

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2007



**Prepared by
Finance Department**

CITY OF GALVESTON, TEXAS
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City of Galveston



P. O. Box 779 / Galveston, Texas 77553

February 4, 2008

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

State law requires that all general purpose local governments publish within 180 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Galveston, Texas for the fiscal year ended September 30, 2007.

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, 2007 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

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
February 4, 2008

September 30, 2007 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Galveston was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Galveston's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Galveston's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Galveston is a home rule, full service city incorporated in 1839. Galveston has a council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor, who is elected at large, and six council members elected to represent individual districts. The governing council is responsible, among other things, for passing ordinances, adopting the budget, determining policies, appointing committees, and hiring the government's manager, attorney, secretary, internal auditor, and municipal judge. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Elections are held every two years. Council members, including the Mayor, are limited to serving three terms.

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, water services, sewer services, refuse collection, drainage services, parks and recreational activities, and general administration. Additional services include building inspection, planning, zoning, engineering, an airport, and a golf course.

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

- The Industrial Development Corporation which provides street repairs, beach 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
February 4, 2008

- Galveston Redevelopment Authority, which provides funds from four tax reinvestment zones 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 108 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 continue growing in the 2007-2008 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
February 4, 2008

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 \$2.6 billion in new investment
- Over 800 full-time jobs will be added to the local economy
- Over 6,600 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 investments are continuing to occur as evidenced by the recent addition of Marshall's and Ross Dress for Less in the site of the former K-Mart building on Stewart Road at 61st Street.

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 four 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. Of particular note during this past year was the continued growth and diversification of the maritime/support service for offshore oil and gas industries. New companies like Stolt-Nielsen, Rolls Royce and others have been working to establish their presence on the island and all indicators point toward a continuing trend for these types of investments to continue through this year.

Funding of Major Capital Projects: During the fiscal year the City began construction in connection with the rehabilitation of the 30th Street Pump Station, funded by Revenue Bond Series 2006. The Pump station is the oldest in the State, dating to late nineteenth century. The project is authorized at \$15,993,000 and expected to take 24 months.

Significant wastewater projects included Terrimar Beach Treatment Plant, authorized at \$3,991,000; Airport Treatment Plant capacity, collection lines and headworks upgrade, at

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
February 4, 2008

\$7,526,000; and trunk lines in the Sea Isle Subdivision area, at \$2,762,260. The Terrimar Beach plant capacity upgrade is substantially complete. The Airport plant construction is approximately 47% complete. Construction on the Sea Isle subdivision lines has just begun.

On February 8, 2007 the City's Golf Course operations were discontinued and course construction began. The Moody Foundation, in exchange for a twenty-year operational contract, and two 10-year options to renew, will invest approximately \$14.1 million in the City course over an 18-month period. The new course is expected to begin operations in April, 2008.

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 further in the first and second quarter of 2008.

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

Financially, the workers compensation program continues to be self-funded. The City provides for adequate funding, by department, for anticipated yearly losses. Specific and aggregate stop-loss insurance has been secured to limit the City's overall exposure. By utilizing a third party administrator ["TPA"] the City has gained appropriate management controls and receives meaningful reports. Most importantly, the TPA has provided expertise in financial and management areas that are not commonly found within a city staff structure.

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

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
February 4, 2008

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, 2007, the plan had a funding ratio of 88.3% 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 2007.

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, 2007 for the Retirement Plan for Police and January 1, 2006 for the Galveston Firemen's Relief and Retirement Fund), the plans were 61.7% (Police) and 78.9% (Firefighters) actuarially funded.

Additional information on the City's pension arrangements may be found in Note 12 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, 2006. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government reports.

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

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

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

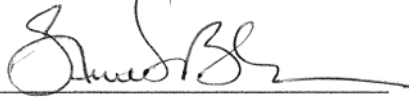
Other departments and offices of the City have also contributed directly or indirectly to the preparation of this report. We acknowledge their efforts in providing information and assistance

To the Honorable Mayor,
Members of the City Council and
Citizens of the City of Galveston, Texas
February 4, 2008

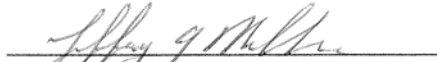
during the preparation of this report. Finally, we acknowledge the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,

Respectfully submitted,



Steve LeBlanc
City Manager



Jeffrey G. Miller, CPA
Director of Finance

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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, 2006

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.



Charles S. Cox

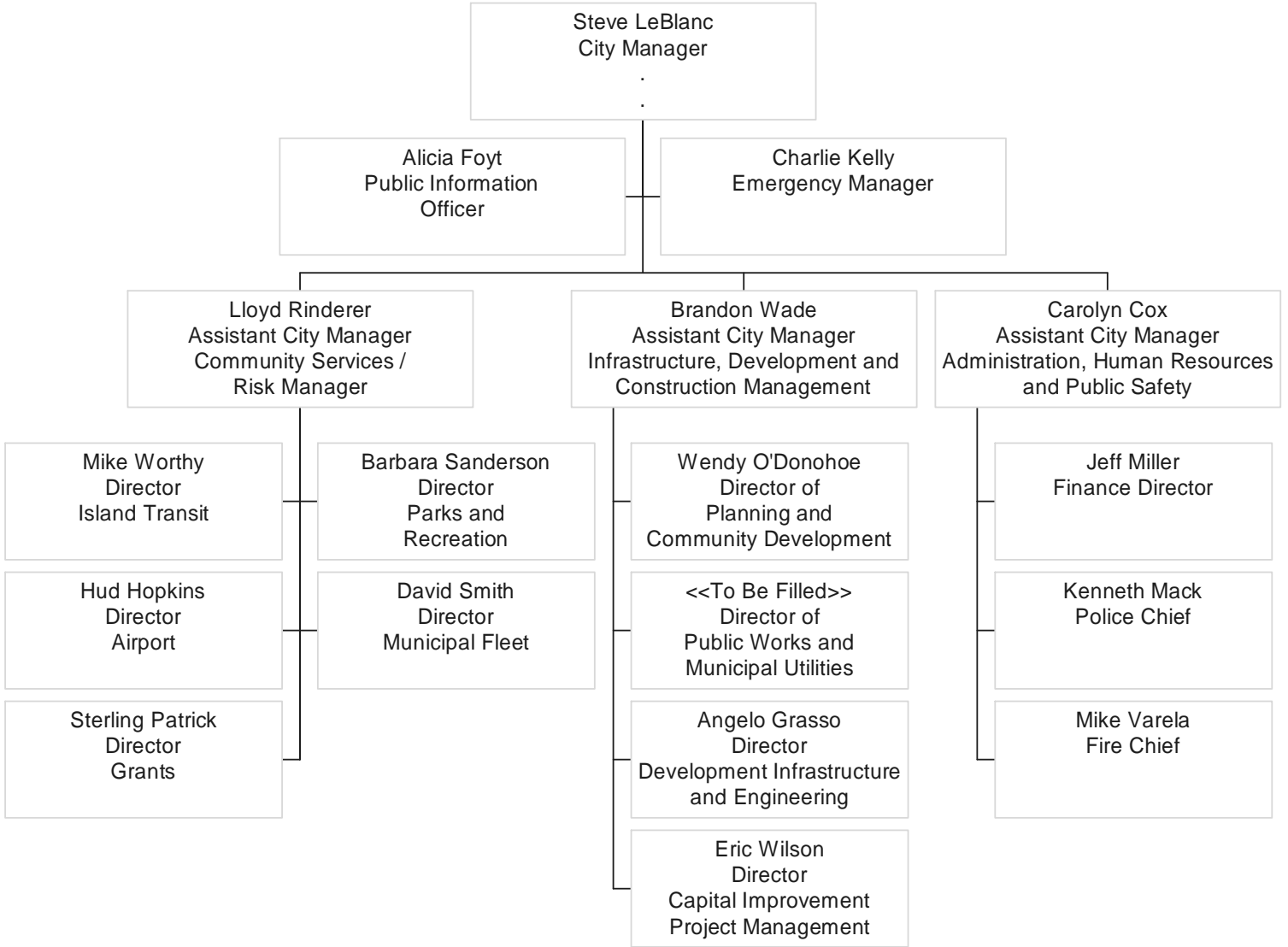
President

Jeffrey R. Emery

Executive Director

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**CITY OF GALVESTON, TEXAS
ORGANIZATIONAL CHART**



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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	Juan Pena	City Attorney	Susie Green
Council Member	Barbara Roberts	Court Judge	Jim Schweitzer
Council Member	Linda Colbert	City Auditor	Mike McNeely
Council Member	Patricia Bolton-Legg		
Council Member	Dianna Puccetti		

**Departmental Directors
(City Manager Appointees)**

Airport	Hud N. Hopkins
Assistant City Manager -Community Services/Risk Manager	Lloyd Rinderer
Assistant City Manager - Infrastructure, Development & Construction Management	Brandon E. Wade, PE
Assistant City Manager –Administration, Human Resources & Public Safety	Carolyn Cox
Emergency Management	Charlie Kelly
Finance	Jeffrey G. Miller, CPA
Fire	Mike Varela
Grants	Sterling W. Patrick
Island Transit	Michael Worthy
Municipal Court	Beckie A. Marino
Municipal Garage	David A. Smith
Parks and Recreation	Barbara E. Sanderson
Planning and Housing	Wendy O’Donohoe
Police	Kenneth Mack

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FINANCIAL SECTION

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Houston, TX 77046
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Galveston, Texas 77550
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Fax (409) 762-1749

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Galveston, Texas, as of and for the year ended September 30, 2007, 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 85% of total assets and 33% 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, 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, 2007, 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 & Citizens
City of Galveston, Texas

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2008, 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 95 through 96 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Mull Laism, P.C." The signature is written in a cursive, flowing style.

February 4, 2008
Houston, Texas

CITY OF GALVESTON, TEXAS

Management's Discussion and Analysis (unaudited)
September 30, 2007

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, 2007. 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 2006. 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 \$160.3 million (net assets). Of these assets, capital assets increased \$22.8 million or 11.96% over the prior year.
- The ratio of total assets to total liabilities for governmental activities was 1.6 times; for business type activities the ratio was 1.98 times.
- General Fund cash and equivalents increased \$1.5 million or 14.9% compared to the prior year.
- The fund balance of the General Fund increased from \$12.1 million to \$13.9 million, a 14.5% increase. The ending balance represents 35.2% of the \$39.4 million in expenditures. Total undesignated and unreserved fund balance was \$11.2 million, or 29.0% of expenditures.
- Business-type assets increased \$7.5 million over the last fiscal year. Capital assets increased \$11.9 million, an increase of 10.8% 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.

CITY OF GALVESTON, TEXAS

Management's Discussion and Analysis (unaudited)

September 30, 2007

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 32-35 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 36-39 of this report.

Proprietary Funds. The City maintains six different types of proprietary, or enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement, airport operations, and golf course activities.

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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 42-44 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 45-46 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 48-85 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information beginning on page 95. Information concerning the City's progress in funding its obligation to provide pension benefits to its employees is presented.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, government-wide assets exceeded liabilities by \$62 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (71.2%) 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.

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City of Galveston, Texas
 Net Assets (in thousands)
 September 30, 2007

TABLE A-1

With comparative totals for September 30, 2006

	Governmental activities		Business - type activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	70,070	64,971	76,628	81,206	\$ 146,698	\$ 146,177
Capital assets	91,468	80,566	122,109	110,196	213,577	190,762
Total assets	161,538	145,537	198,737	191,402	360,275	336,939
Current liabilities	8,280	7,733	5,838	5,756	14,118	13,489
Long term liabilities	91,263	90,299	94,614	98,834	185,877	189,133
Total liabilities	99,543	98,032	100,452	104,590	199,995	202,622
Net assets:						
Invested in capital assets, net of related debt	37,327	25,631	73,991	71,492	111,318	97,123
Restricted	18,757	10,791	10,327	9,502	29,084	20,293
Unrestricted	5,911	11,083	13,967	5,818	19,878	16,901
Total net assets	\$ 61,995	\$ 47,505	\$ 98,285	\$ 86,812	\$ 160,280	\$ 134,317

An additional portion of the City's net assets (16.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reports positive balances in all three categories of net assets for the primary government as a whole.

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 \$177.8 million, comprising 89.8% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$29.7 million and \$49.5 million, respectively, which is 81.1% of total net assets compared to 80.3% for 2006. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 49.0% 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 62.0% and 38.0% respectively. Expenses were divided between governmental activities and business-type activities 65.7% and 34.3% respectively. Net assets increased \$14.5 million, or 30.5% from the prior period for governmental activities and \$11.5 million or 13.2% for business-type activities, and 19.3% overall.

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City of Galveston, Texas
Changes in Net Assets (in thousands)
For the Fiscal Year Ended September 30, 2007
With comparative totals for fiscal year ended September 30, 2006

TABLE A-2

	Governmental activities		Business - type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 7,519	\$ 7,015	\$ 35,755	\$ 34,282	\$ 43,275	\$ 41,297
Operating grants and contributions	5,731	5,635		2,680	5,731	8,315
Capital grants and contributions	11,292	1,575	6,065		17,357	1,575
General revenues:						
Property taxes	16,333	15,480			16,333	15,480
Sales taxes	17,498	16,849			17,498	16,849
Hotel occupancy taxes	4,619	4,122			4,619	4,122
Franchise fees	5,375	5,148			5,375	5,148
Payments in lieu of taxes	737	655			737	655
Other	3,282	2,321	2,506	1,654	5,788	3,975
Total revenues	<u>72,385</u>	<u>58,800</u>	<u>44,326</u>	<u>38,616</u>	<u>116,711</u>	<u>97,416</u>
Expenses:						
General government	5,166	4,924			5,166	4,924
Public safety	27,040	24,876			27,040	24,876
Public works	5,990	5,113			5,990	5,113
Culture and recreation	8,258	7,025			8,258	7,025
Planning and community development	4,483	4,202			4,483	4,202
Transportation system	5,552	4,269			5,552	4,269
Interest on long-term debt	3,096	3,649			3,096	3,649
Waterworks system			13,000	11,849	13,000	11,849
Sewer system			11,536	9,229	11,536	9,229
Sanitation services			3,781	3,541	3,781	3,541
Drainage utility			1,312	1,342	1,312	1,342
Airport			1,201	1,128	1,201	1,128
Golf Course			333	1,026	333	1,026
Total Expenses	<u>59,586</u>	<u>54,058</u>	<u>31,163</u>	<u>28,115</u>	<u>90,748</u>	<u>82,173</u>
Increase (decrease) in net assets before transfers	12,800	4,742	13,163	10,501	25,963	15,243
Special Items						
Transfer in (out)	1,690	500	(1,690)	(500)		
Change in net assets	<u>14,490</u>	<u>5,242</u>	<u>11,473</u>	<u>10,001</u>	<u>25,963</u>	<u>15,243</u>
Net assets at beginning of year	<u>47,505</u>	<u>42,263</u>	<u>86,812</u>	<u>76,811</u>	<u>134,317</u>	<u>119,074</u>
Net assets at end of year	<u>\$ 61,995</u>	<u>\$ 47,505</u>	<u>\$ 98,285</u>	<u>\$ 86,812</u>	<u>\$ 160,280</u>	<u>\$ 134,317</u>

Table A-2 above reflects that:

- The cost of all governmental activities for the fiscal year was \$59.6 million, an increase of \$5.5 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 45.4% of governmental activities compared to 46.0% in 2006. Public Works expenses for streets and traffic increased 17.2% compared to the prior year. Other significant increases were in culture and recreation (Convention Center) up 17.6% and transportation system (Island Transit fuel and maintenance), up 30.1%.

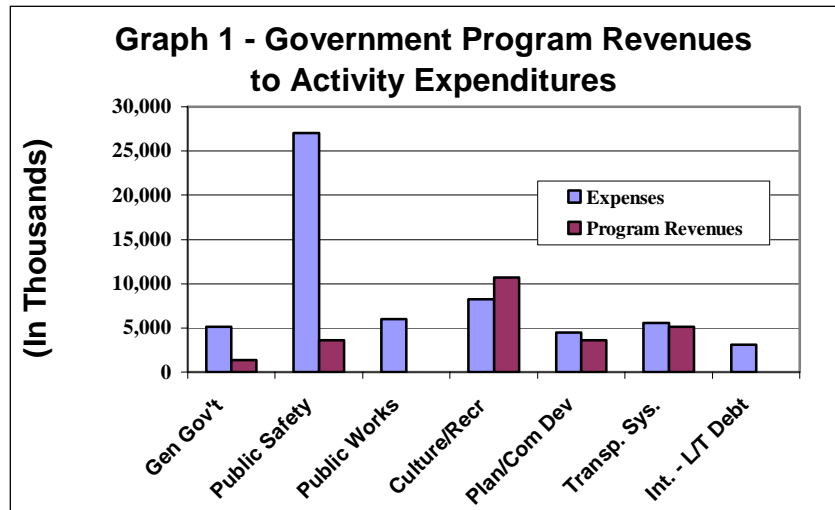
CITY OF GALVESTON, TEXAS

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- 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 \$44.6 million, an increase over the previous year of \$2.3 million. Taxes and franchise fees contributed 61.6% of governmental activities revenue compared to 71.9% in fiscal year 2006.
- The second largest source of revenue is from governments and organizations that subsidize certain programs with grants and contributions. \$17.0 million was received in 2007 versus \$7.2 million in 2006. The Moody Foundation's investment in the City's golf course, a \$14 million project under construction, amounts to \$9.8 million as of September 30, 2007.
- Charges for services account for 10.4% of governmental activities, and increased \$.5 million in fiscal 2007 to \$7.5 million. The increase is attributable to parking and traffic citations, up \$287 thousand compared to the prior year.

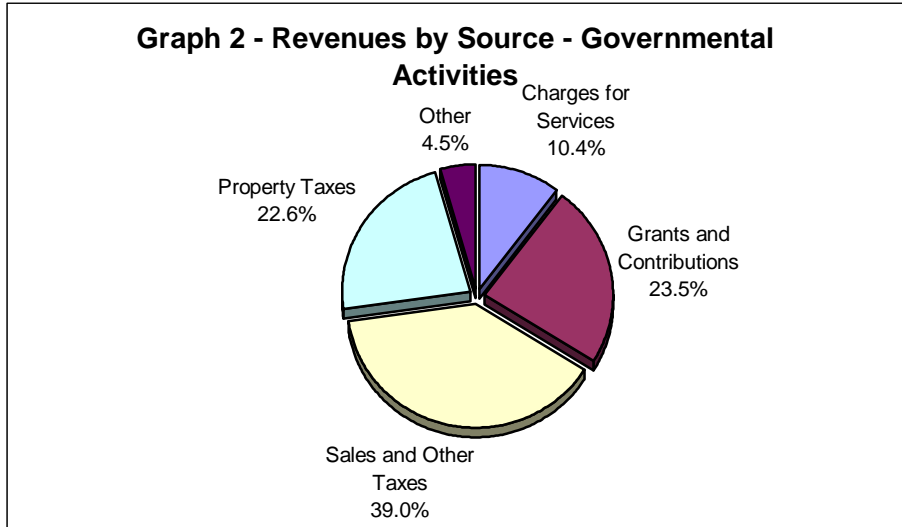
Graph 1 below presents the cost of each of the City's major governmental functions, as well as the associated program revenues. Total expenses were \$59.6 million. Program revenues provided \$24.5 million, for a net cost of services of \$35.1 million. The net cost of providing public safety was \$27.0 million or 45.4% of the net cost of governmental activities, a decrease from 46.0% of net cost of governmental activities in 2006. Typical of governmental activities, the subsidy required from taxpayers provides the majority support to these core services.



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Graph 2 below presents the sources of revenue for governmental activities. Sales taxes (24.2%), hotel taxes (6.4%), franchise fees (7.4%), and payments in lieu of taxes received from business-type activities (1.0%) comprise a total 39.0% of the total revenues. The City's property taxes contributed an additional 22.6% of total revenues.



Business-type Activities. Business-type activities increased the City's net assets by \$11.5 million, or 13.2%. Business-type net assets accounted for 61.3% of the City's total net assets. Revenues derived from charges for services account for 80.7% of business-type program revenues.

City of Galveston, Texas

*Expenses, Program Revenues, and Net Revenue (Cost) of
Services - Business Type Activities (in thousands)
For the Fiscal Year Ended September 30, 2007*

TABLE A-3

With comparative totals for fiscal year ended September 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	<u>2007 Net Revenue (Cost) of Services</u>	<u>2006 Net Revenue (Cost) of Services</u>
Program:				
Waterworks system	\$ 13,000	\$ 15,843	\$ 2,843	\$ 2,324
Sewer system	11,536	16,110	4,574	2,166
Sanitation services	3,781	4,587	806	699
Drainage utility	1,312	2,857	1,545	1,369
Airport	1,201	2,233	1,032	(191)
Golf Course	333	189	(144)	(200)
Totals	<u>\$ 31,163</u>	<u>\$ 41,819</u>	<u>\$ 10,656</u>	<u>\$ 6,167</u>

As indicated in Table A-3 above, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$29.6 million, or 95.1% of all the expenses of business-type activities.

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Related revenues of those funds totaled \$39.4 million, or 94.3% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$32.5 million and expenses were \$26.0 million. Increases in consumption (4%) and well as additional customers added from annexation of Galveston Municipal Utility District #1 (4.9%) contributed to revenue increases.

The net excess of program revenues over expenses for the four public utility related funds was \$9.8 million compared to \$6.6 million in 2006. In total, business type activity excess revenues over expenses were \$10.6 million in 2007 compared to \$6.2 million in 2006.

Table A-4 shows business-type activities revenues by source. Charges for services proved 80.7% of the total, capital grants and contributions provided 2.6% and interest earnings and other provided the balance of 13.1%.

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

TABLE A-4

For the Fiscal Year Ended September 30, 2007
With comparative totals for fiscal year ended September 30, 2006

	<u>2007</u>		<u>2006</u>	
	<u>Dollars</u>	<u>Percentage</u>	<u>Dollars</u>	<u>Percentage</u>
Charges for services	\$ 35,755	80.7%	\$ 34,282	88.8%
Capital grants and contributions	6,065	13.7%	2,680	6.9%
Other	2,506	5.6%	1,654	4.3%
Totals	<u>\$ 44,326</u>	<u>100%</u>	<u>\$ 38,616</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 \$15.0 million in fiscal 2006 to \$17.6 million in fiscal 2007. Cash and temporary investments amount to \$10.3 million or 58.3% of total assets and net receivables are reported at \$7.2 million, or 40.6% of the total. Sales and property taxes along with franchise fees account for 15.4% of net receivables.
- General Fund liabilities increased by \$0.9 million. Liabilities were \$3.8 million in 2007. Deferred revenue from property taxes amounted to 39.2% of General Fund liabilities compared to 45.0% for fiscal year 2006.

