>	<u>\$ (20,697,880)</u>	<u>\$ 1,300,177</u>	<u>\$ 11,275,310</u>
8.1%	8.7%	18.8%	18.1%	16.0%	15.8%

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

Fiscal Year	Tax Year	Real Property		Agriculture, Minerals and Unimproved Land	Less Tax Exempt Real Property	Total Taxable Assessed Value
		Residential Property	Commercial Property			
1997	1996	*	*	*	*	*
1998	1997	*	*	*	*	*
1999	1998	*	*	*	*	*
2000	1999	*	*	*	*	*
2001	2000	*	*	*	*	*
2002	2001	*	*	*	*	*
2003	2002	*	*	*	*	*
2004	2003	\$ 1,298,374,213	\$ 2,129,572,561	\$ 296,743,081	\$ 1,288,394,811	\$ 2,436,295,044
2005	2004	1,417,277,656	2,170,011,241	350,374,967	1,356,161,582	\$ 2,581,502,282
2006	2005	1,672,452,438	2,820,883,699	377,360,369	1,962,444,790	\$ 2,908,251,716

* Information not available

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

Source: Galveston County Tax Office

Exhibit VI

<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
*	*
*	*
*	*
*	*
*	*
*	*
*	*
\$ 3,724,887,715	65.41%
3,937,872,354	65.56%
4,870,900,236	59.71%

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

Fiscal Year	Tax Year	City of Galveston					Galveston I.S.D.	Junior College
		General Fund (1)	Pension Fund	Library Fund	Debt Service Fund	Total		
1997	1996	\$ 0.24720	\$ 0.18850	\$ 0.05000	\$ 0.06150	\$ 0.54720	\$ 1.50000	\$ 0.17750
1998	1997	0.24720	0.18850	0.05000	0.06150	0.54720	1.50000	0.18780
1999	1998	0.42550		0.05000	0.07390	0.54940	1.52000	0.18780
2000	1999	0.42710		0.05000	0.07280	0.54990	1.52000	0.19780
2001	2000	0.43140		0.05000	0.06720	0.54860	1.52000	0.19780
2002	2001	0.44210		0.05000	0.06380	0.55590	1.52000	0.19520
2003	2002	0.44210		0.05000	0.06280	0.55490	1.57000	0.19520
2004	2003	0.44240		0.05000	0.04930	0.54170	1.56000	0.19520
2005	2004	0.43580		0.05000	0.05590	0.54170	1.71000	0.19520
2006	2005	0.42280		0.05000	0.06890	0.54170	1.71000	0.19180

Exhibit VII

<u>Navigation District 1</u>	<u>Galveston County</u>	<u>Total millage</u>
\$ 0.03420	\$ 0.50750	\$ 2.76640
0.03960	0.52000	2.79460
0.04000	0.52000	2.81720
0.04000	0.54500	2.85270
0.04060	0.54500	2.85200
0.04060	0.56540	2.87710
0.04200	0.59390	2.95600
0.04200	0.62760	2.96650
0.04090	0.62795	3.11575
0.03800	0.64000	3.12150

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

VIII

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	% of Total Assessed Valuation	Taxable Assessed Value	Rank	% of Total Assessed Valuation
Centerpoint Energy Inc.	\$ 43,773,370	1	0.84%			
Fertitta Hospitality, Incorporated	26,032,720	2	0.50%	\$ 9,528,640	4	0.59%
Southwest Bell Telephone Co	15,812,780	3	0.30%			
American National Insurance Company	13,725,270	4	0.26%	11,703,630	1	0.72%
Harbor Properties	13,703,910	5	0.26%			
MBP Corporation	11,363,090	6	0.22%	10,316,080	2	0.64%
TFT Galveston Portfolio LTD	10,246,480	7	0.20%			
Eighteen Seventy Strand Corporation	9,729,520	8	0.19%			
Wal-mart Property, Incorporated	9,632,390	9	0.18%	8,240,710	5	0.51%
Galveston Venture LTD	9,290,460	10	0.18%			
Wal-mart Stores, Incorporated				9,731,580	3	0.60%
Sealy Smith Foundation				5,555,840	6	0.34%
Weingarten Realty, Incorporated				5,224,920	7	0.32%
Sealy & Smith Foundation				4,622,430	8	0.29%
Evergreen Helicopters, Incorporated				4,229,615	9	0.26%
Waverly Holdings Company				4,086,070	10	0.25%
	163,309,990		3.1%	73,239,515		4.52%
Total Assessed Valuation	\$ 163,309,990		3.1%	\$ 73,239,515		4.52%