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- General Fund revenues reflect a \$675 thousand increase over budget. Property and sales tax revenues increased \$889 thousand over the prior year. General Fund expenditures were \$427 thousand under budgeted appropriations.
- The General Fund's unreserved undesignated fund balance increased \$1.6 million in 2007 to \$11.2 million. The current year favorable variances in revenues and expenditures as mentioned above contributed to the gain in fund balance.
- The General Fund unreserved, designated-for-emergency fund balance increased from \$1.9 million in 2006 to \$2.4 million in 2007. A \$200 thousand increase has been provided in the 2007-2008 budget.
- Other governmental non-major funds (16 separate funds) have cash and investments totaling \$25.0 million, comprising 52.1 % of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$271,000 to \$3.7 million at the end of 2007.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$39.3 million. Of this amount, \$11.3 million constitutes unreserved fund balance, which is available for spending at the government's discretion. Reserves are reported for operations (\$4.9 million), capital project (\$14.0 million) and debt service (\$9.1 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 \$177.8 million, which comprises 89.8% of the total assets of all proprietary funds. Unrestricted net assets (deficit) of those two funds are (\$12.8) million and \$21.0 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 2007 all departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2007 set General Fund revenue and expenditures at \$39.0 million (exclusive of transfers), 7.7 % 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 were budgeted to increase 8.0% and 18.0%, respectively in 2007 over prior year collections. The primary reason is growth in property values brought on by an increase of 19.7% in appraised values. Continuing development on the island contributed to the increase. Sales tax was projected to continue its upward trend; momentum generated by operation of two convention centers, an increase in tourism, new construction and increased traffic in connection with the growing cruise ship industry and water park.

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Actual results were \$675,000 higher than budgetary estimates. Major variances between budget and actual revenues include a \$500,000 decrease in property tax revenues, a \$159,000 increase in sales and use taxes, a \$165,000 decrease in licenses and permits (court fines) and \$474,000 increase in charges for services and a \$537,000 increase in investment earnings.

General Fund expenditures were \$427,000 under appropriation 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 energy savings.

Capital Asset and Debt Administration

City of Galveston, Texas

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

September 30, 2007

TABLE A-5

With comparative totals for September 30, 2006

	Governmental activities		Business - type activities		Total	
	2007	2006	2007	2006	2007	2006
Land	2,716	\$ 2,716	\$ 2,277	\$ 2,115	\$ 4,993	\$ 4,831
Infrastructure	31,164	32,599	63,430	63,004	94,593	95,603
Buildings	35,961	34,402	26,685	22,031	62,647	56,433
Equipment and furniture	9,596	10,264	4,375	4,363	13,971	14,627
Construction in progress	12,031	585	25,342	18,685	37,373	19,270
Totals	\$ 91,468	\$ 80,566	\$122,109	\$110,196	\$213,577	\$190,762

As shown in Table A-5, at the end of 2007, the City had invested \$213.6 million in a broad range of capital assets, including utility system infrastructure, contractual rights to the City's water supply, streets, airport structures and runways, several buildings, police and fire equipment, park facilities, and other equipment and furniture. Governmental funds contributed \$91.5 million in capital assets, while business-type activities have invested in \$122.1 million of capital assets.

Total construction in progress has increased significantly, from \$19.3 million in fiscal year 2006 to \$37.4 million at the close of fiscal year 2007. Of this, \$9.2 million is in connection with golf course reconstruction and \$7.2 million in sewer system wastewater slip-lining projects. Facility upgrades to the Airport and Terramar wastewater treatment plants were completed during the fiscal year and that, combined with assets contributed by annexation of Galveston Municipal Utility District #1, added \$3.7 million in upgrades and \$1.8 million in assumed assets to the City's wastewater facilities. Additional information on the City's capital assets can be found in Note 6 to the financial statements.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$173.1 million. Of this amount, \$22.9 million was comprised of debt backed by the full faith and credit of the government and \$37.0 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 (\$113.2 million) represents bonds secured solely by specified revenue sources (\$93.2 million) and certificates of obligation (\$20.0 million).

CITY OF GALVESTON, TEXAS
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September 30, 2007

City of Galveston, Texas
 Outstanding Debt (in thousands)
 September 30, 2007

TABLE A-6

With comparative totals for September 30, 2006

	Governmental activities		Business - type activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 22,898	\$ 23,733	\$	\$	\$ 22,898	\$ 23,733
Special obligation bonds	36,985	38,360			36,985	38,360
Contracts payable			39,481	41,195	39,481	41,195
Revenue bonds			47,100	48,710	47,100	48,710
Certificates of obligation	19,324	19,324	630	725	19,954	20,049
Notes payable	1,531		9,077	9,741	10,608	9,741
Capital lease obligations	756	398	405	725	1,161	1,123
Totals Debt	\$ 81,494	\$ 81,815	\$ 96,693	\$ 101,096	\$ 178,186	\$ 182,911

The City's total debt decreased \$2.0 million or 2.4% during the current fiscal year. Notes payable increased \$1.5 million, representing an energy conservation loan consisting of City Hall lighting and air handling project under State guidelines. Compensated absences increased by a net \$1.0 million in the 2007 year. The City issued no bonds during the 2007 fiscal year.

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 7 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Property and sales tax revenue contribute 61.3% of the City's Government Fund revenue. The City's budgeted property tax revenue has been projected to increase 17.5% over the prior year. Annexation of Galveston Municipal Utility District #1 added \$309 million to the tax roll and new construction added \$188 million. Appraised values increased moderately, some 4.5% relative to the entire roll. Sales tax revenue has been budgeted to remain at levels realized for fiscal year 2007.

The property tax rate remained the same for fiscal year 2007-2008, at 49.40 cents per \$100 of valuation for all funds. The rate for the General Fund (Maintenance and operation) increased 1.7% from 38.34 cents to 38.98 cents per \$100. Additional property tax revenue of \$2.1 million is projected in 2008.

On December 15, 2006 Council took action to annex Galveston Municipal Utility District 1. The District added \$309 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 were not included the property tax projections until 2008.

There were no rate changes included for budgets of Waterworks, Sewer System, or Drainage utility funds. However, the Municipal Sanitation Fund revenue does include a \$1 dollar increase for the 2007-08 year. The added fee will generate an additional revenue stream sufficient to fund a five-year capital lease for purchase of six new automatic loader garbage trucks. The lease was awarded to SunTrust Leasing Corporation on November 15, 2007 for \$1,240,000.

CITY OF GALVESTON, TEXAS

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September 30, 2007

New businesses and construction new to the Island for calendar year 2007 total approximately \$228.5 million. Of this amount, \$40.1 million occurred within the four tax increment reinvestment zones, and is therefore restricted to public improvements within specific geographic areas. Construction of commercial and residential properties is expected to slow over the next few quarters in conjunction with economic trends nationally.

Unemployment rate for the City is currently 4.9%, which is a decrease from a rate of 5.5% a year ago. This compares unfavorably to the state's average unemployment rate of about 4.5% and the national average rate of about 4.5 % as of year-end. That being 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 2008 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, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Equivalents	\$ 39,638,333	\$ 6,419,319	\$ 46,057,652
Investments			
Original Issue Discount			
Receivables, net of allowance for uncollectibles	4,328,850	7,840,645	12,169,495
Internal Balances	(748,244)	748,244	
Due from other governments	6,475,259	39,211	6,514,470
Due from component units	19,379,883		19,379,883
Restricted assets		44,991,074	44,991,074
Inventories	449,816	80,612	530,428
Prepaid items	546,477	43,612	590,089
Contractual rights to water supply		16,465,595	16,465,595
Net investments in direct financing lease			
Capital assets not being depreciated	14,746,639	27,618,461	42,365,100
Capital assets net of depreciation	76,721,586	94,490,390	171,211,976
Total Assets	<u>161,538,599</u>	<u>198,737,163</u>	<u>360,275,762</u>
LIABILITIES			
Accounts payable and accrued expenses	4,027,017	2,710,917	6,737,934
Due to other governments	410,927	27,218	438,145
Due to primary government			
Unearned revenue	1,640,825	43,918	1,684,743
Customer deposits		2,276,505	2,276,505
Accrued interest	985,787	778,888	1,764,675
Net pension obligation	1,216,382		1,216,382
Long-term liabilities			
Due within one year	2,000,368	4,792,563	6,792,931
Due in more than one year	89,262,275	89,821,900	179,084,175
Total Liabilities	<u>99,543,581</u>	<u>100,451,909</u>	<u>199,995,490</u>
NET ASSETS			
Invested in capital assets, net of related debt	37,326,516	73,990,674	111,317,190
Restricted for:			
Capital projects	6,095,544		6,095,544
Debt Service	8,189,428	10,327,103	18,516,531
Other purposes	4,471,911		4,471,911
Unrestricted	5,911,619	13,967,477	19,879,096
Total net assets	<u>\$ 61,995,018</u>	<u>\$ 98,285,254</u>	<u>\$ 160,280,272</u>

See Notes to Financial Statements.

Exhibit 1

Component Units	
<u>Governmental Activities</u>	<u>Business-Type Activities</u>
\$ 7,487,589	\$ 14,402,772
5,010	1,253,178
15,347	
1,249,162	4,357,868
8,025	
584,729	472,527
988,478	12,885,669
	1,330,432
	12,417,070
	13,560,246
<u>305,651,897</u>	<u>64,649,479</u>
<u>315,990,237</u>	<u>125,329,241</u>
938,514	3,554,773
157,008	197,072
39,211	19,323,672
	4,398,612
21,113	827,454
1,800,791	5,348,900
<u>8,310,506</u>	<u>28,345,794</u>
<u>11,267,143</u>	<u>61,996,277</u>
304,581,897	43,442,019
670,878	4,195,979
317,599	
(847,280)	15,694,966
<u>\$ 304,723,094</u>	<u>\$ 63,332,964</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities				
General government	\$ 5,165,959	\$ 1,399,908	\$	\$
Public safety	27,040,001	3,132,870	487,504	
Public works	5,990,398	20,943		
Culture and recreation	8,258,261	406,900	767,432	9,557,051
Planning and community development	4,482,945	1,619,504	2,020,696	
Transportation system	5,552,047	939,256	2,455,249	1,734,900
Interest on long-term debt	3,095,929			
Total governmental activities	<u>59,585,540</u>	<u>7,519,381</u>	<u>5,730,881</u>	<u>11,291,951</u>
Business-type activities				
Waterworks	12,999,319	14,308,921		1,534,297
Sewer system	11,535,584	12,798,735		3,311,450
Sanitation	3,780,655	4,587,219		
Drainage	1,312,293	2,799,923		57,005
Airport	1,200,526	1,071,006		1,161,864
Golf course	333,294	189,396		
Total business-type activities	<u>31,161,671</u>	<u>35,755,200</u>		<u>6,064,616</u>
Total primary government	<u>\$ 90,747,211</u>	<u>\$ 43,274,581</u>	<u>\$ 5,730,881</u>	<u>\$ 17,356,567</u>
Component Units				
Governmental activities	\$ 27,303,544	\$ 3,862,704	\$	\$
Business-type activities	17,555,150	22,162,644		1,546,881
Total component units	<u>\$ 44,858,694</u>	<u>\$ 26,025,348</u>	<u>\$</u>	<u>\$ 1,546,881</u>

General revenues:

Taxes:
Property taxes
Sales and use taxes
Hotel occupancy taxes
Franchise fees
Payments in lieu of taxes
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning, as restated
Net assets - ending

See Notes to Financial Statements.

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (3,766,051)		\$ (3,766,051)		
(23,419,627)		(23,419,627)		
(5,969,455)		(5,969,455)		
2,473,122		2,473,122		
(842,745)		(842,745)		
(422,642)		(422,642)		
(3,095,929)		(3,095,929)		
<u>(35,043,327)</u>		<u>(35,043,327)</u>		
	\$ 2,843,899	2,843,899		
	4,574,601	4,574,601		
	806,564	806,564		
	1,544,635	1,544,635		
	1,032,344	1,032,344		
	(143,898)	(143,898)		
	<u>10,658,145</u>	<u>10,658,145</u>		
<u>(35,043,327)</u>	<u>10,658,145</u>	<u>(24,385,182)</u>		
			(23,440,840)	
			<u>(23,440,840)</u>	<u>6,154,375</u>
				<u>6,154,375</u>
16,333,079		16,333,079	1,442,272	
17,497,613		17,497,613	1,054,603	
4,618,671		4,618,671	6,381,288	
5,374,681		5,374,681		
736,824		736,824		
2,438,997	2,453,941	4,892,938	207,245	985,384
844,348	52,871	897,219	3,074,431	2,872,523
1,690,340	(1,690,340)			
<u>49,534,553</u>	<u>816,472</u>	<u>50,351,025</u>	<u>12,159,839</u>	<u>3,857,907</u>
14,491,226	11,474,617	25,965,843	(11,281,001)	10,012,282
47,503,792	86,810,637	134,314,429	316,004,095	53,320,682
<u>\$ 61,995,018</u>	<u>\$ 98,285,254</u>	<u>\$ 160,280,272</u>	<u>\$ 304,723,094</u>	<u>\$ 63,332,964</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2007

Exhibit 3

	General Fund	Island Transit	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,286,908	\$ 200	\$ 25,022,637	\$ 35,309,745
Receivables, net of allowance for uncollectibles	2,723,699	105,418	1,276,186	4,105,303
Due from other governments	4,371,949	1,364,327	2,538,893	8,275,169
Due from other funds	56,211		594,547	650,758
Inventories	8,255	311,042		319,297
Prepaid items	190,081			190,081
Total Assets	\$ 17,637,103	\$ 1,780,987	\$ 29,432,263	\$ 48,850,353
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 742,272	\$ 19,480	\$ 1,487,521	\$ 2,249,273
Accrued expenditures	1,160,575	93,572	32,397	1,286,544
Due to other funds		1,250,189	1,168,973	2,419,162
Payable to other governments	398,496		8,931	407,427
Deferred revenue	1,484,317	584	1,663,648	3,148,549
Total Liabilities	3,785,660	1,363,825	4,361,470	9,510,955
Fund balances:				
Reserved for:				
Inventories	8,255	311,042		319,297
Prepaid items	190,081			190,081
Capital projects			13,970,689	13,970,689
Debt service			9,053,419	9,053,419
Other purposes	2,425,226		2,046,685	4,471,911
Unreserved	11,227,881	106,120		11,334,001
Total Fund Balances	13,851,443	417,162	25,070,793	39,339,398
Total Liabilities and Fund Balances	\$ 17,637,103	\$ 1,780,987	\$ 29,432,263	\$ 48,850,353

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
September 30, 2007

Exhibit 4

Total fund balance, governmental funds \$ 39,339,398

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. 90,090,137

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	1,396,219
Adjudicated municipal court fines	111,506
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. 2,403,141

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	(79,206,316)
Capital lease obligation	(756,122)
Compensated absences	(8,244,705)
Accrued interest	(985,787)
Net pension obligation	(1,216,382)
Deferred bond issuance costs	(259,743)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 61,995,018</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

Exhibit 5

	<u>General Fund</u>	<u>Island Transit</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes	\$ 12,565,267	\$	\$ 3,634,826	\$ 16,200,093
Sales and use taxes	13,242,406		8,873,878	22,116,284
Franchise fees	5,374,681			5,374,681
Licenses and permits	1,334,749			1,334,749
Fines and forfeitures	2,338,800		127,485	2,466,285
Charges for services	2,131,706	870,467	684,691	3,686,864
Investment earnings	836,178	256	1,398,213	2,234,647
Intergovernmental	324,066	2,614,858	3,954,651	6,893,575
Other	694,831	44,585	668,459	1,407,875
Payments in lieu of taxes	736,824			736,824
Total Revenues	<u>39,579,508</u>	<u>3,530,166</u>	<u>19,342,203</u>	<u>62,451,877</u>
EXPENDITURES				
Current:				
General government	4,887,796		156,324	5,044,120
Public safety	24,989,359		272,717	25,262,076
Highways and roads	3,248,927		107,252	3,356,179
Culture and recreation	1,663,068		5,163,208	6,826,276
Planning and community development	1,915,023		2,415,423	4,330,446
Transportation	769,523	3,511,141	611,855	4,892,519
Debt Service:				
Principal	408,706		1,967,912	2,376,618
Interest and other charges	30,182		3,195,458	3,225,640
Capital Outlay	1,467,322		3,970,080	5,437,402
Total Expenditures	<u>39,379,906</u>	<u>3,511,141</u>	<u>17,860,229</u>	<u>60,751,276</u>
Excess (deficiency) of revenues over expenditures	<u>199,602</u>	<u>19,025</u>	<u>1,481,974</u>	<u>1,700,601</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	767,043			767,043
Transfers in	615,342		3,875,427	4,490,769
Transfers (out)	(89,315)		(3,825,570)	(3,914,885)
Proceeds from sale of assets	258,495			258,495
Total other financing sources and uses	<u>1,551,565</u>		<u>49,857</u>	<u>1,601,422</u>
Net change in fund balances	1,751,167	19,025	1,531,831	3,302,023
Fund balances - beginning	<u>12,100,276</u>	<u>398,137</u>	<u>23,538,962</u>	<u>36,037,375</u>
Fund balances - ending	<u>\$ 13,851,443</u>	<u>\$ 417,162</u>	<u>\$ 25,070,793</u>	<u>\$ 39,339,398</u>

See Notes to Financial Statements.

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, 2007

Exhibit 6

Net change in fund balances - total governmental funds: \$ 3,302,023

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 (\$4,340,079) is exceeded by capital outlays (\$14,721,541) in the current period. 10,381,462

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. 258,495

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. 132,988

Governmental funds report proceeds from new debt as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

Proceeds from capital lease	(767,043)
Bond principal repayments	1,967,912
Interest Expense	259,000
Lease principal payments	408,705

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	(129,289)
Changes in accrued compensated absences	(1,050,400)
Changes in net pension obligation	(102,209)

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. (170,418)

Change in net assets of governmental activities	\$ 14,491,226
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See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
GENERAL FUND AND BUDGETED MAJOR SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended September 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 13,087,961	\$ 13,087,961	\$ 12,565,267	\$ (522,694)
Sales and use taxes	13,083,390	13,083,390	13,242,406	159,016
Franchise taxes	5,396,916	5,396,916	5,374,681	(22,235)
Licenses and permits	1,499,465	1,499,465	1,334,748	(164,717)
Intergovernmental	1,254,320	1,254,320	1,336,824	82,504
Charges for services	1,972,994	2,006,658	1,988,782	(17,876)
Fines and forfeitures	1,868,894	1,869,480	2,343,461	473,981
Investment earnings	298,408	298,408	835,540	537,132
Other	554,589	554,589	704,918	150,329
Total Revenues	39,016,937	39,051,187	39,726,627	675,440
EXPENDITURES				
Current:				
General government	5,281,647	5,102,174	4,887,794	214,380
Public safety	25,276,914	25,578,305	25,555,418	22,887
Public works	3,337,326	3,329,326	3,228,025	101,301
Culture and recreation	1,844,514	1,949,490	1,894,123	55,367
Planning and community development	1,796,536	1,796,228	1,762,777	33,451
Transportation	830,000	830,000	830,000	
Total Expenditures	38,366,937	38,585,523	38,158,137	427,386
Excess (deficiency) of revenues over expenditures	650,000	465,664	1,568,490	1,102,826
OTHER FINANCING SOURCES (USES)				
Transfer to emergency reserves	(500,000)	(500,000)	(500,000)	
Proceeds from sale of equipment			258,495	258,495
Transfers (out)		(93,664)	(93,664)	
Total Other Financing Sources (Uses)	(500,000)	(593,664)	(335,169)	258,495
Revenues and other financing sources over (under) expenditures and other financing (uses)	150,000	(128,000)	1,233,321	1,361,321
Fund balances - beginning	11,715,600	11,715,600	11,715,600	
Fund balances - ending	\$ 11,865,600	\$ 11,587,600	\$ 12,948,921	\$ 1,361,321

See Notes to Financial Statements.

Exhibit 7

ISLAND TRANSIT

Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
Original	Final		
\$	\$	\$	\$
2,925,000	2,925,000	2,614,858	(310,142)
778,000	778,000	870,467	92,467
		256	256
30,000	30,000	44,585	14,585
<u>3,733,000</u>	<u>3,733,000</u>	<u>3,530,166</u>	<u>(202,834)</u>
<u>3,733,000</u>	<u>3,733,000</u>	<u>3,511,141</u>	<u>221,859</u>
<u>3,733,000</u>	<u>3,733,000</u>	<u>3,511,141</u>	<u>221,859</u>
		<u>19,025</u>	<u>19,025</u>
		19,025	19,025
<u>398,137</u>	<u>398,137</u>	<u>398,137</u>	
<u>\$ 398,137</u>	<u>\$ 398,137</u>	<u>\$ 417,162</u>	<u>\$ 19,025</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

Exhibit 8

	Enterprise Funds				Governmental
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
Current assets:					
Cash and temporary investments	\$ 2,150,292	\$ 2,320,858	\$ 1,948,169	\$ 6,419,319	\$ 3,431,403
Cash in escrow					1,178,044
Accounts Receivable, net of allowance for doubtful accounts	2,371,319	2,994,506	2,474,820	7,840,645	223,547
Receivables from other governments	39,211			39,211	
Inventories	80,612			80,612	130,519
Prepaid Expenses	11,672	11,672	20,268	43,612	356,396
Restricted assets:					
Cash and investments	22,761,118	14,650,172	1,203,107	38,614,397	
Investment with trustee	6,376,677			6,376,677	
Total current assets	33,790,901	19,977,208	5,646,364	59,414,473	5,319,909
Non-current assets:					
Contractual rights to water supply	16,465,595			16,465,595	
Capital assets not being depreciated	6,653,976	17,498,799	3,465,686	27,618,461	
Capital assets (net of depreciation)	36,554,811	46,863,554	11,072,025	94,490,390	1,378,088
Total non-current assets	59,674,382	64,362,353	14,537,711	138,574,446	1,378,088
Total Assets	93,465,283	84,339,561	20,184,075	197,988,919	6,697,997
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued expenses	848,171	1,427,180	435,566	2,710,917	454,799
Accrued interest payable	331,234	440,653	7,001	778,888	
Due to other governments	19,919	7,299		27,218	259,786
Customer deposits	1,097,434	1,179,071		2,276,505	
Unearned revenue			43,918	43,918	
Long-term debt, current portion					
Compensated absences	6,900	12,850	15,100	34,850	
Capital lease obligation	67,845	67,845	117,408	253,098	
Claims and judgments					24,000
Contracts payable	1,796,965			1,796,965	
Notes payable	466,325	466,325		932,650	
Bonds and certificates of obligation payable	565,261	1,114,739	95,000	1,775,000	
Total Current Liabilities	5,200,054	4,715,962	713,993	10,630,009	738,585
Non-current liabilities:					
Long-term debt, noncurrent portion					
Compensated absences	160,938	398,142	380,401	939,481	338,776
Capital lease obligation			151,410	151,410	1,531,490
Claims and judgments					937,896
Contracts payable	37,684,007			37,684,007	
Notes payable	4,072,284	4,072,284		8,144,568	
Bonds and certificates of obligation payable	16,691,046	25,689,101	522,287	42,902,434	
Total non-current liabilities	58,608,275	30,159,527	1,054,098	89,821,900	2,808,162
Total Liabilities	63,808,329	34,875,489	1,768,091	100,451,909	3,546,747
NET ASSETS					
Invested in capital assets, net of related debt	21,519,764	41,229,767	11,241,143	73,990,674	200,044
Restricted for debt service	6,196,207	4,123,895	7,001	10,327,103	
Unrestricted	1,940,983	4,110,410	7,167,840	13,219,233	2,951,206
Total Net Assets	\$ 29,656,954	\$ 49,464,072	\$ 18,415,984	\$ 97,537,010	\$ 3,151,250

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.

748,244

Total net assets per Government-Wide financial statements

\$ 98,285,254

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2007

Exhibit 9

	Business-type Activities - Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
REVENUES					
Charges for services	\$ 14,308,921	\$ 12,798,735	\$ 8,647,544	\$ 35,755,200	\$ 11,722,185
Miscellaneous		11,333		11,333	94,102
Total Operating Revenues	<u>14,308,921</u>	<u>12,810,068</u>	<u>8,647,544</u>	<u>35,766,533</u>	<u>11,816,287</u>
OPERATING EXPENSES					
Personnel services	1,478,085	3,152,944	3,072,998	7,704,027	1,797,234
Contractual services	569,701	1,662,262	1,688,960	3,920,923	1,575,226
Supplies and materials	812,472	1,800,549	319,342	2,932,363	2,588,878
Surface water contract	5,578,726			5,578,726	
Insurance claims and premiums					5,496,198
Other expenses	222,932	905,356	392,228	1,520,516	774,084
Administrative charge	541,886	330,727	255,319	1,127,932	
Depreciation	2,663,097	2,209,432	785,047	5,657,576	85,393
Total Operating Expenses	<u>11,866,899</u>	<u>10,061,270</u>	<u>6,513,894</u>	<u>28,442,063</u>	<u>12,317,013</u>
Operating income (loss)	<u>2,442,022</u>	<u>2,748,798</u>	<u>2,133,650</u>	<u>7,324,470</u>	<u>(500,726)</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest and investment revenue	1,392,285	908,445	153,215	2,453,945	204,216
Gain (loss) on disposal of capital assets		16,020	25,518	41,538	
Interest expense	(985,343)	(1,408,381)	(42,855)	(2,436,579)	
Amortization of bond issuance costs	(124,385)	(32,552)		(156,937)	
Total non-operating revenue (expenses)	<u>282,557</u>	<u>(516,468)</u>	<u>135,878</u>	<u>(98,033)</u>	<u>204,216</u>
Income (loss) before contributions and transfers	2,724,579	2,232,330	2,269,528	7,226,437	(296,510)
Capital contributions	1,534,297	3,311,450	1,218,869	6,064,616	
Transfers in	1,754,517	10,635,068	2,992,110	15,381,695	
Transfers out	(1,954,517)	(10,835,071)	(4,282,447)	(17,072,035)	
Change in net assets	4,058,876	5,343,777	2,198,060	11,600,713	(296,510)
Total net assets - beginning	<u>25,598,078</u>	<u>44,120,295</u>	<u>16,217,924</u>	<u>85,936,297</u>	<u>3,447,760</u>
Total net assets - ending	<u>\$ 29,656,954</u>	<u>\$ 49,464,072</u>	<u>\$ 18,415,984</u>	<u>\$ 97,537,010</u>	<u>\$ 3,151,250</u>
Change in net assets, per above				\$ 11,600,713	
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.				(126,092)	
Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements				<u>\$ 11,474,621</u>	

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2007

Exhibit 10

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 13,965,544	\$ 12,357,494	\$ 8,070,033	\$ 34,393,071	\$ 11,800,712
Disbursed for personnel services	(7,071,171)	(3,153,600)	(3,219,819)	(13,444,590)	(1,759,088)
Disbursed for goods and services	(1,526,004)	(4,023,239)	(2,864,620)	(8,413,863)	(10,281,141)
Administrative Service Charge	(541,886)	(330,727)	(258,550)	(1,131,163)	
Other operating revenues	8,513	11,333		19,846	
Net cash provided (used) by operating activities	4,834,996	4,861,261	1,727,044	11,423,301	(239,517)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Due from other funds	201,917		1,300,287	1,502,204	108,623
Interfund Transfer	(200,000)	(200,003)	(2,590,624)	(2,990,627)	(101,885)
Net cash provided by (used by) noncapital financing activities	1,917	(200,003)	(1,290,337)	(1,488,423)	6,738
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments for capital acquisitions (net of sales)	(3,280,067)	(11,232,324)	(3,654,224)	(18,166,615)	1,531,490
Principal payments on debt	(2,253,137)	(1,071,049)	(95,000)	(3,419,186)	
Principal payments on debt- long term contracts	(331,881)	(331,881)		(663,762)	
Principal payments on debt- capital leases	(68,327)	(68,327)	(183,595)	(320,249)	
Interest paid on revenue bonds	(837,180)	(1,269,357)	(24,565)	(2,131,102)	
Interest paid on capital leases	(158,372)	(158,372)	(19,477)	(336,221)	
Amortization of bond issuance costs	36,711	98,224		134,935	
Transfers of capital assets			2,390,624	2,390,624	
Proceeds from sale of equipment			35,807	35,807	
Acquisition and construction of capital assets					(424,727)
Contributed Capital	1,534,297	2,702,138	1,218,869	5,455,304	
Net cash used by capital and related financing activities	(5,357,956)	(11,330,948)	(331,561)	(17,020,465)	1,106,763
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment with trustee	981,109			981,109	
Interest on Investments	1,392,285	908,445	153,211	2,453,941	204,218
Net cash provided by (used by) investing activities	2,373,394	908,445	153,211	3,435,050	(973,826)
Net increase (decrease) in cash and equivalents	1,852,351	(5,761,245)	258,357	(3,650,537)	(99,842)
Cash and equivalents, beginning of year	23,059,059	22,732,275	2,892,919	48,684,253	3,531,245
Cash and equivalents, end of year	<u>\$ 24,911,410</u>	<u>\$ 16,971,030</u>	<u>\$ 3,151,276</u>	<u>\$ 45,033,716</u>	<u>\$ 3,431,403</u>
Unrestricted cash and equivalents	\$ 2,150,292	\$ 2,320,858	\$ 1,948,169	\$ 6,419,319	\$ 3,233,809
Restricted cash and equivalents	22,761,118	14,650,172	1,203,107	38,614,397	197,594
	<u>\$ 24,911,410</u>	<u>\$ 16,971,030</u>	<u>\$ 3,151,276</u>	<u>\$ 45,033,716</u>	<u>\$ 3,431,403</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (loss)	\$ 2,442,022	\$ 2,748,798	\$ 2,133,650	\$ 7,324,470	\$ (500,726)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	2,663,097	2,209,432	785,047	5,657,576	2,141
(Increase) decrease in accounts receivable	(405,611)	(512,385)	(579,302)	(1,497,298)	55,163
(Increase) decrease in inventory and prepaid expenses	9,965	(2,370)	12,266	19,861	(179,608)
(Increase) decrease in deferred revenue			(21,796)	(21,796)	
Increase (decrease) in accounts payable	102,695	347,298	(519,423)	(69,430)	121,893
Increase (decrease) in salaries payable	546	(2,419)	(19,622)	(21,495)	199,340
Increase (decrease) in customer deposits	70,747	71,144		141,891	
Increase (decrease) in retainage payable					18,603
Increase (decrease) in compensated absences payable	(48,465)	1,763	(63,776)	(110,478)	43,677
Net cash provided by operating activities	4,834,996	4,861,261	1,727,044	11,423,301	(239,517)

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS*Statement of Fiduciary Net Assets**Fiduciary Funds**September 30, 2007***Exhibit 11**

	Pension Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 4,423,267	\$ 403,885
Receivables:		
Interest and dividends	176,536	
Loans to participants	136,122	
From employer	699,726	
Total receivables	<u>1,012,384</u>	
Investments:		
U.S. government obligations	3,274,574	
Corporate and foreign bonds	4,969,157	
Corporate stocks	43,225,618	
Mutual funds	31,245,862	
Fixed income funds	8,068,063	
Total investments	<u>90,783,274</u>	
Prepaid benefits	<u>203,281</u>	
Total assets	<u><u>96,422,206</u></u>	<u><u>403,885</u></u>
LIABILITIES		
Accounts payable	76,656	235
Refunds payable and others		403,650
Total liabilities	<u>76,656</u>	<u>\$ 403,885</u>
NET ASSETS		
Held in trust for benefits and other purposes	<u><u>\$ 96,345,550</u></u>	

See notes to financial statements.

CITY OF GALVESTON, TEXAS*Statement of Changes in Fiduciary Net Assets***Exhibit 12***Fiduciary Funds**For the Year Ended September 30, 2007*

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employer	\$ 2,765,750
Plan Members	2,563,108
Total contributions	<u>5,328,858</u>
Investment earnings:	
Net increase in fair value of investments	6,964,487
Interest	1,541,784
Dividends	1,259,062
Investment activity expense	(541,457)
Total net investment earnings	<u>9,223,876</u>
Total additions	<u>14,552,734</u>
DEDUCTIONS	
Benefits	7,441,009
Administrative	225,158
Total deductions	<u>7,666,167</u>
Change in net assets	6,886,567
Net assets - beginning	89,458,983
Net assets - ending	<u><u>\$ 96,345,550</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

Blended Component Units Reported with the Primary Government

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

Industrial Development Corporation

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

Pension Funds

The City of Galveston Employee’s Retirement Plan for City Employees, 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, 2006.

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

Galveston Island Redevelopment Authority

Galveston Island Redevelopment Authority is a local government corporation created and organized under the provisions of the Texas Transportation Corporation Act, Chapter 431, Transportation Code, and authorized and approved by the City under Resolution No. 02-071 adopted on August 22, 2002. The Galveston Island Redevelopment Authority is made up of four different tax reinvestment zones- zones eleven, twelve, thirteen, and fourteen. These tax zones were established to provide funds for development and improvement projects within specific geographic areas of the City. Property tax receipts over undeveloped assessments (base value) provide funding for the projects. The City appoints the Board members who operate and account for each tax zone activity consistent with the State statute for economic benefit of the City. The City accounts for the tax zones (consolidated into the Galveston Island Redevelopment Authority) and separate audited reports are 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.

Public Improvement District – Preserve at Sweetwater Lake

The Preserve at Sweetwater Lake Public Improvement District was established by the City, in March 2007, to provide funds for development and improvement projects specifically for the Preserve at Sweetwater Lake District. The Galveston Island Redevelopment Authority (GIRA) has an agreement with The Preserve at Sweetwater Lake PID outlining responsibilities between all parties, including the City. Each year, following the levy and collection of Assessments, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the Administrative costs and to reimburse The Preserve at Sweetwater Lake for any and all costs associated with the Public Improvements.

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

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

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

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

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:

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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

Exhibit 13

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 31.8% of total property taxes including the related penalty and interest accrual as of year end. The allowance for enterprise fund charges for services is 4.3% of total outstanding charges as of year end.

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

3. Inventories and Prepaid Items

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

Payments made to vendors for services that will benefit periods beyond September 30, 2007, 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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

Exhibit 13

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 Cash and Investments

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

Assets were restricted for the following as of year end:

	<u>Enterprise Funds</u>				Total Business Type Activities
	<u>Waterworks System</u>	<u>Sewer System</u>	<u>Sanitation</u>	<u>Drainage</u>	
Restricted for:					
Capital projects	\$ 18,864,346	\$ 8,906,950	\$ 31,880	\$ 1,055,223	\$ 28,858,399
Debt service	2,799,344	4,564,548	116,004		7,479,896
Investments with Trustee- Debt Service	3,866,194				3,866,194
Investments with Trustee- Capital Projects	2,510,483				2,510,483
Meter Deposits	1,097,428	1,178,674			2,276,102
	<u>\$ 29,137,795</u>	<u>\$ 14,650,172</u>	<u>\$ 147,884</u>	<u>\$ 1,055,223</u>	<u>\$ 44,991,074</u>

E. 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.

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

Budgets are adopted and accounted for on a modified accrual basis, with the following exceptions:

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

Capital and planning grant activities in the Island Transit Special Revenue Fund are not budgeted on an annual basis and are controlled in a manner similar to the grant project funds noted above. Budgeted amounts are reported herein as amended throughout the year. There were five budget amendments during FY 2007. Total appropriations did not increase. Appropriation balances lapse at year end and may be re-appropriated by City Council.

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

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

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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

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 Funds	Budgeted transfer to reserves	
Revenues	\$ 39,726,627	\$ (166,799)	\$ 17,511	\$	\$ 39,577,339
Expenditures	38,158,137	1,222,104	(335)		39,379,906
Revenues over (under) expenditures	1,568,490	(1,388,903)	17,846		197,433
Other financing sources (uses)	(335,169)	1,388,903		500,000	1,553,734
Revenues and other financing sources over (under) expenditures and other financing (uses)	1,233,321		17,846	500,000	1,751,167
Fund balance at beginning of year	11,715,600		(15,324)	400,000	12,100,276
Fund balance at end of year	<u>\$ 12,948,921</u>	<u>\$</u>	<u>\$ 2,522</u>	<u>\$ 900,000</u>	<u>\$ 13,851,443</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, 2007

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 September 30, 2007,

- investment in the State Treasurer's AAA-rated local government investment pool represented 60.77 % of the total portfolio,
- holdings in a rated money market mutual fund represented 14.74 % of the total portfolio,
- and holding in US Government securities rated AAA represented 24.50 % of the total portfolio.

Concentration of Credit Risk

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

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

As of September 30, 2007,

- holdings in one AAA-rated local government investment pool represented 60.77 % of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 14.74 % 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, 2007

Exhibit 13

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

Exhibit A

<u>Investment Type</u>	Investment
	Maturities in Years
US Treasury Notes and Bills	\$ 1,961,250
US Agencies	
FHLB	7,828,000
FHLMC	1,000,114
FNMA	9,961,925
2A-7 like Local Government Pools	51,480,435
SEC Registered Money Market Fund	12,491,143
	<u>\$ 84,722,867</u>

As of September 30, 2007, the portfolio contained:

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

As of September 30, 2007, the portfolio contained two structured notes as shown in Exhibit B.

Exhibit B

Annual GASB 40 Report
City of Galveston, Texas
Period Ending September 30, 2007
Listing of Structured Notes with Interest Rate Risk

<u>Security</u>	<u>Par</u>	<u>Coupon</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Call Date</u>	<u>Structure</u>	<u>Cusip</u>	<u>Book Value</u>	<u>Market Value</u>
Structured securities past the call date:									
FNMA	2,000,000	3.875%	09/27/07	02/01/08	02/01/06	one time call	31359MXP3	1,994,523	1,993,125
Discretely callable securities:									
FHLMC	1,000,000	5.300%	1/11/2007	02/06/08	10/11/2007	discrete call quarterly	3128X5XE3	1,000,000	1,000,114

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.

Portfolio disclosure as of September 30, 2007:

- the portfolio contained no certificates of deposit
- the portfolio contained no repurchase agreements
- all bank demand deposits were fully insured and collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

3 PROPERTY TAX

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

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

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

Within these guidelines, the maximum tax rate per \$100 of assessed valuation, for the year ended September 30, 2007, was \$ 0.494. The tax rate to finance general governmental services was set at \$0.4334 and the tax rate for all other purposes, including debt service, was set at \$ 0.0606 per \$100 of assessed valuation.

4 SALES TAX

The City's sales tax rate is 2 cents for the year ended September 30, 2007. A City Charter amendment was passed by the voters on January 21, 1989, whereby the City is required to offset ad valorem taxes each year with the amount of additional (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 ad valorem taxes offset by actual sales tax revenue of \$4.3 million in fiscal year 2007. The total maximum allowable tax rate of \$ 0.70 was thus limited to \$0.567 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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

Exhibit 13

5 RECEIVABLES

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

	<u>General</u>	<u>Island Transit</u>	<u>Non-major Governmental Funds</u>	<u>Water</u>	<u>Sewer</u>	<u>Non-major Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
Receivables:								
Taxes	\$ 2,588,843	\$	\$ 324,547	\$	\$	\$	\$	\$ 2,913,390
Accounts Interest	1,779,248	105,418	1,055,869	2,473,391	3,081,875	2,640,732	223,547	11,360,080
Gross receivables	4,368,091	105,418	1,380,416	2,473,391	3,081,875	2,640,732	223,547	14,273,470
Less: allowance for uncollectibles	(1,644,392)		(104,230)	(102,072)	(87,369)	(165,912)		(2,103,975)
Net total receivables	<u>\$ 2,723,699</u>	<u>\$ 105,418</u>	<u>\$ 1,276,186</u>	<u>\$ 2,371,319</u>	<u>\$ 2,994,506</u>	<u>\$ 2,474,820</u>	<u>\$ 223,547</u>	<u>\$ 12,169,495</u>

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

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

6 INTERFUND ACTIVITIES

Interfund transfers for the primary government are as follows for the current year ended:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>					<u>Totals</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Industrial Development Corporation</u>	<u>Waterworks System</u>	<u>Sewer System</u>	
General Fund	\$	\$		\$ 200,000	\$ 200,000	\$ 600,000
Other Governmental Funds:						
Debt Service			1,330,894			1,330,894
Drainage and Street Improvement			843,951			843,951
Sewer Improvements			1,635,386			1,635,386
Other Enterprise Fund:						
Golf Course Fund	93,664					93,664
Totals	<u>\$ 93,664</u>	<u>\$ 3,810,231</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 4,503,895</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

Exhibit 13

The following is a detail of the interfund transfers:

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 Drainage and Street Improvement Sewer Improvements	Provided by election for the purpose of drainage, street and sewer improvements and related debt service from sales tax revenue
Waterworks System	General Fund	To transfer payments in lieu of taxes
Sewer	General Fund	To transfer payments in lieu of taxes
Sanitation Services	General Fund	To transfer payments in lieu of taxes

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

Payable Funds: Due From	Receivable Funds Due to			Total
	General Fund	1994 IDC Drainage and Street Improvements	1995 IDC Sewer Improvements	
Governmental Funds:				
Island Transit Capital Projects	\$ 354,723			\$ 354,723
Island Transit Operations	1,250,189			1,250,189
FEMA Claudette Fund	83,216			83,216
Island Transit Grant Fund	111,782			111,782
IDC Sales Tax Revenue Fund		215,688	378,859	594,547
	<u>\$ 1,799,910</u>	<u>\$ 215,688</u>	<u>\$ 378,859</u>	<u>\$ 2,394,457</u>

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

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

The FEMA Fund inter-fund receivable/payable shown above represents funding that the General Fund had to supplement Planning and Community Development for Sand Sock repairs due to hurricane Claudette. The final bill for the repairs by Galveston County wasn't submitted until FY 07 and was approved by FEMA for reimbursement.