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

Exhibit IX

Fiscal Year	Tax Year	Tax Rate (A)	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
				Amount	Percentage of Levy	Amount	Amount	Percentage of Levy
1996	1995	\$ 0.54690	\$ 8,931,302	\$ 8,515,541	95.3%	\$ 379,063	\$ 8,894,604	99.6%
1997	1996	0.54720	9,211,093	8,877,425	96.4%	298,160	9,175,585	99.6%
1998	1997	0.54720	9,496,924	9,225,231	97.1%	230,514	9,455,745	99.6%
1999	1998	0.54940	9,583,462	9,169,794	95.7%	376,972	9,546,766	99.6%
2000	1999	0.54990	9,652,260	9,450,127	97.9%	159,154	9,609,281	99.6%
2001	2000	0.54860	10,627,198	10,233,447	96.3%	344,237	10,577,684	99.5%
2002	2001	0.55590	11,798,824	11,214,542	95.0%	520,060	11,734,602	99.5%
2003	2002	0.55490	12,227,748	11,707,895	95.7%	435,003	12,142,898	99.3%
2004	2003	0.54170	13,168,877	12,608,244	95.7%	447,609	13,055,853	99.1%
2005	2004	0.54170	13,908,839	13,142,435	94.5%	547,588	13,690,023	98.4%
2006	2005	0.54170	15,753,999	15,296,589	97.1%	-	15,296,589	97.1%

Source: Tax department records of the City.

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

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

Fiscal Year	Governmental Activities					Business-Type Activities			
	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other	Revenue Bonds	Capital Leases	Certificates of Obligation	Other
1997	\$ 4,874	\$ 14,220	\$ 341	\$ 319	\$ 5,716	\$ 8,622		\$ 6,240	\$ 30,855
1998	4,254	13,610	576	186	6,214	7,567		5,750	48,242
1999	7,098	12,975	1,803		6,641	6,447		5,255	46,721
2000	6,651	12,310	1,393		7,232	15,364		4,655	46,360
2001	18,702	11,615	2,634		6,924	56,244		4,025	48,713
2002	18,334	43,170	3,073		6,165	53,007	94	3,355	46,565
2003	17,984	42,075	2,449		5,998	60,569		3,940	46,736
2004	17,599	40,910	1,559	19,324	6,268	75,215	594	3,850	45,285
2005	17,184	39,670	1,072	19,324	7,754	50,860	627	2,870	63,631
2006	23,733	38,360	608	19,324	10,532	15,564	697	725	55,138

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

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

Other Columns consist of contract and notes payable, accrued compensated absences, and deferred bond issuance cost. Revenue and Special Obligations for Discretely Presented Component Units are included in this schedule.

Exhibit X

Total Primary Government	Percentage of Personal Income	Percentage of Actual Taxable value of Property	Per Capita *
\$ 71,187	9%	7.23%	\$ 897
86,399	11%	5.96%	739
86,940	11%	5.92%	735
93,965	13%	4.91%	609
148,857	15%	2.16%	383
173,763	17%	1.87%	331
179,751	17%	1.81%	322
210,604	20%	1.55%	275
202,992	20%	1.61%	285
164,681	16%	1.96%	348

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

Exhibit XI

<u>Fiscal Year</u>	<u>Gross Bonded Debt ¹</u>	<u>Less Amounts Available in Debt Service Fund and Debt Payable from Enterprise Revenues</u>	<u>Total</u>	<u>Percentage of Personal Income</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
1997	\$ 6,758,861	\$ 1,918,357	\$ 4,840,504	1%	0.26%	82
1998	5,655,241	1,744,338	3,910,903	0%	0.20%	61
1999	4,595,817	1,545,189	3,050,628	0%	0.15%	48
2000	7,100,808	1,196,296	5,904,512	1%	0.29%	92
2001	18,871,931 ²	1,428,121	17,443,810	2%	0.90%	305
2002	18,334,425	1,528,664	16,805,761	2%	0.78%	294
2003	17,983,514	2,737,460	15,246,054	1%	0.69%	266
2004	17,599,221	2,580,396	15,018,825	1%	0.60%	262
2005	17,184,352	2,807,277	14,377,075	1%	0.59%	246
2006	23,733,322	3,467,805	20,265,517	2%	0.70%	354

1. Includes all long term general obligation debt

2. Includes \$3,097,759 accretion

CITY OF GALVESTON, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL
ACTIVITIES DEBT
As of September 30, 2006