The IDC Sales Tax Revenue Fund interfund receivable/payable shown above represents sales tax revenue for August and September that will be received in FY 2008. These revenues are to be allocated to the 1994 IDC Drainage and Street Improvement Fund and the 1995 IDC Sewer Improvement Fund for capital improvement projects.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

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	584,820	11,452,908	(6,892)	12,030,836
Total capital assets, not being depreciated	<u>3,300,622</u>	<u>11,452,908</u>	<u>(6,892)</u>	<u>14,746,638</u>
Capital assets, being depreciated:				
Buildings	38,895,225	523,693		39,418,918
Improvements other than buildings	3,937,447	1,030,708		4,968,155
Machinery and equipment	8,703,614	253,959	(9,477)	8,948,096
Licensed vehicles	14,023,441	1,878,563	(620,330)	15,281,674
Infrastructure	80,964,375	218,408		81,182,783
Total capital assets being depreciated	<u>146,524,102</u>	<u>3,905,331</u>	<u>(629,807)</u>	<u>149,799,626</u>
Less accumulated depreciation for:				
Buildings	(4,492,762)	(795,441)		(5,288,203)
Improvements other than buildings	(2,959,618)	(177,906)		(3,137,524)
Machinery and equipment	(5,317,830)	(695,220)	9,477	(6,003,573)
Licensed vehicles	(8,122,784)	(1,018,057)	511,352	(8,629,489)
Infrastructure	(48,365,793)	(1,653,455)		(50,019,248)
Total accumulated depreciation	<u>(69,258,787)</u>	<u>(4,340,079)</u>	<u>520,829</u>	<u>(73,078,037)</u>
Total capital assets, being depreciated, net	<u>77,265,315</u>	<u>(434,748)</u>	<u>(108,978)</u>	<u>76,721,589</u>
Governmental activities capital assets, net	<u>\$ 80,565,937</u>	<u>\$ 11,018,160</u>	<u>\$ (115,870)</u>	<u>\$ 91,468,227</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,114,870	\$ 1,368,513	\$ (1,206,623)	\$ 2,276,760
Construction in progress	18,684,584	14,514,781	(7,857,664)	25,341,701
Total capital assets, not being depreciated	<u>20,799,454</u>	<u>15,883,294</u>	<u>(9,064,287)</u>	<u>27,618,461</u>
Capital assets, being depreciated:				
Buildings and system	35,349,829	5,830,333	(610,384)	40,569,778
Improvements other than buildings	97,830,740	4,226,892	(2,243,766)	99,813,866
Machinery and equipment	13,868,421	790,318	(113,409)	14,545,330
Total capital assets, being depreciated	<u>147,048,990</u>	<u>10,847,543</u>	<u>(2,967,559)</u>	<u>154,928,974</u>
Less accumulated depreciation for:				
Buildings and system	(13,319,232)	(967,383)	402,031	(13,884,584)
Improvements other than buildings	(34,827,193)	(2,833,990)	1,277,045	(36,384,138)
Machinery and equipment	(9,505,560)	(758,496)	94,194	(10,169,862)
Total accumulated depreciation	<u>(57,651,985)</u>	<u>(4,559,869)</u>	<u>1,773,270</u>	<u>(60,438,584)</u>
Total capital assets, being depreciated, net	<u>89,397,005</u>	<u>6,287,674</u>	<u>(1,194,289)</u>	<u>94,490,390</u>
Business-type activities capital assets, net	<u>\$ 110,196,459</u>	<u>\$ 22,170,968</u>	<u>\$ (10,258,577)</u>	<u>\$ 122,108,851</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

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

Governmental activities:

General government	\$ 41,413
Public safety	633,492
Public works	1,511,521
Culture and recreation	1,064,165
Planning and community development	168,105
Transportation system	835,990

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

85,393

Total depreciation expense - governmental activities

\$ 4,340,079

Business-type activities:

Waterworks	\$ 1,565,391
Sewer system	2,209,432
Sanitation	258,222
Drainage	21,642
Airport	477,840
Golf course	27,342

Total depreciation expense - business-type activities

\$ 4,559,869

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	\$ 3,977,370	\$ 343,593	\$ 3,633,777
Seawall Beautification - design only	112,000	112,000	
Traffic signal improvement project	389,903	354,936	34,967
Island Transit maintenance facility - design	325,500	294,150	31,350
Trolley Diamond Crossing -residual costs	7,961	8,188	(227)
Island Transit downtown terminal (Goodman)	400,000	127,713	272,287
Menard Skate Park - residual costs	9,530	9,530	
Broadway Beautification	1,477,845	375,643	1,102,202
Trolley Rehab	511,556	23,465	488,091
Livable Community Initiatives	2,434,558	60,493	2,374,065
Oaks Subdivision Development - Streets	923,527	586,198	337,329
Sea Isle Subdivision - Paving	1,206,748	126,678	1,080,070
Golf Course Improvements	18,000,000	9,200,773	8,799,227
Traffic Signal Unwarranting Study (5 Broadway Inter)	43,400	35,428	7,972
Energy Savings Project	1,548,421	372,049	1,176,372
	<u>\$ 31,368,319</u>	<u>\$ 12,030,837</u>	<u>\$ 19,337,482</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)	\$ 6,886,750	\$ 5,124,171	\$ 1,762,579
30th Street Pump Station	15,775,394		15,775,394
Various other	902,120	845,944	56,176
<i>Sewer System Fund Projects</i>			
Various sewer projects	26,710,730	17,136,663	9,574,067
<i>Drainage Fund Projects</i>			
Various drainage projects	2,408,042	2,004,071	403,971
<i>Airport Fund Projects</i>			
	3,585,670	230,852	3,354,818
Totals	<u>\$ 56,268,706</u>	<u>\$ 25,341,701</u>	<u>\$ 30,927,005</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

8 LONG-TERM DEBT

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

Description	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Primary Government					
General Obligation Bonds	\$ 20,522,071	\$	\$ (592,912)	\$ 19,929,159	\$ 312,268
Accretion on Capital Interest Bonds	3,211,251		(242,766)	2,968,485	
Special Obligation Bonds	38,360,000		(1,375,000)	36,985,000	1,450,000
Certificates of Obligation	19,323,672			19,323,672	
Capital Leases	397,783	767,044	(408,705)	756,122	214,100
Notes Payable		1,531,490		1,531,490	
Accrued Compensated Absences	7,475,934	1,441,145	(333,598)	8,583,481	352,424
Claims payable-Unemployment Tax	24,000	90,781	(90,781)	24,000	24,000
Claims Payable - Workers Comp.	311,943	686,372	(473,620)	524,695	40,715
Claims Payable-Health Insurance	397,132	2,215,223	(2,199,154)	413,201	
Deferred Bond Charges	275,977		(16,234)	259,743	
Total primary Government	90,299,763	6,732,055	(5,732,770)	91,299,048	2,393,507
Discretely presented component units					
Special revenue bonds	1,570,000	1,000,000	(500,000)	2,070,000	600,000
Capital lease obligations	212,318		(212,318)		
Notes payable	350,288	1,208,885	(607,553)	951,620	951,620
Compensated absences	111,840	7,330		119,170	119,170
Payable to concessionaire	390,000		(130,000)	260,000	130,000
Contracts Payable		6,262,935		6,262,935	
Construction Interest Payable		447,571		447,571	
Deferred bond charges	(15,347)			(15,347)	
Total discretely presented component units	2,619,099	8,926,721	(1,449,871)	10,095,949	1,800,790
Total reporting entity	\$ 92,918,862	\$ 15,658,776	\$ (7,182,641)	\$ 101,394,997	\$ 4,194,297

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:

	Total
General Obligation Bonds	
\$3,741,630 - 1990 Public Improvements Bonds due in annual installments of \$322,781 to \$371,800 through May 1, 2009; interest at 7.38% to 7.44%. Includes interest accretion of \$1,328,914	\$ 1,842,971
\$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 \$1,106,061	11,881,163
\$9,462,818 - 2005 Obligation and Refunding Bonds due in annual installments of \$390,000 to \$1,235,000 May 1, 2006 through May 1, 2023; interest at 4.15% to 4.465. Includes interest accretion of \$533,510	9,173,510
Total General Obligation Bonds	\$ 22,897,644

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

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) \$ 805,000

\$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) 5,955,000

\$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%. 15,415,000

\$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%. 14,810,000

Total Special Obligation Bonds \$ 36,985,000

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

\$349,786 - 2005 capital lease purchase due in semi-annual installments of \$75,563 through January 2009; interest at 3.67%; 143,177

\$767,043 - 2007 Capital Lease Purchase due in semi-annual installment of \$169,856 through June 2011; interest at 3.604% 612,945

Total Capital Leases \$ 756,122

Notes Payable

\$1,531,488- 2007 note payable incurred due in semi-annual installment of \$69,380 through July 2022; interest 3.80%. \$ 1,531,490

Discretely Presented Component Units:

Galveston Island Redevelopment Authority

\$1,000,000 tax exempt bank loan with Frost National Bank, secured by Tax Increment from TIRZ; principal due in annual installments; interest due in semi-annual installments; variable interest rate of 65% 30-day LIBOR plus 128 \$ 1,000,000

Special Obligation Bonds

Park 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%. \$ 1,070,000

Notes payable

\$500,000 line of credit with Moody National Bank, secured by CD, interest due monthly at 3.5%, principal due on demand or on September 30, 2008. \$ 464,523

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

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
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>\$ 19,929,159</u>	<u>\$ 12,877,414</u>	<u>\$ 36,985,000</u>	<u>\$ 27,264,980</u>	<u>\$ 19,323,672</u>	<u>\$ 9,808,316</u>

Discretely Presented Component Units

Fiscal Year ending September 30,	Park Board of Trustees Special Obligation Bonds		Galveston Island Redevelopment Authority	
	Principal	Interest	Principal	Interest
2008	\$ 525,000	\$ 49,765	\$ 75,000	\$ 43,205
2009	545,000	25,615	85,000	42,399
2010			90,000	38,196
2011			90,000	33,873
2012			95,000	29,504
2013			100,000	24,746
2014			105,000	19,822
2015			115,000	14,539
2016			120,000	8,911
2017			125,000	3,011
	<u>\$ 1,070,000</u>	<u>\$ 75,380</u>	<u>\$ 1,000,000</u>	<u>\$ 258,206</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

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
2008	\$ 245,419
2009	245,419
2010	169,856
2011	169,856
Total minimum payments	830,550
Less: Interest	(74,429)
Present value of minimum lease payments	756,121
Current portion	214,100
Long term portion	<u>\$ 542,021</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)	\$ 41,195,158	\$	\$ (1,714,186)	\$ 39,480,972	\$ 1,796,965
Revenue Bonds-Water Fund	20,001,308		(538,951)	19,462,357	565,261
Revenue Bonds-Sewer Fund	28,708,692		(1,071,049)	27,637,643	1,114,739
Certificates of Obligation	725,000		(95,000)	630,000	95,000
Notes Payable	9,740,979	243,257	(907,019)	9,077,217	932,650
Capital Lease	724,754		(320,247)	404,507	253,098
Accrued Compensated Absences	1,084,809		(110,478)	974,331	34,850
Deferred Bond issuance costs	(3,346,678)		294,113	(3,052,565)	
Total primary government	<u>98,834,022</u>	<u>243,257</u>	<u>(4,462,817)</u>	<u>94,614,462</u>	<u>4,792,563</u>
Discretely presented component units					
Special obligation bonds	12,500,000		(2,000,000)	10,500,000	2,000,000
Revenue bonds	15,515,000		(2,040,000)	13,475,000	2,035,000
Notes payable	6,900,026	1,999,949	(1,425,717)	7,474,258	1,140,000
Capital Lease		1,776,000	(52,317)	1,723,683	203,919
Compensated absences	462,392	255,054	(195,693)	521,753	173,900
Deferred bond charges	(1,680,788)		350,356	(1,330,432)	
Total discretely presented component units	<u>33,696,630</u>	<u>4,031,003</u>	<u>(5,363,371)</u>	<u>32,364,262</u>	<u>5,552,819</u>
Total reporting entity	<u>\$ 132,530,652</u>	<u>\$ 4,274,260</u>	<u>\$ (9,826,188)</u>	<u>\$ 126,978,724</u>	<u>\$ 10,345,382</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

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% \$ 895,212

\$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%. 7,510,000

\$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) 21,085,760

\$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%. 9,990,000

Total Contracts Payable – Enterprise Funds \$ 39,480,972

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%. \$ 870,000

\$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%. 9,360,000

\$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%. 36,870,000

Total Revenue Bonds, Face Value \$ 47,100,000

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%. \$ 630,000

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 \$ 9,077,217

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

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 \$74,196 as of year end	\$ 112,486
\$272,342 - Capital lease purchase due in annual installments of \$143,419 through October 15, 2007; interest at 4.7%	135,689
\$738,515 - 1990 capital lease purchase due in monthly installments of \$5,886 through February 1, 2010; interest at 7.15 %; net carrying value of equipment purchased \$270,654 as of year end	<u>156,332</u>
Total Capital Leases - Enterprise Funds, Net	<u>\$ 404,507</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%.	\$ 2,000,000
\$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>\$ 10,500,000</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%.	\$ 540,000
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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%.	4,955,000
\$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%.	2,815,000
\$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>5,165,000</u>
Total Revenue Bonds	<u>\$ 13,475,000</u>

Notes Payable

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5%	<u>\$ 7,474,258</u>
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Capital Leases

\$1,700,000 - 2006 capital lease purchase due in 83 monthly installments of \$17,111, with a final payment of \$989,960 due on December 31, 2013; adjustable interest rate initially at 5.74%	<u>\$ 1,723,683</u>
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CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

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
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>\$ 47,100,000</u>	<u>\$ 23,445,148</u>	<u>\$ 39,480,972</u>	<u>\$ 16,936,026</u>

Fiscal Year Ending 9/30	Sanitation Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2008	\$ 95,000	\$ 21,003	\$ 932,650	\$ 261,890
2009	100,000	17,440	960,946	233,594
2010	105,000	14,590	990,100	204,439
2011	105,000	11,309	1,020,139	174,401
2012	110,000	7,765	1,051,089	143,450
2013	115,000	4,025	1,082,981	111,561
2014			1,115,835	78,705
2015			1,149,688	44,850
2016			773,789	10,806
Total	<u>\$ 630,000</u>	<u>\$ 76,132</u>	<u>\$ 9,077,217</u>	<u>\$ 1,263,696</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

Discretely presented component units

Year Ending December 31,	Special obligation bonds		Revenue bonds	
	Principal	Interest	Principal	Interest
2007	\$ 2,000,000	\$ 535,000	\$ 2,035,000	\$ 566,303
2008		467,500	2,090,000	483,014
2009		467,500	2,200,000	380,861
2010		467,500	2,310,000	275,961
2011		467,500	2,375,000	166,675
2012		467,500	2,465,000	56,207
2013		467,500		
2014		467,500		
2015	8,500,000	233,750		
Total	\$ 10,500,000	\$ 4,041,250	\$ 13,475,000	\$ 1,929,021

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				
	Municipal Airport	Waterworks	Sewer	Drainage Fund	Total
2008	\$ 70,631	\$ 71,709	\$ 71,710	\$ 57,087	\$ 271,137
2009	70,631			57,088	127,719
2010	29,428				29,428
2011					
Total minimum payments	170,690	71,709	71,710	114,175	428,284
Less: Interest	(14,358)	(3,865)	(3,865)	(5,066)	(27,154)
Present value of minimum lease payments	156,332	67,844	67,845	109,109	401,130
Current portion	61,441	67,844	67,845	53,727	250,857
Long term portion	\$ 94,891	\$	\$	\$ 55,382	\$ 150,273

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, 2006 are as follows:

Year Ended December 31,	Minimum Payments
2007	\$ 405,000
2008	118,125
	\$ 523,125

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 the water production facilities.

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

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

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

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
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Exhibit 13

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.

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 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.

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 10/1/2006</u>	<u>Retirements</u>	<u>Refunded Principal Outstanding 9/30/2007</u>
Series 1994	\$ 1,210,000	\$ (380,000)	\$ 830,000
Series 1990	141,180	(50,582)	90,598
Series 2001	2,500,000		2,500,000
Series 1995	6,355,000	(560,000)	5,795,000
Series 2000	6,900,000		6,900,000
	<u>\$ 17,106,180</u>	<u>\$ (990,582)</u>	<u>\$ 16,115,598</u>

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	(15,229)
Capital Project Funds:	
Island Transit Capital Projects	(56,923)
Internal Service Funds:	
Casualty and Liability Insurance	(55,779)
Workers Compensation Insurance	(175,008)

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 have deductibles per occurrence of \$10,000 and \$10,000, 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.

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There have been no significant reductions in insurance coverage from prior years. There have been no insurance settlements exceeding insurance coverage in the past five years.

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

Workers Compensation

The City is self-insured for workers compensation. A commercial policy issued by Midwest Employees Casualty Insurance Company pays for excess claims over \$500,000 per individual and \$3,400,000 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>
2006	\$ 484,821	\$ 437,914	\$ (610,792)	\$ 311,943
2007	311,943	686,372	(473,620)	524,695

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 \$3,400,000 in aggregate claims on an annual basis from Majestic Insurance Co.

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

<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>
2006	\$ 379,518	\$ 2,368,501	\$ (2,350,877)	\$ 397,132
2007	397,132	2,215,223	(2,199,154)	413,201

12 MAJOR CONTRACTS AND COMMITMENTS

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

Emergency Medical Services Contract:

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

Discretely Presented Component Units:

Governmental Activities

Park Board of Trustees

Operating Leases

In addition to the capital leases reported in the long-term liabilities' note to the financial statements, the Park Board has future lease obligations accounted for as operating leases. Lease rental for the year ended September 30, 2007 was \$171,146.

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 September 30</u>	<u>2504 Church</u>	<u>61st Street Visitor's Center</u>	<u>Total</u>
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>\$ 175,200</u>	<u>\$ 127,000</u>	<u>\$ 302,200</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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

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:

<u>Year Ending September 30</u>	<u>Concession Contract</u>	<u>Advertising and Promotion</u>	<u>Total</u>
2008	\$ 70,000	\$ 60,000	\$ 130,000
2009	70,000	60,000	130,000
Totals	<u>\$ 140,000</u>	<u>\$ 120,000</u>	<u>\$ 260,000</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, 2006, was \$10,500,000. 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, 2006:

	<u>12/31/2006</u>
Minimum lease rental payments receivable	
Due within one year	\$ 3,024,106
Due after one year	21,438,413
	<u>24,462,519</u>
Unearned income, direct financing lease	
Due within one year	\$ 799,169
Due after one year	9,021,343
	<u>9,820,512</u>
Net investment in direct financing lease	<u>\$ 34,283,031</u>

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

Combination Lease – Sales-Type/Operating

During the year ended September 30, 2007, the Galveston Wharves terminated its lease agreement for a container terminal with the Port of Houston. As a result of the termination of the lease, the leased equipment (primarily container cranes) reverted back to the Wharves. Because the advanced age and condition of the equipment, management feels any salvage value of the remaining equipment would be offset by cost related to disassembling and removing of the cranes.

The result of the termination of the lease is reflected as a \$2 million charge to the financial statements.

Railroad Facilities

Following the favorable settlement in 2006 of a lawsuit filed by the Wharves over the interpretation of certain language in the lease covering rail facilities owned by the Wharves (which is further described in Note 12 to the Financial Statements) the Wharves entered into a new lease agreement with the previous Lessee covering the rail facilities effective August 1, 2006 through the period ending July 31, 2026. This new lease calls for annual base rent in the amount of \$100,000, adjusted annually for a cost of living increase, and percentage rent of 20% of the Lessee's total gross revenues. It also calls for relocation of certain rail track, the cost of which will be split 50/50 between the Wharves and the lessee. The lease also provides for the establishment of an "Annual Track Fund". Under this section the Lessee will accrue \$20,000 per month to be spent on maintaining and repairing the railroad track. If, during the course of a year, Lessee spends less than the annual \$240,000 accrual the balance remaining is to be split 50/50 between the Lessee and the Wharves.

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, 2006 the amount deferred to future years was approximately \$4.1 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, 2007, 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
2007	\$ 1,695,806
2008	1,306,307
2009	774,556
2010	771,556
2011	771,556
Thereafter	2,689,805
	<u>\$ 8,009,586</u>

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 184 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 259 employees and retirees. The City Employees' Retirement Plan for City Employees and the City Employees' Retirement Plan for Police were created by ordinances dated 1949, and 1981, respectively. Subsequent ordinances assign the authority to establish and amend benefit provisions to the Board of Trustees of each plan.

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

The benefit and contribution provisions of the 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.

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

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:

Retirement Plan	Year Ending	Annual Required Contributions	Actual Contributions Made	Contributed	Net Pension Obligation (NPO)
<i>Primary Government</i>					
Employees' Retirement Plan for City Employees	12/31/2004	\$ 664,706	\$ 811,645	122%	\$
	12/31/2005	976,965	955,662	98%	
	12/31/2006	1,269,296	1,246,748	98%	
Firemen's Retirement and Retirement Fund	12/31/2004	713,677	713,677	100%	
	12/31/2005	775,852	804,587	104%	
	12/31/2006	797,056	826,577	104%	
Employees' Retirement Plan for Police	12/31/2004	1,011,632	498,174	49%	513,458
	12/31/2005	1,171,439	570,724	49%	1,114,173
	12/31/2006	754,559	652,350	86%	1,216,382

CITY OF GALVESTON, TEXAS

Notes to Financial Statements
September 30, 2007

Exhibit 13

	Employees’ Retirement Plan	Firemen’s Retirement Plan	Police Retirement Plan
Contribution Rates:			
City Plan Members	6.00%	14.00%	8.00%
	6.00%	12.00%	10.00%
Actuarial valuation date	01/01/07	01/01/06	01/01/07
Actuarial cost method	Entry Age Normal	Entry Age	Entry Age
Asset valuation method	Smoothed market value	Smoothed market value by a 5 year deferred recognition method with an 80%/120% corridor on market	Market value smoothed by a 5 year deferred recognition method with a 90%/110% corridor on market
Amortization method	Level percentage of pay contribution	Level percentage of projected payroll, open	Level percentage of projected payroll, open
Amortization period	30	27.3	37.5
Actuarial assumptions:			
Inflation	3.3%	4.0%	4.00%
Investment rate of return	8.00%	8.0%	7.50%
Projected salary increase	5.25%	4.5%	4.0% to 10.2% per year, averaging 5.6%

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

NPO 12/31/05	\$ 1,114,173
Plus:	
Annual required contribution	\$ 730,682
Interest on NPO	83,788
Adjustment to ARC	(59,911)
Annual pension cost	<u>754,559</u>
Actual contributions made	<u>(652,350)</u>
NPO 12/31/06	<u>\$ 1,216,382</u>

CITY OF GALVESTON, TEXAS

Notes to Financial Statements

September 30, 2007

Exhibit 13

B. Discretely Presented Component Unit Benefit Plans

Board of Trustees of the Galveston Wharves

Plan Description

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

Basis of Accounting

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

Annual Pension Cost – Unaudited

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

	<u>January 1, 2006</u>	<u>January 1, 2005</u>	<u>January 1, 2004</u>
Actuarial value of plan assets	\$ 7,996,824	\$ 7,866,184	\$ 7,151,956
Actuarial accrued liability	<u>9,167,920</u>	<u>8,635,341</u>	<u>8,040,414</u>
Total funding excess (deficit)	<u>\$ (1,171,096)</u>	<u>\$ (769,157)</u>	<u>\$ (888,458)</u>
Annual covered payroll	<u>\$ 3,575,578</u>	<u>\$ 3,328,157</u>	<u>\$ 2,947,809</u>
Ratio-over (under) funded to covered payroll	<u>-33%</u>	<u>-23%</u>	<u>-30%</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 seven and one-half 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 2006 were \$329,428. At December 31, 2006 The Plan had an unfunded actuarial liability of \$1,171,096.

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 Park Board's required and actual contributions amounted to \$73,348. No pension provision changes occurred during the year that affected required contributions to be made by the Galveston Park Board or its employees.

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

Deferred Compensation Plan**City of Galveston**

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

14 MAJOR DISCRETELY PRESENTED COMPONENT UNITS

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

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CITY OF GALVESTON, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES

Exhibit 13

COMBINING STATEMENT OF NET ASSETS

September 30, 2007

	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores- Public Improvement District No. 1	Preserve at Sweetwater Lake- Public Improvement District	Totals
ASSETS					
Cash and equivalents	\$ 5,966,900	\$ 1,450,968	\$ 66,089	\$ 3,632	\$ 7,487,589
Original issue discount	15,347				15,347
Investments	5,010				5,010
Receivables-less allowance for uncollectibles	1,223,779	131	25,252		1,249,162
Internal Balances					
Inventories	8,025				8,025
Prepaid items	584,729				584,729
Restricted assets	892,365	96,113			988,478
Capital assets (net of accumulated depreciation)	305,651,897				305,651,897
Total assets	314,348,052	1,547,212	91,341	3,632	315,990,237
LIABILITIES					
Accounts payable and accrued expenses	559,117	379,397			938,514
Due to other governments	153,508			3,500	157,008
Due to primary government		39,211			39,211
Accrued interest		21,113			21,113
Long-term liabilities:					
Due within one year	1,725,791	75,000			1,800,791
Due in more than one year	675,000	7,635,506			8,310,506
Total liabilities	3,113,416	8,150,227		3,500	11,267,143
NET ASSETS					
Invested in capital assets, net of related debt	304,581,897				304,581,897
Restricted					
Debt service	574,765	96,113			670,878
Other projects	317,599				317,599
Unrestricted	5,760,375	(6,699,128)	91,341	132	(847,280)
Total net assets	\$ 311,234,636	\$ (6,603,015)	\$ 91,341	\$ 132	\$ 304,723,094

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Unit				
Park Board of Trustees	\$ 18,443,691	\$ 3,862,704	\$	\$
Galveston Island Redevelopment Authority	8,859,853			
Campeche Shores- Public Improvement District No. 1				
Preserve at Sweetwater Lake- Public Improvement District				
	<u>\$ 27,303,544</u>	<u>\$ 3,862,704</u>	<u>\$</u>	<u>\$</u>

General revenues:

Taxes:

Property taxes

Sales and use tax

Hotel occupancy taxes

Miscellaneous

Unrestricted investment earnings

Total general revenues

Change in net assets

Net assets, beginning, as restated

Net assets, ending

See Notes to Financial Statements.

Net (Expense) and Changes in Net Assets				
Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores- Public Improvement District No. 1	Preserve at Sweetwater Lake- Public Improvement District	Totals
\$ (14,580,987)	\$	\$	\$	\$ (14,580,987)
	(8,859,853)			(8,859,853)
<u>(14,580,987)</u>	<u>(8,859,853)</u>			<u>(23,440,840)</u>
	1,442,272			1,442,272
1,054,603				1,054,603
6,381,288				6,381,288
3,074,431				3,074,431
204,042	287	2,784	132	207,245
<u>10,714,364</u>	<u>1,442,559</u>	<u>2,784</u>	<u>132</u>	<u>12,159,839</u>
(3,866,623)	(7,417,294)	2,784	132	(11,281,001)
<u>315,101,259</u>	<u>814,279</u>	<u>88,557</u>		<u>316,004,095</u>
<u>\$ 311,234,636</u>	<u>\$ (6,603,015)</u>	<u>\$ 91,341</u>	<u>\$ 132</u>	<u>\$ 304,723,094</u>

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Exhibit 13

	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
ASSETS				
Cash and Equivalents	\$ 14,240,510	\$ 50,988	\$ 111,274	\$ 14,402,772
Investments		50,000	1,203,178	1,253,178
Receivables-less allowance for uncollectibles	4,337,868	20,000		4,357,868
Internal Balances		41,044	(41,044)	
Prepays	472,527			472,527
Restricted assets	12,508,628	1,701	375,340	12,885,669
Other Assets	1,330,432			1,330,432
Net investment in direct financing and capital leases- noncurrent	12,417,070			12,417,070
Capital assets not being depreciated	13,429,635	130,611		13,560,246
Capital Assets (net of accumulated depreciation)	64,649,479			64,649,479
Total Assets	<u>123,386,149</u>	<u>294,344</u>	<u>1,648,748</u>	<u>125,329,241</u>
LIABILITIES				
Accounts payable and accrued expenses	3,518,925	22,816	13,032	3,554,773
Due to other governmental agencies	197,072			197,072
Due to primary government	19,323,672			19,323,672
Deferred revenues	4,398,612			4,398,612
Accrued interest	812,154		15,300	827,454
Long-term liabilities				
Due within one year	5,218,900		130,000	5,348,900
Due in more than one year	27,935,794		410,000	28,345,794
Total liabilities	<u>61,405,129</u>	<u>22,816</u>	<u>568,332</u>	<u>61,996,277</u>
NET ASSETS				
Invested in capital assets, net of related debt	43,442,019			43,442,019
Restricted for:				
Debt Service	4,093,602		102,377	4,195,979
Unrestricted	14,445,399	271,528	978,039	15,694,966
Total net assets	<u>\$ 61,981,020</u>	<u>\$ 271,528</u>	<u>\$ 1,080,416</u>	<u>\$ 63,332,964</u>

CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit 13

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets			Total
		Charges for Services	Capital Grants and Contributions	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	\$ 17,419,445	\$ 21,958,844	\$ 1,546,881	\$ 6,086,280	\$	\$	\$ 6,086,280
Galveston Housing Finance Corporation	32,640	134,363			101,723		101,723
Galveston Property Finance Authority	103,065	69,437				(33,628)	(33,628)
Totals	<u>\$ 17,555,150</u>	<u>\$ 22,162,644</u>	<u>\$ 1,546,881</u>	<u>6,086,280</u>	<u>101,723</u>	<u>(33,628)</u>	<u>6,154,375</u>
General revenues:							
Unrestricted investment earnings				922,903	5,844	56,637	985,384
Miscellaneous				2,872,523			2,872,523
Total general revenues, special items, and tra				3,795,426	5,844	56,637	3,857,907
Change in net assets				9,881,706	107,567	23,009	10,012,282
Net assets - beginning				52,099,314	163,961	1,057,407	53,320,682
Net assets - ending				<u>\$ 61,981,020</u>	<u>\$ 271,528</u>	<u>\$ 1,080,416</u>	<u>\$ 63,332,964</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
January 1, 2006 and 2007
Unaudited

Exhibit 14

Primary Government

SCHEDULES OF FUNDING PROGRESS
Employees' Retirement Plan for City Employees (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded		Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
		Actuarial Liability (AAL) Entry Age (b)	Actuarial Liability (UAAL) (b-a)			
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%
01/01/2006	\$ 35,735,972	\$ 40,119,045	\$ 4,383,073	89.1%	\$ 15,784,874	27.8%
01/01/2007	\$ 35,587,281	\$ 42,116,341	\$ 6,529,060	84.5%	\$ 16,604,915	39.3%

SCHEDULES OF FUNDING PROGRESS
Firemen's Relief and Retirement Fund (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded		Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
		Actuarial Liability (AAL) Entry Age (b)	Actuarial Liability (UAAL) (b-a)			
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%
01/01/2006	\$ 31,247,296	\$ 39,606,700	\$ 8,359,404	78.9%	\$ 5,813,514	143.8%

SCHEDULES OF FUNDING PROGRESS
Employees' Retirement Plan for Police (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded		Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
		Actuarial Liability (AAL) Entry Age (b)	Actuarial Liability (UAAL) (b-a)			
1/1/2005	\$ 24,829,733	\$ 38,866,978	\$ 14,037,245	63.9%	\$ 7,118,514	197.2%
1/1/2006	\$ 24,914,144	\$ 38,306,984	\$ 13,392,840	65.0%	\$ 8,237,678	162.6%
1/1/2007	\$ 25,077,433	\$ 40,639,131	\$ 15,561,698	61.7%	\$ 8,198,433	189.8%

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)	Unfunded		Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
		Actuarial Liability (AAL) Entry Age (b)	Actuarial Liability (UAAL) (b-a)			
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%
01/01/2006	\$ 7,996,824	\$ 9,167,920	\$ 1,171,096	87.2%	\$ 3,575,578	32.8%

GENERAL FUND

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CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET
AND ACTUAL ON BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Exhibit A-1

	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
General government:			
Legislative	\$ 384,071	\$ 344,210	\$ 39,861
Judicial	593,544	584,983	8,561
Executive	979,064	957,658	21,406
City auditor	33,455	27,657	5,798
Finance	1,947,486	1,920,179	27,307
Legal	726,503	653,219	73,284
Personnel	298,211	276,014	22,197
Taxation	139,840	123,874	15,966
Total general government	<u>\$ 5,102,174</u>	<u>\$ 4,887,794</u>	<u>\$ 214,380</u>
Public safety:			
Police	15,404,397	15,394,924	9,473
Special events	340,000	340,000	
Fire	9,196,734	9,192,445	4,289
Emergency medical service	522,084	522,083	1
Emergency management	115,090	105,966	9,124
Total public safety	<u>\$ 25,578,305</u>	<u>\$ 25,555,418</u>	<u>\$ 22,887</u>
Public works and traffic	3,329,326	3,228,025	101,301
Culture and recreation	1,949,490	1,894,123	55,367
Planning and community development	1,796,248	1,762,777	33,471
Transportation system	<u>830,000</u>	<u>830,000</u>	
Total expenditures	<u><u>\$ 38,585,543</u></u>	<u><u>\$ 38,158,137</u></u>	<u><u>\$ 427,406</u></u>

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.

SPECIAL REVENUE FUNDS

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 improvements 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, debt service fund and payment of general long-term debt, principal, interest and related costs.

Hotel Occupancy Tax Debt Service Fund - to account for the accumulation of resources for, hotel occupancy and tax debt service fund and payment of Hotel Occupancy Bonds principal, interest and related costs.

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 public improvements for, general governmental purposes.

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

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

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

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.

CITY OF GALVESTON, TEXAS
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

	<u>Rosenberg Library</u>	<u>Parks and Recreation Improvement</u>	<u>Grants and Government Contracts</u>	<u>Street Improvements</u>	<u>Industrial Development Corporation</u>
ASSETS					
Cash and cash equivalents	\$	\$ 431,359	\$ 260,419	\$ 118	\$
Due from other funds					
Receivables (net of allowance for uncollectibles)	124,502		1,010,404		1,863
Due from other governments			255,419		790,866
Total Assets	<u>\$ 124,502</u>	<u>\$ 431,359</u>	<u>\$ 1,526,242</u>	<u>\$ 118</u>	<u>\$ 792,729</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,276	\$	\$ 99,322	\$	\$ 198,182
Due to other funds	24,705		83,216		594,547
Payable to other governments			2,281		
Deferred revenue	98,521		1,335,124		
Other accrued expenses			21,528		
Total Liabilities	<u>124,502</u>		<u>1,541,471</u>		<u>792,729</u>
Fund balances:					
Reserved for:					
Capital projects					
Debt service					
Other purposes		431,359	(15,229)	118	
Total Fund Balances		<u>431,359</u>	<u>(15,229)</u>	<u>118</u>	
Total Liabilities and Fund Balances	<u>\$ 124,502</u>	<u>\$ 431,359</u>	<u>\$ 1,526,242</u>	<u>\$ 118</u>	<u>\$ 792,729</u>

<u>Project Specific Programs</u>	<u>Convention Center Funds</u>	<u>Island Transit Grant Fund</u>	<u>Moody Civic Center</u>	<u>Debt Service Fund</u>	<u>Hotel Occupancy Tax Debt Service Fund</u>	<u>Drainage and Street Improvements</u>
\$ 1,695,607	\$ 2,233,659	\$	\$	\$ 3,739,832	\$ 3,081,091	\$ 2,043,470 215,688
17,621				121,796		
900,932		141,253				
<u>\$ 2,614,160</u>	<u>\$ 2,233,659</u>	<u>\$ 141,253</u>	<u>\$</u>	<u>\$ 3,861,628</u>	<u>\$ 3,081,091</u>	<u>\$ 2,259,158</u>
\$ 909,066	\$	\$ 29,471 111,782	\$	\$ 1,163	\$	\$ 28,128
6,650						
6,874				121,796		
4,210						2,892
<u>926,800</u>		<u>141,253</u>		<u>122,959</u>		<u>31,020</u>
	2,233,659			3,738,669	3,081,091	2,228,138
1,687,360						
<u>1,687,360</u>	<u>2,233,659</u>			<u>3,738,669</u>	<u>3,081,091</u>	<u>2,228,138</u>
<u>\$ 2,614,160</u>	<u>\$ 2,233,659</u>	<u>\$ 141,253</u>	<u>\$</u>	<u>\$ 3,861,628</u>	<u>\$ 3,081,091</u>	<u>\$ 2,259,158</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2007

	<u>Sewer Improvements</u>	<u>Bond 2001 Capital Projects</u>	<u>Island Transit Capital Projects</u>	<u>Public Safety Improvements</u>
ASSETS				
Cash and cash equivalents	\$ 3,572,579	\$ 1,128,869	\$ 1,590	\$ 998
Due from other funds	378,859			
Receivables (net of allowance for uncollectibles)				
Due from other governments			450,423	
Total Assets	<u>\$ 3,951,438</u>	<u>\$ 1,128,869</u>	<u>\$ 452,013</u>	<u>\$ 998</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 83,727	\$ 10,716	\$ 49,704	\$ 998
Due to other funds			354,723	
Payable to other governments				
Deferred revenue			101,333	
Other accrued expenses	305		3,176	
Total Liabilities	<u>84,032</u>	<u>10,716</u>	<u>508,936</u>	<u>998</u>
 Fund balances:				
Reserved for:				
Capital projects	3,867,406	1,118,153		
Debt service				
Other purposes			(56,923)	
Total Fund Balances	<u>3,867,406</u>	<u>1,118,153</u>	<u>(56,923)</u>	
Total Liabilities and Fund Balances	<u>\$ 3,951,438</u>	<u>\$ 1,128,869</u>	<u>\$ 452,013</u>	<u>\$ 998</u>

Exhibit B-1
Page 2 of 2

<u>Public</u> <u>Improvements</u>	<u>General</u> <u>Obligation</u> <u>Bond 2005</u> <u>Capital Project</u>	<u>Totals</u>
\$	\$ 6,833,046	\$ 25,022,637
		594,547
		1,276,186
		2,538,893
<u>\$</u>	<u>\$ 6,833,046</u>	<u>\$ 29,432,263</u>
\$	\$ 75,768	\$ 1,487,521
		1,168,973
		8,931
		1,663,648
	286	32,397
	<u>76,054</u>	<u>4,361,470</u>
	6,756,992	13,970,689
		9,053,419
		2,046,685
	<u>6,756,992</u>	<u>25,070,793</u>
<u>\$ -</u>	<u>\$ 6,833,046</u>	<u>\$ 29,432,263</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	<u>Rosenberg Library</u>	<u>Parks and Recreation Improvement</u>	<u>Grants and Government Contracts</u>	<u>Street Improvements</u>
REVENUES				
Property Taxes	\$ 1,637,388	\$	\$	\$
Sales and use taxes				
Fines and forfeitures				
Charges for services			501,438	
Investment earnings	(6,644)	25,781	24,787	(36)
Intergovernmental			2,479,383	
Other				
Total Revenues	<u>1,630,744</u>	<u>25,781</u>	<u>3,005,608</u>	<u>(36)</u>
EXPENDITURES				
Current:				
General government				
Public safety			116,440	
Highways and roads				
Culture and recreation	1,755,142		57,182	
Planning and community development			2,415,423	
Transportation				
Debt Service:				
Principal				
Interest and other charges				
Capital Outlay		242	410,811	564
Total Expenditures	<u>1,755,142</u>	<u>242</u>	<u>2,999,856</u>	<u>564</u>
Excess (deficiency) of revenues over expenditures	<u>(124,398)</u>	<u>25,539</u>	<u>5,752</u>	<u>(600)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers (out)			(66)	
Net change in fund balances	(124,398)	25,539	5,686	(600)
Fund balances - beginning	<u>124,398</u>	<u>405,820</u>	<u>(20,915)</u>	<u>718</u>
Fund balances - ending	<u>\$</u>	<u>\$ 431,359</u>	<u>\$ (15,229)</u>	<u>\$ 118</u>

<u>Industrial Development Corporation</u>	<u>Project Specific Programs</u>	<u>Convention Center Funds</u>	<u>Island Transit Grant Fund</u>	<u>Moody Civic Center</u>	<u>Debt Service Fund</u>
\$	\$	\$	\$	\$	\$ 1,997,438
4,255,207	133,448	2,647,946			
	127,485				
	159,049		1,746		
51,876	99,061	72,833		233	244,340
	39,748		265,019		
	26,727	641,732			
<u>4,307,083</u>	<u>585,518</u>	<u>3,362,511</u>	<u>266,765</u>	<u>233</u>	<u>2,241,778</u>
	156,324				
	155,067				
1,063,802	75,464	2,211,618			
			325,974		
					1,587,912
					1,713,896
			5,987		
<u>1,063,802</u>	<u>386,855</u>	<u>2,211,618</u>	<u>331,961</u>		<u>3,301,808</u>
<u>3,243,281</u>	<u>198,663</u>	<u>1,150,893</u>	<u>(65,196)</u>	<u>233</u>	<u>(1,060,030)</u>
			65,196		1,330,894
<u>(3,810,231)</u>				<u>(15,273)</u>	
(566,950)	198,663	1,150,893		(15,040)	270,864
566,950	1,488,697	1,082,766		15,040	3,467,805
<u>\$</u>	<u>\$ 1,687,360</u>	<u>\$ 2,233,659</u>	<u>\$ -</u>	<u>\$</u>	<u>\$ 3,738,669</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2007

	Hotel Occupancy Tax Debt Service Fund	Drainage and Street Improvements	Sewer Improvements	Bond 2001 Capital Projects
REVENUES				
Property Taxes	\$	\$	\$	\$
Sales and use taxes	1,837,277			
Fines and forfeitures				
Charges for services				
Investment earnings	171,542	94,307	184,272	71,515
Intergovernmental				
Other				
Total Revenues	<u>2,008,819</u>	<u>94,307</u>	<u>184,272</u>	<u>71,515</u>
EXPENDITURES				
Current:				
General government				
Public safety				
Highways and roads		72,435	12,022	21,711
Culture and recreation				
Planning and community development				
Transportation				
Debt Service:				
Principal	380,000			
Interest and other charges	1,481,562			
Capital Outlay		57,005	1,398,059	340,558
Total Expenditures	<u>1,861,562</u>	<u>129,440</u>	<u>1,410,081</u>	<u>362,269</u>
Excess (deficiency) of revenues over expenditures	<u>147,257</u>	<u>(35,133)</u>	<u>(1,225,809)</u>	<u>(290,754)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		843,951	1,635,386	
Transfers (out)				
Net change in fund balances	<u>147,257</u>	<u>808,818</u>	<u>409,577</u>	<u>(290,754)</u>
Fund balances - beginning	<u>2,933,834</u>	<u>1,419,320</u>	<u>3,457,829</u>	<u>1,408,907</u>
Fund balances - ending	<u>\$ 3,081,091</u>	<u>\$ 2,228,138</u>	<u>\$ 3,867,406</u>	<u>\$ 1,118,153</u>

Island Transit Capital Projects	Public Safety Improvements	Public Improvements	General Obligation Bond 2005 Capital Project	Totals
\$	\$	\$	\$	\$ 3,634,826
				8,873,878
				127,485
22,458				684,691
791	69	21	363,465	1,398,213
1,170,501				3,954,651
				668,459
<u>1,193,750</u>	<u>69</u>	<u>21</u>	<u>363,465</u>	<u>19,342,203</u>
				156,324
	1,210			272,717
			1,084	107,252
				5,163,208
				2,415,423
285,881				611,855
				1,967,912
				3,195,458
964,037		1,050	791,767	3,970,080
<u>1,249,918</u>	<u>1,210</u>	<u>1,050</u>	<u>792,851</u>	<u>17,860,229</u>
<u>(56,168)</u>	<u>(1,141)</u>	<u>(1,029)</u>	<u>(429,386)</u>	<u>1,481,974</u>
				3,875,427
				(3,825,570)
(56,168)	(1,141)	(1,029)	(429,386)	1,531,831
(755)	1,141	1,029	7,186,378	23,538,962
<u>\$ (56,923)</u>	<u></u>	<u></u>	<u>\$ 6,756,992</u>	<u>\$ 25,070,793</u>

CITY OF GALVESTON, TEXAS

SPECIAL REVENUE FUND - ISLAND TRANSIT

Exhibit B-3

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)

For the Year Ended September 30, 2007

	2007		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Intergovernmental-Federal	\$ 1,926,256	\$ 1,688,474	\$ (237,782)
Intergovernmental- State	368,744	331,870	(36,874)
Intergovernmental- Local	630,000	594,514	(35,486)
Farebox Revenues	298,000	320,419	22,419
Charges for Services	380,000	469,733	89,733
Other	130,000	125,156	(4,844)
Total Revenues	3,733,000	3,530,166	(202,834)
EXPENDITURES			
Current:			
Transportation System:			
Transit System:			
Personal Services	1,383,550	1,392,868	(9,318)
Materials and Supplies	80,000	53,803	26,197
Contractual services	376,090	372,879	3,211
Other charges	112,660	101,860	10,800
Total Transit System Expenditures:	<u>1,952,300</u>	<u>1,921,410</u>	<u>30,890</u>
Maintenance:			
Personal Services	898,540	849,871	48,669
Materials and Supplies	370,000	255,866	114,134
Contractual services	105,790	77,971	27,819
Other charges	20,000	51,971	(31,971)
Total Maintenance Expenditures:	<u>1,394,330</u>	<u>1,235,679</u>	<u>158,651</u>
Administration:			
Personal Services	197,803	188,960	8,843
Materials and Supplies	77,200	59,990	17,210
Contractual services	110,517	105,725	4,792
Other charges	850	(623)	1,473
Total Administration Expenditures:	<u>386,370</u>	<u>354,052</u>	<u>32,318</u>
Total Expenditures	3,733,000	3,511,141	221,859
Revenues and other financing sources over/(under) expenditures	<u><u>\$</u></u>	<u><u>\$ 19,025</u></u>	<u><u>\$ 19,025</u></u>
Fund balances, beginning of year (budgetary basis)		<u>398,137</u>	
Fund balances, end of year (budgetary basis)		<u><u>\$ 417,162</u></u>	