Exhibit XII

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Estimated Debt Applicable to City</u>
City of Galveston	\$ 83,565,463	88.30%	\$ 73,788,304
Galveston Independent School District	\$ 191,128,422	21.67%	\$ 41,413,016
Galveston County	\$ 4,005,000	100.00%	\$ 4,005,000
Total Net Overlapping Debt			<u>119,206,320</u>
			<u>23,733,322</u>
Total Direct and Overlapping Net Debt			<u><u>142,939,642</u></u>
Ratio of total direct and overlapping net debt to 2005 assessed valuation			<u><u>4.91%</u></u>
Direct and overlapping net debt per capita			<u><u>\$ 2,497</u></u>

Source - Texas Municipal Advisory Council

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

Exhibit XIII

Fiscal Year	Population ¹	Personal Income ¹	Per Capita Personal Income ¹	Median Age ¹	Education Level in Years of Formal Schooling ²	School Enrollment ²	Unemployment Rate ³
1997	63,859	\$ 791,787,741	\$ 12,399	32.5	12.0	10,034	10.5%
1998	63,859	791,787,741	12,399	32.5	12.0	10,855	8.6%
1999	63,859	791,787,741	12,399	32.5	12.0	9,800	8.5%
2000	57,247	709,805,553	12,399	35.5	12.0	9,266	7.7%
2001	57,013	1,013,063,997	17,769	35.5	12.0	9,005	7.8%
2002	57,601	1,023,512,169	17,769	35.5	12.0	9,191	9.5%
2003	57,905	1,028,913,945	17,769	35.5	12.0	9,619	10.6%
2004	57,905	1,028,913,945	17,769	35.5	12.0	9,841	9.9%
2005	57,905	1,028,913,945	17,769	35.5	12.0	9,149	6.0%
2006	57,247	1,017,221,943	17,769	35.5	12.0	9,200	5.5%

Data Sources:

- 1 - United States Census Bureau, 2000 Census
- 2 - Galveston Independent School District
- 3 - Texas Workforce Commission (Data for Galveston County)

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

CITY OF GALVESTON, TEXAS
PRINCIPAL EMPLOYERS
Current Year and One Year Ago

Exhibit XIV

Employer	2006		2005	
	Employees	Rank	Employees	Rank
University of Texas Medical Branch	12,318	1	14,000	1
American National Insurance Company	1,509	2	1,539	2
Galveston Independent School District	1,286	3	1,271	3
Landry's Restaurants	1,245	4	1,010	4
Moody Gardens	1,077	5	1,000	5
City of Galveston	845	6	828	7
Fertitta Hospitality	687	7	535	9
Galveston College	543	8	543	8
County of Galveston	901	9	1,068	6
Texas A&M University at Galveston	400	10	350	11
U.S. Army Corps of Engineers	390	11	390	10
Total	21,201		22,534	

Source: Galveston Chamber of Commerce

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

Function	1997	1998	1999
General government			
City Secretary	3.00	3.00	3.00
Municipal Court	15.00	13.00	13.00
City Manager	3.00	3.00	3.00
City Auditor	2.00	2.00	1.00
Finance	11.00	18.00	18.50
Legal	3.00	3.00	4.00
Human Resources	1.50	3.00	3.00
Police	194.00	195.00	196.50
Fire	103.00	104.00	103.00
Emergency Management	2.00	1.00	1.00
Streets & Traffic	37.00	37.00	37.00
Parks	29.00	26.00	27.00
Planning & Community Development	26.00	28.50	28.00
Total General Fund	429.50	436.50	438.00
Pensions	2.00	2.00	
Waterworks	69.00	67.00	66.00
Sewer System	77.00	75.00	74.00
Drainage Utility	-		
Municipal Golf Course	18.00	18.00	18.00
Sanitation	48.00	48.00	44.00
Municipal Airport	10.00	9.00	9.00
Central Service	10.00	8.00	5.00
Central Garage	30.00	27.00	26.00
Municipal Insurance	4.50	2.00	2.00
Construction Management	-		
Island Transit			
Total Other Funds	268.50	256.00	244.00
Total Full Time Equivalent Personnel	698.00	692.50	682.00