CITY OF GALVESTON, TEXAS
SPECIAL REVENUE FUND - ROSENBERG LIBRARY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)
For the Year Ended September 30, 2007

Exhibit B-4

	2007		
	Budget	Actual	Variance Positive / (Negative)
REVENUES			
Property taxes- current	\$ 1,627,658	1,601,286	\$ (26,372)
Property taxes- delinquent	191,345	36,102	(155,243)
Earnings on investment		(6,644)	(6,644)
Total Revenues	1,819,003	1,630,744	(188,259)
EXPENDITURES			
Current:			
Culture and Recreation			
Payments to Rosenberg Library	1,819,003	1,755,142	63,861
Total Expenditures	1,819,003	1,755,142	63,861
Revenues over (under) expenditures		(124,398)	(124,398)
Fund balances, beginning of year	124,398	124,398	
Fund balances at year end	\$ 124,398	\$	\$ (124,398)

CITY OF GALVESTON, TEXAS

DEBT SERVICE FUND

Exhibit B-5

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (Budgetary Basis)

For the Year Ended September 30, 2007

	2007		Variance Positive / (Negative)
	Budget	Actual	
REVENUES			
Property taxes	\$ 2,008,958	\$ 1,997,438	\$ (11,520)
Earnings on Investments	110,000	244,340	134,340
Total Revenues	<u>2,118,958</u>	<u>2,241,778</u>	<u>122,820</u>
EXPENDITURES			
Principal Retirement	1,587,912	1,587,912	
Interest and fiscal agent fees	1,711,981	1,707,669	4,312
Total Expenditures	<u>3,299,893</u>	<u>3,295,581</u>	<u>4,312</u>
Revenues over (under) expenditures	<u>(1,180,935)</u>	<u>(1,053,803)</u>	<u>127,132</u>
OTHER FINANCING SOURCES / (USES)			
Transfer in:			
Industrial Development Corporation	1,329,435	1,330,894	1,459
	<u>1,329,435</u>	<u>1,330,894</u>	<u>1,459</u>
Revenues and other financing sources over/(under) expenditures	148,500	277,091	128,591
Fund balances, beginning of year	<u>3,467,805</u>	<u>3,467,805</u>	
Fund balances at year end	<u>\$ 3,616,305</u>	<u>\$ 3,744,896</u>	<u>\$ 128,591</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
STATEMENT OF NET ASSETS
OTHER ENTERPRISE FUNDS
September 30, 2007

Exhibit C-1

	Business-type Activities - Enterprise Funds				
	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
ASSETS					
Current Assets:					
Cash and temporary investments	\$ 1,004,785	\$ 671,048	\$ 272,336	\$	\$ 1,948,169
Accounts Receivable, net of allowance for doubtful accounts	1,739,679	677,397	57,744		2,474,820
Prepaid Expenses	4,669	3,112	12,487		20,268
Restricted assets:					
Cash and investments	147,884	1,055,223			1,203,107
Total current assets	<u>2,897,017</u>	<u>2,406,780</u>	<u>342,567</u>		<u>5,646,364</u>
Non-current assets:					
Capital assets not being depreciated		2,004,070	1,461,616		3,465,686
Capital assets (net of depreciation)	1,491,290	366,855	9,213,880		11,072,025
Total non-current assets	<u>1,491,290</u>	<u>2,370,925</u>	<u>10,675,496</u>		<u>14,537,711</u>
Total Assets	<u>4,388,307</u>	<u>4,777,705</u>	<u>11,018,063</u>		<u>20,184,075</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued expenses	376,809	46,481	12,276		435,566
Accrued interest payable	7,001				7,001
Unearned revenue	11,100		32,818		43,918
Long-term debt, current portion					
Compensated absences	11,850	3,250			15,100
Capital lease obligation		55,967	61,441		117,408
Bonds and certificates of obligation payable	95,000				95,000
Total current liabilities	<u>501,760</u>	<u>105,698</u>	<u>106,535</u>		<u>713,993</u>
Non-current liabilities:					
Long-term debt, noncurrent portion					
Compensated absences	220,780	104,497	55,124		380,401
Capital lease obligation		56,519	94,891		151,410
Bonds and certificates of obligation payable	522,287				522,287
Total non-current liabilities	<u>743,067</u>	<u>161,016</u>	<u>150,015</u>		<u>1,054,098</u>
Total Liabilities	<u>1,244,827</u>	<u>266,714</u>	<u>256,550</u>		<u>1,768,091</u>
NET ASSETS					
Invested in capital assets, net of related debt	874,003	1,309,592	9,057,548		11,241,143
Restricted for debt service	7,001				7,001
Unrestricted	2,262,476	3,201,399	1,703,965		7,167,840
Total Net Assets	<u>\$ 3,143,480</u>	<u>\$ 4,510,991</u>	<u>\$ 10,761,513</u>	\$	<u>\$ 18,415,984</u>

CITY OF GALVESTON, TEXAS**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS****OTHER ENTERPRISE FUNDS**

For the Year Ended September 30, 2007

Exhibit C-2

	Enterprise Funds				Total
	Sanitation	Drainage	Airport	Golf Course	
REVENUES					
Charges for services	\$ 4,587,219	\$ 2,799,923	\$ 1,071,006	\$ 189,396	\$ 8,647,544
Total operating revenues	<u>4,587,219</u>	<u>2,799,923</u>	<u>1,071,006</u>	<u>189,396</u>	<u>8,647,544</u>
OPERATING EXPENSES					
Personal services	1,849,928	773,704	348,011	101,355	3,072,998
Contractual services	1,246,249	295,086	89,269	58,356	1,688,960
Supplies and materials	65,708	86,313	105,363	61,958	319,342
Other expenses	124,226	65,035	118,685	84,282	392,228
Administrative charge	172,364	38,783	44,172		255,319
Depreciation	258,222	21,642	477,840	27,343	785,047
Total Operating Expenses	<u>3,716,697</u>	<u>1,280,563</u>	<u>1,183,340</u>	<u>333,294</u>	<u>6,513,894</u>
Operating income (loss)	<u>870,522</u>	<u>1,519,360</u>	<u>(112,334)</u>	<u>(143,898)</u>	<u>2,133,650</u>
NON-OPERATING REVENUES					
(EXPENSES)					
Interest and investment revenue	48,281	91,769	12,468	697	153,215
Gain (loss) on disposal of capital assets				25,518	25,518
Interest expense	<u>(23,378)</u>	<u>(6,059)</u>	<u>(13,418)</u>		<u>(42,855)</u>
Total non-operating revenue (expenses)	<u>24,903</u>	<u>85,710</u>	<u>(950)</u>	<u>26,215</u>	<u>135,878</u>
Income (loss) before contributions and transfers	895,425	1,605,070	(113,284)	(117,683)	2,269,528
Capital contributions		57,005	1,161,864		1,218,869
Transfers in		1,691,823	1,206,623	93,664	2,992,110
Transfers out	<u>(200,000)</u>	<u>(1,691,823)</u>		<u>(2,390,624)</u>	<u>(4,282,447)</u>
Change in net assets	<u>695,425</u>	<u>1,662,075</u>	<u>2,255,203</u>	<u>(2,414,643)</u>	<u>2,198,060</u>
Total net assets - beginning	<u>2,448,055</u>	<u>2,848,916</u>	<u>8,506,310</u>	<u>2,414,643</u>	<u>16,217,924</u>
Total net assets - ending	<u>\$ 3,143,480</u>	<u>\$ 4,510,991</u>	<u>\$ 10,761,513</u>	<u>\$</u>	<u>\$ 18,415,984</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Fiscal Year Ended September 30, 2007

Exhibit C-3
Page 1 of 2

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Golf Course</u>	<u>Totals</u>
Cash flows from operating activities:					
Cash received from customers	\$4,045,096	\$2,759,486	\$1,051,968	\$ 213,483	\$ 8,070,033
Cash payments to suppliers for goods and services	(1,723,754)	(685,240)	(345,411)	(110,215)	(2,864,620)
Cash payments to employees	(1,812,472)	(762,939)	(326,430)	(317,978)	(3,219,819)
Administrative service charge	(172,364)	(38,782)	(44,172)	(3,232)	(258,550)
Net cash provided by (used for) operating activities	<u>336,506</u>	<u>1,272,525</u>	<u>335,955</u>	<u>(217,942)</u>	<u>1,727,044</u>
Cash flows from noncapital and related financing activities:					
Interfund transfers in			1,206,623	93,664	1,300,287
Interfund transfers out	<u>(200,000)</u>			<u>(2,390,624)</u>	<u>(2,590,624)</u>
Net cash provided by (used for) noncapital and related financing activities	<u>(200,000)</u>		<u>1,206,623</u>	<u>(2,296,960)</u>	<u>(1,290,337)</u>
Cash flows from capital and related financing activities:					
Proceeds from sales of equipment				35,807	35,807
Payments for capital acquisitions	(38,933)	(1,012,056)	(2,603,235)		(3,654,224)
Transfers of capital assets				2,390,624	2,390,624
Principal paid on bonds	(95,000)				(95,000)
Interest paid on bonds	(24,565)				(24,565)
Principal paid on capital leases		(126,381)	(57,214)		(183,595)
Interest paid on capital leases		(6,059)	(13,418)		(19,477)
Contributed capital		57,005	1,161,864		1,218,869
Net cash provided by (used for) capital and related financing activities	<u>(158,498)</u>	<u>(1,087,491)</u>	<u>(1,512,003)</u>	<u>2,426,431</u>	<u>(331,561)</u>
Cash flows from investing activities:					
Interest on investments	<u>48,280</u>	<u>91,768</u>	<u>12,470</u>	<u>693</u>	<u>153,211</u>
Net increase (decrease) in equity in pooled cash and investments	26,288	276,802	43,045	(87,778)	258,357
Cash and temporary investments, beginning of year	<u>1,126,381</u>	<u>1,449,469</u>	<u>229,291</u>	<u>87,778</u>	<u>2,892,919</u>
Cash and temporary investments, end of year	<u><u>\$ 1,152,669</u></u>	<u><u>\$ 1,726,271</u></u>	<u><u>\$ 272,336</u></u>	<u><u>\$</u></u>	<u><u>\$ 3,151,276</u></u>
Cash and temporary investments per balance sheet					
Unrestricted	\$ 1,004,785	\$ 1,726,271	\$ 272,336	\$	\$ 3,003,392
Restricted	147,884				147,884
Cash and temporary investments, end of year	<u><u>\$ 1,152,669</u></u>	<u><u>\$ 1,726,271</u></u>	<u><u>\$ 272,336</u></u>	<u><u>\$</u></u>	<u><u>\$ 3,151,276</u></u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS-continued
NON-MAJOR ENTERPRISE FUNDS
For the Fiscal Year Ended September 30, 2007

Exhibit C-3
Page 2 of 2

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Golf Course</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 870,522	\$ 1,519,360	\$ (112,334)	\$ (143,898)	\$ 2,133,650
Adjustments to reconcile operating income to net cash provided by operating activities:					
Amortization and depreciation expense	258,222	21,642	477,840	27,343	785,047
(Increase) decrease in accounts receivable	(542,272)	(40,436)	3,406		(579,302)
(Increase) decrease in inventory and prepaid	1,295	(632)	(12,487)	24,090	12,266
Increase (decrease) in salaries and benefits payable	1,400	(6,113)	120	(18,282)	(22,875)
Increase (decrease) in employee's Pensions		3,253			3,253
Increase (decrease) in accounts payable	(271,163)	(231,361)	(8,875)	(8,024)	(519,423)
Increase (decrease) in deferred revenue	650		(22,446)		(21,796)
Increase (decrease) in compensated absences payable	17,852	6,812	10,731	(99,171)	(63,776)
Total adjustments	<u>(534,016)</u>	<u>(246,835)</u>	<u>448,289</u>	<u>(74,044)</u>	<u>(406,606)</u>
Net cash provided by (used for) operating activities	<u>\$ 336,506</u>	<u>\$ 1,272,525</u>	<u>\$ 335,955</u>	<u>\$ (217,942)</u>	<u>\$ 1,727,044</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, 2007

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	\$ 13,136,564	\$ 13,136,564	\$ 13,841,537	\$	\$ 13,841,537	\$ 704,973
Tap fees	285,000	285,000	271,414		271,414	(13,586)
Other	157,823	157,823	195,970		195,970	38,147
Total operating revenues	<u>13,579,387</u>	<u>13,579,387</u>	<u>14,308,921</u>		<u>14,308,921</u>	<u>729,534</u>
OPERATING EXPENSES:						
Personnel services	1,632,405	1,622,035	1,478,085		1,478,085	143,950
Materials and supplies	981,301	821,887	812,472		812,472	9,415
Contractual services	610,959	620,953	569,701		569,701	51,252
Other charges	232,938	240,638	222,932		222,932	17,706
Administrative service charge	541,886	541,886	541,886		541,886	
Surface water contract	6,956,047	7,236,047	5,578,726	1,714,186	7,292,912	(56,865)
Depreciation			2,663,097	(2,663,097)		
Total operating expenses	<u>10,955,536</u>	<u>11,083,446</u>	<u>11,866,899</u>	<u>(948,911)</u>	<u>10,917,988</u>	<u>165,458</u>
Operating income (loss)	<u>2,623,851</u>	<u>2,495,941</u>	<u>2,442,022</u>	<u>948,911</u>	<u>3,390,933</u>	<u>894,992</u>
NON-OPERATING REVENUES (EXPENSES):						
Contribution of fixed assets by City						
Interest earned	75,000	75,000	1,405,165		1,405,165	1,330,165
Interest expense	(1,041,389)	(1,041,389)	(985,343)	10,209	(975,134)	66,255
Principal expenditure	(1,029,612)	(1,029,612)		(992,461)	(992,461)	37,151
Capital Outlay		(23,271)		(13,896)	(13,896)	9,375
Gain (loss) on retirement of capital asset	1,000	1,000				(1,000)
Amortization of bond issuance costs	(114,000)	(114,000)	(124,385)		(124,385)	(10,385)
Total non-operating revenues (expenses)	<u>(2,109,001)</u>	<u>(2,132,272)</u>	<u>295,437</u>	<u>(996,148)</u>	<u>(700,711)</u>	<u>1,431,561</u>
Income (loss) before operating transfers and capital contributions	514,850	363,669	2,737,459	(47,237)	2,690,222	2,326,553
Capital contributions			1,534,297			
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Change in net assets	314,850	163,669	4,071,756	(47,237)	4,024,519	2,326,553
Net assets, beginning of year	<u>25,598,078</u>	<u>25,598,078</u>	<u>25,598,078</u>		<u>25,598,078</u>	
Net assets, end of year	<u>\$ 25,912,928</u>	<u>\$ 25,761,747</u>	<u>\$ 29,669,834</u>	<u>\$ (47,237)</u>	<u>\$ 29,622,597</u>	<u>\$ 2,326,553</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, 2007

Exhibit C-5

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Positive (Negative)	
	Original Budget	Amended Budget	Actual (GAAP Basis)	Reconciling Items		Actual (Budgetary Basis) Amounts
OPERATING REVENUES:						
Charges for sales and services:						
Sewer charges	\$ 10,526,712	\$ 10,526,712	\$ 12,223,669	\$ (595,403)	\$ 11,628,266	\$ 1,101,554
Tap fees	63,000	63,000	56,601	(2,550)	54,051	(8,949)
Waste hauler fees	165,000	165,000	316,280		316,280	151,280
Other	156,100	156,100	213,518	(10)	213,508	57,408
Total operating revenues	<u>10,910,812</u>	<u>10,910,812</u>	<u>12,810,068</u>	<u>(597,963)</u>	<u>12,212,105</u>	<u>1,301,293</u>
OPERATING EXPENSES:						
Personnel services	3,238,125	3,249,724	3,152,944	(65,047)	3,087,897	161,827
Materials and supplies	1,797,825	1,539,431	1,662,262	(161,066)	1,501,196	38,235
Contractual services	1,224,915	1,307,864	1,800,549	(335,523)	1,465,026	(157,162)
Other charges	292,722	311,572	905,356	(6,552)	898,804	(587,232)
Administrative service charge	330,727	330,727	330,727		330,727	
Depreciation			2,209,432	(2,209,432)		
Total operating expenses	<u>6,884,314</u>	<u>6,739,318</u>	<u>10,061,270</u>	<u>(2,777,620)</u>	<u>7,283,650</u>	<u>(544,332)</u>
Operating income (loss)	<u>4,026,498</u>	<u>4,171,494</u>	<u>2,748,798</u>	<u>2,179,657</u>	<u>4,928,455</u>	<u>756,961</u>
NON-OPERATING REVENUES (EXPENSES):						
Contribution of fixed assets by City						
Interest earned	85,000	85,000	908,445		908,445	823,445
Interest expense	(1,253,624)	(1,329,614)	(1,408,381)	19,348	(1,389,033)	(59,419)
Principal expenditure	(1,483,052)	(1,524,562)		(1,523,331)	(1,523,331)	1,231
Capital Outlay		(27,496)		(27,496)	(27,496)	
Gain (loss) on retirement of capital asset			16,020		16,020	16,020
Amortization of bond issuance costs	(9,912)	(9,912)	(32,552)		(32,552)	(22,640)
Total non-operating revenues (expenses)	<u>(2,661,588)</u>	<u>(2,806,584)</u>	<u>(516,468)</u>	<u>(1,531,479)</u>	<u>(2,047,947)</u>	<u>758,637</u>
Income (loss) before operating transfers and capital contributions	1,364,910	1,364,910	2,232,330	648,178	2,880,508	1,515,598
Capital contributions			3,392,696			(3,392,696)
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Change in net assets	<u>1,164,910</u>	<u>1,164,910</u>	<u>5,425,026</u>	<u>648,178</u>	<u>2,680,508</u>	<u>(1,877,098)</u>
Net assets, beginning of year	44,120,295	44,120,295	44,120,295		44,120,293	
Net assets, end of year	<u>\$ 45,285,205</u>	<u>\$ 45,285,205</u>	<u>\$ 49,545,321</u>	<u>\$ 648,178</u>	<u>\$ 46,800,801</u>	<u>\$ (1,877,098)</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, 2007

Exhibit C-6

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Positive (Negative)
	Original	Final	Actual (GAAP Basis)	Reconciling Items	
OPERATING REVENUES:					
Charges for sales and services	\$ 4,104,252	\$ 4,104,252	\$ 4,586,102	\$	\$ 481,850
Other	1,484	1,484	1,118		(366)
Total operating revenues	<u>4,105,736</u>	<u>4,105,736</u>	<u>4,587,220</u>		<u>481,484</u>
OPERATING EXPENSES:					
Personnel services	2,087,398	1,929,180	1,831,350		97,830
Materials and supplies	60,329	75,654	65,708		9,946
Contractual services	1,144,580	1,291,242	1,246,329		44,913
Other charges	136,466	132,696	142,724		(10,028)
Administrative service charge	172,364	172,364	172,364		
Depreciation			258,222	(258,222)	
Total operating expenses	<u>3,601,136</u>	<u>3,601,136</u>	<u>3,716,697</u>	<u>(258,222)</u>	<u>142,661</u>
Operating income (loss)	504,600	504,600	870,523	258,222	624,145
NON-OPERATING REVENUES (EXPENSES):					
Interest earned	28,000	28,000	48,279		20,279
Interest expense	(24,965)	(24,965)	(23,378)		1,587
Principal Expenditure	(95,000)	(95,000)		(95,000)	
Capital Outlay - Software				(2,250)	(2,250)
Capital Outlay - Improvements	(200,000)	(200,000)		(36,683)	163,317
Total non-operating revenues (expenses)	<u>(291,965)</u>	<u>(291,965)</u>	<u>24,901</u>	<u>(133,933)</u>	<u>182,933</u>
Income (loss) before operating transfers:	212,635	212,635	895,424	124,289	807,078
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		
Changes in net assets	12,635	12,635	695,424	124,289	807,078
Net assets, beginning of year	2,448,055	2,448,055	2,448,055		
Net assets, end of year	<u>\$ 2,460,690</u>	<u>\$ 2,460,690</u>	<u>\$ 3,143,479</u>	<u>\$ 124,289</u>	<u>\$ 807,078</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, 2007

Exhibit C-7

	Budgeted Amounts		Actual Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual (GAAP Basis)	Reconciling Items	Actual (Budgetary Basis) Amounts	
OPERATING REVENUES:						
Charges for sales and services	\$ 2,501,020	\$ 2,501,020	\$ 2,762,749	\$	\$ 2,762,749	\$ 261,729
Other	22,202	22,202	37,174		37,174	14,972
Total operating revenues	<u>2,523,222</u>	<u>2,523,222</u>	<u>2,799,923</u>		<u>2,799,923</u>	<u>276,701</u>
OPERATING EXPENSES:						
Personnel services	888,725	887,390	766,891		766,891	120,499
Materials and supplies	77,736	106,236	86,313		86,313	19,923
Contractual services	391,505	335,377	296,220		296,220	39,157
Other charges	60,931	60,931	70,713		70,713	(9,782)
Administrative service charge	38,783	38,783	38,783		38,783	
Depreciation			21,642	(21,642)	-	
Total operating expenses	<u>1,457,680</u>	<u>1,428,717</u>	<u>1,280,562</u>	<u>(21,642)</u>	<u>1,258,920</u>	<u>169,797</u>
Operating income (loss)	1,065,542	1,094,505	1,519,361	21,642	1,541,003	446,498
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	24,000	24,000	91,768		91,768	67,768
Interest expense	(5,524)	(5,524)	(6,059)		(6,059)	(535)
Principal Expenditure	(82,658)	(82,658)		(126,381)	(126,381)	(43,723)
Capital Outlay - Software, etc.		(28,963)		(63,227)	(63,227)	(34,264)
Capital Outlay - Improvements	(800,000)	(800,000)		(800,000)	(800,000)	
Gain (loss) on retirement of capital asset						
Total non-operating revenues (expenses)	<u>(864,182)</u>	<u>(893,145)</u>	<u>85,709</u>	<u>(989,608)</u>	<u>(903,899)</u>	<u>(10,754)</u>
Income (loss) before capital contributions	201,360	201,360	1,605,070	(967,966)	637,104	435,744
Capital contributions			57,005		57,005	(57,005)
Changes in net assets	201,360	201,360	1,662,075	(967,966)	694,109	378,739
Net assets, beginning of year	2,848,917	2,848,917	2,848,917		2,848,917	
Net assets, end of year	<u>\$ 3,050,277</u>	<u>\$ 3,050,277</u>	<u>\$ 4,510,992</u>	<u>\$ (967,966)</u>	<u>\$ 3,543,026</u>	<u>\$ 378,739</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, 2007

Exhibit C-8

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual (GAAP) Basis	Reconciling Items	Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
OPERATING REVENUES:						
Charges for sales and services:						
Building rental	\$ 94,211	\$ 94,211	\$ 109,652	\$	\$ 109,652	\$ 15,441
Hangar rental	74,468	74,468	66,835		66,835	(7,633)
Terminal space rental	56,775	56,775	55,449		55,449	(1,326)
Land lease rental	686,926	686,926	699,853		699,853	12,927
Oil company receipts	68,027	68,027	66,938		66,938	(1,089)
Other	70,492	70,492	72,279		72,279	1,787
Total operating revenues	<u>1,050,899</u>	<u>1,050,899</u>	<u>1,071,006</u>		<u>1,071,006</u>	<u>20,107</u>
OPERATING EXPENSES:						
Personnel services	341,197	341,197	348,011		348,011	(6,814)
Materials and supplies	135,383	110,482	105,363		105,363	5,119
Contractual services	80,074	94,219	89,269		89,269	4,950
Other charges & bad debt expense	128,616	129,372	118,685		118,685	10,687
Administrative service charge	44,172	44,172	44,172		44,172	
Depreciation			477,840	(477,840)		
Total operating expenses	<u>729,442</u>	<u>719,442</u>	<u>1,183,340</u>	<u>(477,840)</u>	<u>705,500</u>	<u>13,942</u>
Operating income (loss)	<u>321,457</u>	<u>331,457</u>	<u>(112,334)</u>	<u>477,840</u>	<u>365,506</u>	<u>34,049</u>
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	15,000	15,000	12,468		12,468	(2,532)
Interest expense	(13,418)	(13,418)	(13,418)		(13,418)	
Operating grants and contributions	-	-	1,161,864	(1,161,864)		
Capital outlay - improvements	(260,000)	(270,000)		(282,514)	(282,514)	(12,514)
Principal expenditure	(57,213)	(57,213)		(57,213)	(57,213)	
Total non-operating revenues (expenses)	<u>(315,631)</u>	<u>(325,631)</u>	<u>1,160,914</u>	<u>(1,501,591)</u>	<u>(340,677)</u>	<u>(15,046)</u>
Income (loss) before capital contributions	<u>5,826</u>	<u>5,826</u>	<u>1,048,580</u>	<u>(1,023,751)</u>	<u>24,829</u>	<u>19,003</u>
Transfers In			1,206,623	(1,206,623)		
Changes in net assets	<u>5,826</u>	<u>5,826</u>	<u>2,255,203</u>	<u>(2,230,374)</u>	<u>24,829</u>	<u>19,003</u>
Net assets, beginning of year	<u>8,506,310</u>	<u>8,506,310</u>	<u>8,506,310</u>		<u>8,506,310</u>	
Net assets, end of year	<u>\$ 8,512,136</u>	<u>\$ 8,512,136</u>	<u>\$ 10,761,513</u>	<u>\$ (2,230,374)</u>	<u>8,531,139</u>	<u>\$ 19,003</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, 2007

Exhibit C-9

	<u>Budgeted Amounts</u>				Actual (Budgetary Basis) Amounts	Variance with Final Budget - Positive (Negative)
	<u>Adopted</u>	<u>Final</u>	<u>Actual (GAAP) Basis</u>	<u>Adjustments</u>		
OPERATING REVENUES:						
Charges for sales and services:	\$ 1,009,100	\$ 783,505	\$ 189,281	\$	\$ 189,281	\$ (594,224)
Other	1,000	1,000	115		115	(885)
Total operating revenues	<u>1,010,100</u>	<u>784,505</u>	<u>189,396</u>		<u>189,396</u>	<u>(595,109)</u>
OPERATING EXPENSES:						
Personnel services	523,503	297,908	101,355		101,355	196,553
Materials and supplies	268,561	268,561	61,958		61,958	206,603
Contractual services	272,073	272,073	127,847		127,847	144,226
Other charges	46,585	46,585	14,791		14,791	31,794
Depreciation			27,343	(27,343)		
Total operating expenses	<u>1,110,722</u>	<u>885,127</u>	<u>333,294</u>	<u>(27,343)</u>	<u>305,951</u>	<u>579,176</u>
Operating income (loss)	<u>(100,622)</u>	<u>(100,622)</u>	<u>(143,898)</u>	<u>27,343</u>	<u>(116,555)</u>	<u>(15,933)</u>
NON-OPERATING REVENUES (EXPENSES):						
Interest earned	200	200	697		697	497
Interest expense						
Gain (loss) on disposal of capital assets			25,518		25,518	25,518
Capital outlay - improvements						
Principal expenditure						
Total non-operating revenues (expenses)	<u>200</u>	<u>200</u>	<u>26,215</u>		<u>26,215</u>	<u>26,015</u>
Income (loss) before capital contributions	(100,422)	(100,422)	(117,683)	27,343	(90,340)	10,082
Operating transfers in		93,664	93,664		93,664	
Operating transfers out			(2,390,624)	2,390,624		
Changes in net assets	<u>(100,422)</u>	<u>(6,758)</u>	<u>(2,414,643)</u>	<u>2,417,967</u>	<u>3,324</u>	<u>10,082</u>
Net assets, beginning of year	2,414,643	2,414,643	2,414,643		2,414,643	
Net assets, end of year	<u>\$ 2,314,221</u>	<u>\$ 2,407,885</u>	<u>\$ 2,414,643</u>	<u>\$ 2,417,967</u>	<u>\$ 2,417,967</u>	<u>\$ 10,082</u>

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INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2007

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
ASSETS			
Current assets:			
Cash and temporary investments	\$ 198,158	\$	\$ 308,813
Cash in escrow			1,178,044
Accounts Receivable, net of allowance for doubtful accounts	129,818	12,397	
Inventories	121,771		8,748
Prepaid Expenses		288,588	
Total current assets	<u>449,747</u>	<u>300,985</u>	<u>1,495,605</u>
Non-current assets:			
Capital assets (net of depreciation)	<u>136,586</u>		<u>1,241,502</u>
Total non-current assets	<u>136,586</u>		<u>1,241,502</u>
Total assets	<u>586,333</u>	<u>300,985</u>	<u>2,737,107</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	170,643	49,552	137,944
Due to other funds		259,786	
Long-term debt, current portion			
Claims and judgments		24,000	
Total current liabilities	<u>170,643</u>	<u>333,338</u>	<u>137,944</u>
Non-current liabilities:			
Compensated absences	144,968	23,426	133,977
Notes payable			1,531,490
Claims and judgments			
Total non-current liabilities	<u>144,968</u>	<u>23,426</u>	<u>1,665,467</u>
Total liabilities	<u>315,611</u>	<u>356,764</u>	<u>1,803,411</u>
NET ASSETS			
Invested in capital assets, net of related debt	136,586		63,458
Unrestricted	134,136	(55,779)	870,238
Total net assets	<u>\$ 270,722</u>	<u>\$ (55,779)</u>	<u>\$ 933,696</u>

Exhibit D-1

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 40,323	\$ 286,557	\$ 2,597,552	\$ 3,431,403
			1,178,044
		81,332	223,547
			130,519
	67,808		356,396
<u>40,323</u>	<u>354,365</u>	<u>2,678,884</u>	<u>5,319,909</u>
			1,378,088
			<u>1,378,088</u>
<u>40,323</u>	<u>354,365</u>	<u>2,678,884</u>	<u>6,697,997</u>
			454,799
746	4,678	91,236	259,786
			24,000
<u>746</u>	<u>4,678</u>	<u>91,236</u>	<u>738,585</u>
			338,776
36,405			1,531,490
	524,695	413,201	937,896
<u>36,405</u>	<u>524,695</u>	<u>413,201</u>	<u>2,808,162</u>
<u>37,151</u>	<u>529,373</u>	<u>504,437</u>	<u>3,546,747</u>
			200,044
3,172	(175,008)	2,174,447	2,951,206
<u>\$ 3,172</u>	<u>\$ (175,008)</u>	<u>\$ 2,174,447</u>	<u>\$ 3,151,250</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, 2007

	Central Garage	Casualty & Liability Insurance	Central Service
REVENUES			
Charges for services	\$ 3,771,283	\$ 1,760,939	\$ 1,731,880
Miscellaneous	94,102		
Total operating revenues	<u>3,865,385</u>	<u>1,760,939</u>	<u>1,731,880</u>
OPERATING EXPENSES			
Personal services	904,951	172,357	702,068
Contractual services	384,641	94,814	577,798
Supplies and materials	2,222,809	894	364,024
Insurance claims and premiums		1,472,998	
Other expenses	306,651		42,076
Depreciation	26,130		59,263
Total Operating Expenses	<u>3,845,182</u>	<u>1,741,063</u>	<u>1,745,229</u>
Operating income (loss)	<u>20,203</u>	<u>19,876</u>	<u>(13,349)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	<u>2,201</u>		<u>15,866</u>
Total non-operating revenue (expenses)	<u>2,201</u>		<u>15,866</u>
Income (loss) before contributions and transfers	<u>22,404</u>	<u>19,876</u>	<u>2,517</u>
Change in net assets	22,404	19,876	2,517
Total net assets - beginning	248,318	(75,655)	931,179
Total net assets - ending	<u>\$ 270,722</u>	<u>\$ (55,779)</u>	<u>\$ 933,696</u>

Exhibit D-2

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 58,772	\$ 685,093	\$ 3,714,218	\$ 11,722,185
			94,102
<u>58,772</u>	<u>685,093</u>	<u>3,714,218</u>	<u>11,816,287</u>
17,858			1,797,234
21,952	80,428	415,593	1,575,226
1,151			2,588,878
	696,921	3,326,279	5,496,198
18,123	90,270	316,964	774,084
			85,393
<u>59,084</u>	<u>867,619</u>	<u>4,058,836</u>	<u>12,317,013</u>
<u>(312)</u>	<u>(182,526)</u>	<u>(344,618)</u>	<u>(500,726)</u>
353	18,302	167,494	204,216
<u>353</u>	<u>18,302</u>	<u>167,494</u>	<u>204,216</u>
41	(164,224)	(177,124)	(296,510)
41	(164,224)	(177,124)	(296,510)
3,131	(10,784)	2,351,571	3,447,760
<u>\$ 3,172</u>	<u>\$ (175,008)</u>	<u>\$ 2,174,447</u>	<u>\$ 3,151,250</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2007

Exhibit D-3

	Central Garage	Casualty & Liability Insurance	Central Service	Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from customers and users	\$ 3,933,061	\$ 1,760,939	\$ 1,731,880	\$ 58,772	\$ 685,093	\$ 3,630,967	\$ 11,800,712
Disbursed for personnel services	(896,308)	(172,704)	(685,878)	(4,198)			(1,759,088)
Disbursed for goods and services	(2,932,733)	(1,696,858)	(933,734)	(41,304)	(741,685)	(3,934,827)	(10,281,141)
Net cash provided (used) by operating activities	104,020	(108,623)	112,268	13,270	(56,592)	(303,860)	(239,517)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from other funds		108,623					108,623
Transfers to other funds						(101,885)	(101,885)
Net cash provided by (used by) non-capital financing activities		108,623				(101,885)	6,738
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from issuance of contractual obligations			1,531,490				1,531,490
Acquisition and construction of capital assets			(424,727)				(424,727)
Net cash used by capital and related financing activities			1,106,763				1,106,763
CASH FLOWS FROM INVESTING ACTIVITIES							
Escrow cash for loan repayments			(1,178,044)				(1,178,044)
Interest received	2,202		15,866	353	18,303	167,494	204,218
Net cash provided by (used by) investing activities	2,202		(1,162,178)	353	18,303	167,494	(973,826)
Net decrease in cash and equivalents	106,222		56,853	13,623	(38,289)	(238,251)	(99,842)
Cash and equivalents, beginning of year	91,936		251,960	26,700	324,846	2,835,803	3,531,245
Cash and equivalents, at end of year	\$ 198,158	\$	\$ 308,813	\$ 40,323	\$ 286,557	\$ 2,597,552	\$ 3,431,403
Unrestricted cash and equivalents	\$ 64,022	\$	\$ 245,355	\$ 40,323	\$ 286,557	\$ 2,597,552	\$ 3,233,809
Restricted cash and equivalents	134,136		63,458				197,594
	<u>\$ 198,158</u>	<u>\$</u>	<u>\$ 308,813</u>	<u>\$ 40,323</u>	<u>\$ 286,557</u>	<u>\$ 2,597,552</u>	<u>\$ 3,431,403</u>
Reconciliation of operating income to net cash provided by operating activities							
Operating income (loss)	\$ 20,203	\$ 19,876	\$ (13,349)	\$ (312)	\$ (182,526)	\$ (344,618)	\$ (500,726)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	26,130		59,263			(83,252)	2,141
(Increase) decrease in accounts receivable	67,678	(12,515)					55,163
(Increase) decrease in inventory	(17,481)	(93,477)					(110,958)
(Increase) decrease in prepaid expenses			(842)		(67,808)		(68,650)
Increase (decrease) in accounts payable	(1,153)	(33,289)	32,403	(78)		124,010	121,893
Increase (decrease) in salaries payable	545	1,203	3,145	705	193,742		199,340
Increase (decrease) in retainage payable			18,603				18,603
Increase (decrease) in compensated absences payable	8,098	9,579	13,045	12,955			43,677
Net cash provided by operating activities	\$ 104,020	\$ (108,623)	\$ 112,268	\$ 13,270	\$ (56,592)	\$ (303,860)	\$ (239,517)

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, 2006.

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, 2006

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	\$ 1,060,756	\$ 1,638,220	\$ 1,724,291	\$ 4,423,267
Receivables:				
Interest and Dividends	107,699	24,778	44,059	176,536
Loans to participants	136,122			136,122
From employer	58,714	577,535	63,477	699,726
Total receivables	<u>302,535</u>	<u>602,313</u>	<u>107,536</u>	<u>1,012,384</u>
Investments:				
U.S. Government Agencies	3,274,574			3,274,574
Corporate and foreign bonds	4,969,157			4,969,157
Common Equity Securities	13,820,296	11,063,729	18,341,593	43,225,618
Mutual Funds	2,459,022	22,965,282	5,821,558	31,245,862
Fixed income funds			8,068,063	8,068,063
Total investments	<u>24,523,049</u>	<u>34,029,011</u>	<u>32,231,214</u>	<u>90,783,274</u>
Prepaid benefits	<u>203,281</u>			<u>203,281</u>
Total assets	<u><u>26,089,621</u></u>	<u><u>36,269,544</u></u>	<u><u>34,063,041</u></u>	<u><u>96,422,206</u></u>
LIABILITIES				
Accounts payable		51,975	24,681	76,656
NET ASSETS				
Held in trust for benefits and other purposes	<u><u>\$ 26,089,621</u></u>	<u><u>\$ 36,217,569</u></u>	<u><u>\$ 34,038,360</u></u>	<u><u>\$ 96,345,550</u></u>

CITY OF GALVESTON, TEXAS
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended December 31, 2006

Exhibit E-2

	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
ADDITIONS				
Contributions:				
Employer	\$ 652,350	\$ 1,286,823	\$ 826,577	\$ 2,765,750
Plan Members	821,491	1,033,125	708,492	2,563,108
Total contributions	<u>1,473,841</u>	<u>2,319,948</u>	<u>1,535,069</u>	<u>5,328,858</u>
Investment earnings:				
Net increase in fair value of investments	2,405,941	2,186,761	2,371,785	6,964,487
Interest	496,288	501,042	544,454	1,541,784
Dividends	387,281	614,286	257,495	1,259,062
Investment activity expense	(152,982)	(240,400)	(148,075)	(541,457)
Total net investment earnings	<u>3,136,528</u>	<u>3,061,689</u>	<u>3,025,659</u>	<u>9,223,876</u>
Other income				
Total additions	<u>4,610,369</u>	<u>5,381,637</u>	<u>4,560,728</u>	<u>14,552,734</u>
Total investments				
DEDUCTIONS				
Benefits	2,753,580	3,014,981	1,672,448	7,441,009
Administrative	64,965	80,132	80,061	225,158
Total deductions	<u>2,818,545</u>	<u>3,095,113</u>	<u>1,752,509</u>	<u>7,666,167</u>
Change in net assets	1,791,824	2,286,524	2,808,219	6,886,567
Net assets - beginning	24,297,797	33,931,045	31,230,141	89,458,983
Net assets - ending	<u>\$ 26,089,621</u>	<u>\$ 36,217,569</u>	<u>\$ 34,038,360</u>	<u>\$ 96,345,550</u>

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

Exhibit E-3

	September 30,			September
	2006	Additions	Deletions	30, 2007
ASSETS				
Cash and temporary investments	\$ 309,081	\$ 94,804	\$	\$ 403,885
Accounts receivable				
Total assets	<u>\$ 309,081</u>	<u>\$ 94,804</u>	<u>\$</u>	<u>\$ 403,885</u>
LIABILITIES				
Accounts Payable and other current liabilities	18,369		(15,371)	2,998
Due to other Funds	(56,211)		56,211	
Refunds payable and others	346,923	53,964		400,887
Total liabilities	<u>\$ 309,081</u>	<u>\$ 53,964</u>	<u>\$ 40,840</u>	<u>\$ 403,885</u>

UNAUDITED STATISTICAL SECTION

This part of the City of Galveston's Comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City of Galveston's overall financial health.

<u>Contents</u>	Page
Financial Trends	135-141
These schedules contain trend information to help the reader understand how the City of Galveston's financial performance and well-being have changed over time.	
Revenue Capacity	142-147
These schedules contain information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.	
Debt Capacity	148-151
These schedules present information to help the reader assess the affordability of the City of Galveston's current levels of outstanding debt and it's ability to issue additional debt in the future.	
Demographic and Economic Information	152-155
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City of Galveston's financial activities take place.	
Operating Information	156-159
These schedules contain service and infrastructure data to help the reader understand how the information in the City of Galveston's financial report relates to the services the city provides and the activities it performs.	

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

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

Exhibit I

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 14,956	\$ 23,872	\$ 29,356	\$ 25,631	\$ 37,327
Restricted	4,944	4,921	4,894	10,791	18,757
Unrestricted	9,167	7,845	8,012	11,081	5,912
Total governmental activities net assets	<u>\$ 29,067</u>	<u>\$ 36,638</u>	<u>\$ 42,262</u>	<u>\$ 47,503</u>	<u>\$ 61,996</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 40,480	\$ 64,284	\$ 70,442	\$ 71,492	\$ 69,474
Restricted	8,495	6,367	3,301	9,502	10,465
Unrestricted	17,573	2,123	3,069	5,817	18,346
Total business-type activities net assets	<u>\$ 66,548</u>	<u>\$ 72,774</u>	<u>\$ 76,812</u>	<u>\$ 86,811</u>	<u>\$ 98,285</u>
Primary government					
Invested in capital assets, net of related debt	\$ 55,436	\$ 88,156	\$ 99,798	\$ 97,123	\$ 106,801
Restricted	13,439	11,288	8,195	20,293	29,222
Unrestricted	26,740	9,968	11,081	16,898	24,258
Total primary government net assets	<u>\$ 95,615</u>	<u>\$ 109,412</u>	<u>\$ 119,074</u>	<u>\$ 134,314</u>	<u>\$ 160,281</u>

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

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

Exhibit II
Page 1 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses					
Governmental activities:					
General government	\$ 3,961,298	\$ 3,625,563	\$ 4,662,321	\$ 4,924,411	\$ 5,165,959
Public safety	20,711,789	20,638,059	24,110,503	24,875,593	27,040,001
Public works	7,113,207	4,997,292	4,331,625	5,112,987	5,990,398
Culture and recreation	3,800,062	1,419,056	5,210,558	7,025,024	8,262,610
Planning and Community Dev.	4,202,456	4,224,986	2,374,787	4,202,068	4,482,945
Transportation system	6,052,419	6,579,590	4,031,799	4,268,665	5,552,047
Interest on long-term debt	3,236,332	3,208,444	2,866,391	3,649,351	3,095,929
Total governmental activities expenses	<u>49,077,563</u>	<u>44,692,990</u>	<u>47,587,984</u>	<u>54,058,099</u>	<u>59,589,889</u>
Business-type activities:					
Waterworks	9,653,918	10,012,254	10,956,372	11,849,441	12,999,319
Sewer system	7,444,842	7,248,583	7,920,787	9,228,575	11,535,584
Sanitation	2,987,519	3,076,830	3,375,991	3,541,264	3,780,655
Drainage	760,870	637,251	1,085,200	1,342,450	1,312,293
Airport	843,172	934,268	932,435	1,128,028	1,200,526
Golf Course	1,130,419	1,091,943	1,010,417	1,028,024	333,294
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>	<u>31,161,671</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>	<u>\$ 90,751,560</u>
Program Revenue					
Governmental activities:					
Charges for services:					
General government	\$ 1,254,438	\$ 1,056,000	\$ 1,253,683	\$ 1,322,167	\$ 1,399,908
Public safety	2,548,336	3,033,772	2,451,449	2,738,636	3,132,870
Public works	44,297	39,393	25,752	19,358	20,943
Culture and recreation	5,326	82,883	39,822	6,082	406,900
Planning and Community Dev.	1,147,082	2,207,421	2,272,918	2,231,132	1,619,504
Transportation system	629,998	643,129	521,983	698,016	939,256
Operating grants and contributions					
Public safety	588,715	408,163	1,090,530	955,858	487,504
Culture and recreation	38,318	18,883	95,268	83,220	767,432
Planning and Community Dev.	2,983,749	2,086,032	1,558,601	2,199,293	2,020,696
Transportation system	2,683,668	2,484,876	2,294,933	2,396,257	2,455,249
Culture and recreation			115,571		9,557,051
Transportation system	1,928,318	3,426,381	2,440,149	1,574,613	1,734,900
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>	<u>24,542,213</u>
Business-type activities:					
Charges for services:					
Waterworks	9,692,615	10,104,912	11,229,501	14,173,108	14,308,921
Sewer System	7,446,747	8,017,907	9,409,161	11,394,543	12,798,735
Sanitation	3,552,205	3,606,316	3,932,120	4,239,729	4,587,219
Drainage	748,821	779,724	1,816,049	2,710,533	2,799,923
Airport	831,666	853,315	874,962	937,411	1,071,006
Golf Course	946,211	927,859	912,291	826,823	189,396
Operating grants and contributions					
Capital grants and contributions	1,361,755	5,481,578	1,177,667	2,680,324	6,064,616
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>	<u>41,819,816</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>	<u>\$ 66,362,029</u>
Net (Expense)/Revenue					
Governmental activities	\$ (35,225,318)	\$ (29,206,057)	\$ (33,427,325)	\$ (39,833,467)	(35,047,676)
Business-type activities	1,759,280	6,770,482	4,070,549	8,844,689	10,658,145
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>	<u>\$ (24,389,531)</u>