Full-time Equivalent Employees as of September 30,

2000	2001	2002	2003	2004	2005	2006
3.00	3.00	3.00	3.00	3.00	3.00	3.00
14.00	13.00	13.00	12.00	12.00	12.00	13.00
5.00	5.00	4.00	4.00	4.00	4.00	4.00
1.00	1.00	-	-	-		
16.00	16.00	17.00	16.00	17.00	17.00	16.00
4.00	4.00	3.00	4.00	4.00	5.00	6.00
4.00	3.00	3.00	3.00	4.00	4.00	4.00
200.50	207.00	208.00	211.00	218.00	216.00	219.00
103.00	103.00	103.00	106.00	113.00	123.00	127.00
1.50	1.00	1.00	1.00	1.00	2.00	2.00
37.00	31.50	30.50	40.00	49.00	50.00	50.00
27.00	28.00	29.00	30.00	34.00	36.00	51.00
30.50	21.00	18.75	22.00	25.00	25.00	33.00
446.50	436.50	433.25	452.00	484.00	497.00	528.00
72.50	71.37	68.50	49.00	45.00	43.00	39.00
75.50	75.38	75.50	84.00	86.00	80.00	73.00
		13.00	22.00	25.00	25.00	23.00
18.00	17.00	18.00	18.00	18.00	12.00	12.00
44.00	44.00	44.00	37.00	46.00	57.00	55.00
9.00	9.00	9.00	9.00	9.00	9.00	9.00
6.75	12.75	12.50	12.00	11.00	11.00	11.00
25.75	25.75	23.75	23.00	22.00	22.00	22.00
2.00	2.00	3.00	3.00	3.00	2.00	2.00
	64.00	64.50	56.00	52.00	6.00	6.00
					64.00	65.00
253.50	321.25	331.75	313.00	317.00	331.00	317.00
700.00	757.75	765.00	765.00	801.00	828.00	845.00

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

Function	1997	1998	1999
Police			
Physical arrests	6,833	5,798	8,716
Parking violations	59,018	52,500	57,659
Traffic violations	16,075	20,827	49,554
Fire			
Number of calls	3,738	6,100	6,071
Number of inspections	1,162	1,128	1,265
Water			
Number of Service connections	20,429	20,116	20,698
Daily Average consumption (gallons)	13,899,445	16,488,160	17,231,172
Sewer			
Average daily flow (gallons)	9,880,050	20,251,200	8,749,300
Max. daily capacity of plants (gallons)	14,500,000	23,516,000	14,155,000

Source: Various City departments.

Fiscal Year						
2000	2001	2002	2003	2004	2005	2006
8,716	8,542	10,316	9,069	9,094	9,094	17,845
57,659	64,428	60,600	57,431	47,116	47,116	38,822
49,554	42,733	42,930	45,450	43,435	43,435	21,084
6,073	7,219	7,034	7,276	7,657	7,657	7,299
883	651	614	531	1,154	1,154	1,654
22,000	22,000	22,000	22,000	22,000	22,000	2,200
15,000,000	15,520,101	17,192,000	17,192,000	13,648,765	13,648,765	13,648,765
10,000,000	10,000,000	10,000,000	10,000,000	10,215,000	10,215,000	10,215,000
14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000

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

Function	1997	1998	1999
Public safety			
Police			
Stations	4	4	4
Patrol units	42	41	37
Police Officers	159	162	161
Fire			
Fire stations	6	6	6
Firefighters	97	96	99
Highways and streets			
Streets (miles)	288	288	288
Street lights	n/a	n/a	n/a
Culture and recreation			
Parks acreage	250	250	250
Parks	17	13	15
Tennis courts	20	20	20
Community centers	4	2	2
Cemeteries	6	6	6
Athletic fields	11	14	16
Municipal Golf Course	1	1	1
Water			
Water mains (miles)	240	340	240
Fire hydrants	1,800	1,800	1,800
Maximum daily capacity (thousands of gallons)	18,636,000	16,488,160	17,231,172
Sewer			
Treatment Plants	4	4	5
Sanitary sewers (miles)	140	140	140
Storm sewers (miles)	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,500,000	23,516,000	14,155,000

Source: Various City departments.

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

Fiscal Year						
2000	2001	2002	2003	2004	2005	2006
4	3	3	3	3	3	2
37	77	61	63	58	58	58
161	162	164	164	170	170	154
6	6	6	6	6	6	6
101	103	103	105	109	109	117
288	288	288	288	288	288	288
3,812	3,812	3,812	3,812	3,812	3,812	3,812
250	250	277	277	277	277	277
15	15	16	16	16	16	16
20	15	15	15	15	15	15
2	2	2	2	1	1	1
6	7	7	7	7	7	7
16	16	28	28	28	28	28
1	1	1	1	1	1	1
240	240	240	240	317	317	317
1,800	1,800	1,800	1,800	1,931	1,931	1,931
15,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
4	4	4	4	4	4	4
220	220	220	220	182	182	220
75	75	75	75	75	75	75
14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,500,000