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

Exhibit II
Page 2 of 2

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</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	\$ 16,333,079
Sales and use taxes	13,339,761	13,689,462	14,424,663	16,849,450	17,497,613
Hotel Occupancy Taxes	4,979,530	2,965,811	3,418,086	4,122,104	4,618,671
Franchise taxes	4,824,484	4,841,443	4,879,699	5,148,416	5,374,681
Payments in lieu of taxes	1,155,303	567,848	596,461	655,190	736,824
Net loss on sale of asset		(72,188)			
Unrestricted investment earnings	732,648		753,269	1,649,987	2,438,995
Miscellaneous	1,196,276	420,135	641,345	669,107	842,179
Capital contributions		549,675			
Transfers	(150,000)	600,000	500,000	500,000	1,696,858
Total governmental activities	<u>38,139,240</u>	<u>36,777,266</u>	<u>39,051,672</u>	<u>45,074,657</u>	<u>49,538,900</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	2,453,945
Miscellaneous	(56,921)	1,797		169,722	52,871
Transfers	150,000	(600,000)	(500,000)	(500,000)	(1,690,340)
Total business-type activities	<u>443,313</u>	<u>(543,523)</u>	<u>(33,052)</u>	<u>1,153,978</u>	<u>816,476</u>
Total primary government	<u>\$ 38,582,553</u>	<u>\$ 36,233,743</u>	<u>\$ 39,018,620</u>	<u>\$ 46,228,635</u>	<u>\$ 50,355,376</u>
Change in Net Assets					
Governmental activities	\$ 2,913,922	\$ 7,571,209	\$ 5,624,347	\$ 5,241,190	\$ 14,491,224
Business-type activities	2,202,593	6,226,959	4,037,497	9,998,667	11,474,621
Total primary government	<u>\$ 5,116,515</u>	<u>\$ 13,798,168</u>	<u>\$ 9,661,844</u>	<u>\$ 15,239,857</u>	<u>\$ 25,965,845</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>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General fund				
Reserved	\$ 812,822	\$ 1,006,407	\$ 1,129,742	\$ 1,129,542
Unreserved	1,190,147	1,665,366	2,188,846	2,188,846
Total general fund	<u>\$ 2,002,969</u>	<u>\$ 2,671,773</u>	<u>\$ 3,318,588</u>	<u>\$ 3,318,388</u>
All other governmental funds				
Reserved	\$ 89,008,574	\$ 98,734,119	\$ 102,049,307	\$ 102,052,636
Unreserved	2,426,603	3,303,283	4,278,228	4,278,228
Unreserved, report in:				
Capital project funds				
Special Revenue funds	<u>1,590,974</u>	<u>1,098,282</u>	<u>269,991</u>	<u>266,862</u>
Total other governmental funds	<u>\$ 93,026,151</u>	<u>\$ 103,135,684</u>	<u>\$ 106,597,526</u>	<u>\$ 106,597,726</u>

Exhibit III

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 1,234,722	\$ 592,523	\$ 480,561	\$ 593,765	\$ 334,920	\$ 2,623,562
4,683,830	6,064,743	7,293,827	8,777,795	11,765,355	11,227,881
<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>	<u>\$ 13,851,443</u>
\$ 94,337,975	\$ 34,970,343	\$ 7,463,893	\$ 13,577,627	\$ 20,391,385	\$ 25,381,835
47,988,259	194,337	5,875,754		142,402	
				1,416	106,120
<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>\$ 144,523,574</u>	<u>\$ 37,502,549</u>	<u>\$ 15,687,547</u>	<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenues				
Taxes:				
Property taxes	\$ 9,671,598	\$ 9,313,827	\$ 9,863,934	\$ 10,636,480
Sales and use taxes	7,935,946	8,592,803	9,205,783	12,802,191
Franchise taxes	3,772,582	4,361,024	4,518,987	5,472,040
Hotel occupancy				
Fines and forfeitures	1,591,543	1,682,468	1,757,325	1,665,389
Licenses and permits	459,177	398,011	462,939	461,130
Intergovernmental	4,070,571	7,031,295	5,051,429	6,456,727
Charges for services	1,790,317	1,628,048	1,797,276	2,920,992
Investment earnings	635,976	547,181	478,547	835,654
Miscellaneous	3,540,202	4,271,553	3,982,953	1,442,479
Payments in lieu of taxes				
Total Revenues	<u>33,467,912</u>	<u>37,826,210</u>	<u>37,119,173</u>	<u>42,693,082</u>
Expenditures				
General government	2,368,826	3,164,359	3,162,068	4,499,673
Public safety	12,474,926	14,155,264	16,130,990	19,856,393
Public works	2,416,306	2,571,315	2,547,881	2,822,852
Culture and recreation	974,481	1,144,718	1,099,511	2,244,369
Planning and Community Dev	3,007,129	2,920,335	1,572,758	2,376,734
Transportation	655,443	3,458,723	2,585,280	4,181,645
Other	7,125,888	8,691,395	6,131,419	781,368
Capital outlay	2,804,957	1,384,794	2,140,833	2,461,694
Debt service:				
Principal	1,468,620	1,434,424	1,322,151	1,150,332
Interest and other charges	1,169,147	1,214,677	1,290,517	1,223,679
Total expenditures	<u>34,465,723</u>	<u>40,140,004</u>	<u>37,983,408</u>	<u>41,598,739</u>
Excess of revenues over (under) expenditures	(997,811)	(2,313,794)	(864,235)	1,094,343
Other Financing Sources (Uses)				
Transfers in	1,365,804	1,371,402	2,363,194	1,961,125
Transfers out	(1,365,804)	(1,371,402)	(2,450,407)	(1,961,125)
Bonds issued				14,915,677
Payments to refunded bond escrow agent				(1,098,590)
Capital leases	511,726	1,572,343	231,455	
Sale of capital assets	555,000			
Total other financing sources (uses)	<u>1,066,726</u>	<u>1,572,343</u>	<u>144,242</u>	<u>13,817,087</u>
Net change in fund balances	<u>\$ 68,915</u>	<u>\$ (741,451)</u>	<u>\$ (719,993)</u>	<u>\$ 14,911,430</u>
Debt service as a percentage of non-capital expenditures	14.5%	12.6%	11.4%	8.1%

Exhibit IV

2002	2003	2004	2005	2006	2007
\$ 11,660,813	\$ 12,147,194	\$ 13,186,960	\$ 13,883,642	\$ 15,570,356	\$ 16,200,093
12,757,466	13,339,761	13,689,462	14,424,663	16,849,450	22,116,284
4,680,348	4,824,484	4,841,443	4,879,699	5,148,416	5,374,681
				4,122,104	
1,919,173	1,835,900	1,764,861	2,330,349	1,828,036	2,466,285
970,459	882,048	1,179,514	1,313,886	1,577,415	1,334,749
6,700,295	8,212,693	8,421,167	7,295,013	7,185,304	6,893,575
2,615,041	2,692,018	2,841,201	3,432,738	3,533,981	3,686,864
654,674	716,787	395,202	682,679	1,523,724	2,234,647
1,696,143	7,433,637	4,841,764	4,737,887	791,144	1,405,706
				655,190	736,824
<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>	<u>62,449,708</u>
4,116,076	3,988,181	4,213,164	4,624,844	5,005,095	5,044,120
20,249,092	19,784,935	20,297,811	22,197,995	23,518,717	25,262,076
2,725,219	2,807,218	2,777,669	2,732,340	3,152,531	3,356,179
2,498,976	3,102,454	3,363,044	3,566,928	6,071,320	6,826,276
4,259,306	4,353,386	4,394,758	3,766,931	3,762,075	4,330,446
3,780,732	3,870,762	3,703,654	4,102,026	4,355,966	4,892,519
776,488					
4,457,737	21,006,276	28,812,375	6,489,761	3,473,537	5,437,402
1,415,252	2,334,328	2,403,386	2,336,783	2,638,390	2,376,618
1,158,490	3,234,649	3,145,796	2,977,186	3,321,250	3,225,640
<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>	<u>60,751,276</u>
(1,782,956)	(12,397,667)	(21,950,083)	185,762	3,486,239	1,698,432
5,043,951		533,036	600,000	4,023,293	4,492,938
(5,043,951)	(150,000)		(100,000)	(3,523,293)	(3,914,885)
42,340,085				9,840,254	
(9,610,618)				(2,669,235)	
	195,785	95,720	349,786		767,043
		623,447	264,629	118,052	258,495
<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>1,603,591</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>	<u>\$ 3,302,023</u>
8.7%	18.8%	18.1%	16.0%	15.8%	13.8%

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			
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
2007	2006	1,683,926,873	3,003,749,029	314,300,569	1,673,747,884	3,328,228,587

* Information not available

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

Source: Galveston Central Appraisal District

Exhibit V

Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
*	*	*
*	*	*
*	*	*
*	*	*
*	*	*
*	*	*
0.54170	\$ 3,724,887,715	65.41%
0.54170	3,937,872,354	65.56%
0.54170	4,870,900,236	59.71%
0.49400	5,001,976,471	66.54%

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

Fiscal Year	Tax Year	City of Galveston				Total	Galveston I.S.D.
		General Fund (1)	Pension Fund	Library Fund	Debt Service Fund		
1998	1997	\$ 0.24720	\$ 0.18850	\$ 0.05000	\$ 0.06150	\$ 0.54720	\$ 1.50000
1999	1998	0.42550		0.05000	0.07390	0.54940	1.52000
2000	1999	0.42710		0.05000	0.07280	0.54990	1.52000
2001	2000	0.43140		0.05000	0.06720	0.54860	1.52000
2002	2001	0.44210		0.05000	0.06380	0.55590	1.52000
2003	2002	0.44210		0.05000	0.06280	0.55490	1.57000
2004	2003	0.44240		0.05000	0.04930	0.54170	1.56000
2005	2004	0.43580		0.05000	0.05590	0.54170	1.71000
2006	2005	0.42280		0.05000	0.06890	0.54170	1.71000
2007	2006	0.38340		0.05000	0.06060	0.49400	1.52500

Source: Galveston Central Appraisal District, 2006 Taxing Entities and Tax Rates

Exhibit VI

<u>Junior College</u>	<u>Navigation District 1</u>	<u>Galveston County</u>	<u>Total Millage</u>
\$ 0.18780	\$ 0.03960	\$ 0.52000	\$ 2.79460
0.18780	0.04000	0.52000	2.81720
0.19780	0.04000	0.54500	2.85270
0.19780	0.04060	0.54500	2.85200
0.19520	0.04060	0.56540	2.87710
0.19520	0.04200	0.59390	2.95600
0.19520	0.04200	0.62760	2.96650
0.19520	0.04090	0.62795	3.11575
0.19180	0.03800	0.64000	3.12150
0.17000	0.03370	0.58740	2.81000

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

VII

Taxpayer	2007			1998		
	Taxable Assessed Value	Rank	% of Total Assessed Valuation	Taxable Assessed Value	Rank	% of Total Assessed Valuation
Centerpoint Energy Inc.	\$ 39,945,820	1	1.20%	\$ 34,180,810	1	1.99%
Centex Homes	38,443,099	2	1.15%			
Fertitta Hospitality, Incorporated	28,246,100	3	0.85%	17,531,080	3	1.02%
Club Lodgings LTD Partnership	23,578,451	4	0.71%			
Galveston Island Water Park LP	20,649,660	5	0.62%			
Southwestern Bell Telephone Co	16,261,670	6	0.49%	25,237,150	2	1.47%
Evia Partners LTD	13,831,840	7	0.41%			
American National Insurance Company	13,725,250	8	0.41%	11,468,960	6	0.67%
Halliburton Energy Services, Inc.	13,277,700	9	0.40%			
Harbor Properties	13,197,230	10	0.40%			
MBP Corporation				11,630,670	5	0.68%
Dawn on the Seawall				10,186,890	7	0.59%
Wal-Mart Property, Incorporated				9,925,120	8	0.58%
New Park Shipbuilding				9,366,500	9	0.55%
Meridian Galveston				8,038,320	10	0.47%
Sealy Smith Foundation				13,761,670	4	0.80%
	<u>221,156,820</u>		<u>6.6%</u>	<u>151,327,170</u>		<u>8.82%</u>
Total Assessed Valuation	<u>\$ 221,156,820</u>		<u>6.6%</u>	<u>\$ 151,327,170</u>		<u>8.82%</u>

Source: Tax department records of the City.

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

Exhibit VIII

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
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%	460,883	15,565,215	98.8%
2007	2006	0.49400	17,054,874	15,524,973	91.0%	392,080	15,917,053	93.3%

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**
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	10,502	62,544	725	725	68,537
2007	22,898	36,985	756	19,324	21,433	60,575	2,128	630	63,645

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 IX

Total Primary Government	Percentage of Actual Taxable value of Property¹	Per Capita *
\$ 86,399	5.96%	739
86,940	5.92%	735
93,965	4.91%	609
148,857	2.16%	383
173,763	1.87%	331
179,751	1.81%	322
210,604	1.55%	275
202,992	1.61%	285
225,058	1.43%	254
228,374		

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

Exhibit X

<u>Fiscal Year</u>	<u>Gross Bonded Debt ¹</u>	<u>Less Amounts Available in Debt Service Fund and Debt Payable from Enterprise</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
1998	\$ 5,655,241	\$ 1,744,338	\$ 3,910,903	0.20%	\$ 61
1999	4,595,817	1,545,189	3,050,628	0.15%	48
2000	7,100,808	1,196,296	5,904,512	0.29%	92
2001	18,871,931 ²	1,428,121	17,443,810	0.81%	305
2002	18,334,425	1,528,664	16,805,761	0.71%	294
2003	17,983,514	2,737,460	15,246,054	0.69%	266
2004	17,599,221	2,580,396	15,018,825	0.60%	262
2005	17,184,352	2,807,277	14,377,075	0.29%	248
2006	23,733,322	3,467,805	20,265,517	0.41%	354
2007	22,897,644	3,738,669	19,158,975	0.38%	328

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 XI

<u>Name of Governmental Unit</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City</u>	<u>Estimated Debt Applicable to City</u>
Galveston Independent School District	1 \$ 84,591,866	100.00%	\$ 84,591,866
Galveston County	2 \$ 1,191,826,000	8.66%	\$ 103,262,000
Galveston County MUD No. 29	3 \$ 5,065,000	100.00%	\$ 5,065,000
Total Net Overlapping Debt			<u>192,918,866</u>
Total Direct Debt			<u>22,897,644</u>
Total Direct and Overlapping Net Debt			<u><u>215,816,510</u></u>
Ratio of total direct and overlapping net debt to 2006 assessed valuation			<u>7.42%</u>
Direct and overlapping net debt per capita			<u>\$ 3,770</u>

- (1) Per GISD audited financial statements as of 8/31/07.
(2) Galveston County Auditors Office
(3) MUD 29 Debt Schedule-City Finance Department

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

Exhibit XII

Fiscal Year	Population ⁴	Personal Income	Per Capita Personal Income ¹	Median Age ²	Education Level in Years of Formal Schooling ³	School Enrollment ³	Unemployment Rate ³
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%
2007	58,329	1,036,448,001	17,769	35.5	12.0	8,400	4.9%

Data Sources:

- 1 - United States Census Bureau, 2000 Census
- 2 - Galveston Independent School District
- 3 - Texas Workforce Commission (Data for Galveston County) and Galveston Chamber of Commerce
- 4 - 2007 City population data projection from Texas State Data Center, Office of Demographer A25

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

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

Exhibit XIII

Employer	2007		1998	
	Employees	Rank	Employees	Rank
University of Texas Medical Branch	12,408	1	14,000	1
American National Insurance Company	1,476	2	1,248	3
Landry's Restaurants	1,245	3	450	7
Galveston Independent School District	1,221	4	1,426	2
County of Galveston (Island only)	979	5	1,068	4
Moody Gardens	840	6	1,000	
City of Galveston	820	7	766	5
Fertitta Hospitality	687	8	450	6
Texas A&M University at Galveston	402	9	450	8
U.S. Army Corps of Engineers	312	10	386	10
Grand Heritage Hotels			430	9
Total	20,390		21,674	

Source: Galveston Chamber of Commerce and GEDP Survey

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

Function	1998	1999	2000
General government			
City Secretary	3	3	3
Municipal Court	13	13	14
City Manager	3	3	5
City Auditor	2	1	1
Finance	18	19	16
Legal	3	4	4
Human Resources	3	3	4
Police	195	197	201
Fire	104	103	103
Emergency Management	1	1	2
Streets & Traffic	37	37	37
Parks	26	27	27
Planning & Community Development	29	28	31
Total General Fund	437	438	447
Pensions	2		
Waterworks	67	66	73
Sewer System	75	74	76
Drainage Utility			
Municipal Golf Course	18	18	18
Sanitation	48	44	44
Municipal Airport	9	9	9
Central Service	8	5	7
Central Garage	27	26	26
Municipal Insurance	2	2	2
Construction Management			
Island Transit			
Total Other Funds	256	244	254
Total Full Time Equivalent Personnel	693	682	700

Full-time Equivalent Employees as of September 30,

2001	2002	2003	2004	2005	2006	2007
3	3	3	3	3	3	3
13	13	12	12	12	13	13
5	4	4	4	4	4	4
1	-	-	-			
16	17	16	17	17	16	17
4	3	4	4	5	6	5
3	3	3	4	4	4	3
207	208	211	218	216	219	220
103	103	106	113	123	127	131
1	1	1	1	2	2	1
32	31	40	49	50	50	50
28	29	30	34	36	51	34
21	19	22	25	25	33	23
<u>437</u>	<u>433</u>	<u>452</u>	<u>484</u>	<u>497</u>	<u>528</u>	<u>504</u>
71	69	49	45	43	39	38
75	76	84	86	80	73	74
	13	22	25	25	23	22
17	18	18	18	12	12	12
44	44	37	46	57	55	55
9	9	9	9	9	9	9
13	13	12	11	11	11	10
26	24	23	22	22	22	23
2	3	3	3	2	2	2
				6	6	6
64	65	56	52	64	65	65
<u>321</u>	<u>332</u>	<u>313</u>	<u>317</u>	<u>331</u>	<u>317</u>	<u>316</u>
<u>758</u>	<u>765</u>	<u>765</u>	<u>801</u>	<u>828</u>	<u>845</u>	<u>820</u>

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

Function	1998	1999	2000
Police			
Physical arrests	5,798	8,716	8,716
Parking violations	52,500	57,659	57,659
Traffic violations	20,827	49,554	49,554
Fire			
Number of calls	6,100	6,071	6,073
Number of inspections	1,128	1,265	883
Water			
Number of Service connections	20,116	20,698	22,000
Daily Average consumption (gallons)	16,488,160	17,231,172	15,000,000
Sewer			
Average daily flow (gallons)	20,251,200	8,749,300	10,000,000
Max. daily capacity of plants (gallons)	23,516,000	14,155,000	14,500,000

Source: Various City departments.

Exhibit XV

Fiscal Year						
2001	2002	2003	2004	2005	2006	2007
8,542	10,316	9,069	9,094	9,094	17,845	14,245
64,428	60,600	57,431	47,116	47,116	38,822	38,822
42,733	42,930	45,450	43,435	43,435	21,084	21,084
7,219	7,034	7,276	7,657	7,657	7,299	7,751
651	614	531	1,154	1,154	1,654	2,276
22,000	22,000	22,000	22,000	22,000	22,000	25,747
15,520,101	17,192,000	17,192,000	13,648,765	13,648,765	13,648,765	16,696,885
10,000,000	10,000,000	10,000,000	10,215,000	10,215,000	10,215,000	10,877,000
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	1998	1999	2000
Public safety			
Police			
Stations	4	4	4
Patrol units	41	37	37
Police Officers	162	161	161
Fire			
Fire stations	6	6	6
Firefighters	96	99	101
Highways and streets			
Streets (miles)	288	288	288
Street lights	n/a	n/a	3,812
Culture and recreation			
Parks acreage	250	250	250
Parks	13	15	15
Tennis courts	20	20	20
Community centers	2	2	2
Cemeteries	6	6	6
Athletic fields	14	16	16
Municipal Golf Course	1	1	1
Water			
Water mains (miles)	340	240	240
Fire hydrants	1,800	1,800	1,800
Maximum daily capacity (thousands of gallons)	16,488,160	17,231,172	15,000,000
Sewer			
Treatment Plants	4	5	4
Sanitary sewers (miles)	140	140	220
Storm sewers (miles)	75	75	75
Maximum daily treatment capacity (thousands of gallons)	23,516,000	14,155,000	14,500,000

Source: Various City departments.

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

Exhibit XVI

Fiscal Year						
2001	2002	2003	2004	2005	2006	2007
3	3	3	3	3	2	3
77	61	63	58	58	58	63
162	164	164	170	170	154	162
6	6	6	6	6	6	6
103	103	105	109	109	117	131
288	288	288	288	288	288	321
3,812	3,812	3,812	3,812	3,812	3,812	4,199
250	277	277	277	277	277	277
15	16	16	16	16	16	16
15	15	15	15	15	15	15
2	2	2	1	1	1	1
7	7	7	7	7	7	7
16	28	28	28	28	28	28
1	1	1	1	1	1	1
240	240	240	317	317	317	333
1,800	1,800	1,800	1,931	1,931	1,931	2,350
33,000,000	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	182	182	220	182
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