

CITY OF GALVESTON, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2008



**Prepared by
Finance Department**

CITY OF GALVESTON
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City of Galveston



P. O. Box 779 / Galveston, Texas 77553

March 20, 2009

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, 2008.

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, 2008 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:

September 30, 2008 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Profile of the Government

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

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

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

- The Industrial Development Corporation which provides street repairs, beach re-nourishment and sewer improvements
- The City of Galveston Employee's Retirement Plan for City employees, the Firemen's Relief and Retirement Fund, and the City of Galveston Employee's Retirement Plan for Police
- 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

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

- 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 102 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: On September 12, 2008 Hurricane Ike struck Galveston Island. The storm was officially a category 2 hurricane; however the enormous size of the system's hurricane force winds resulted in a category 4-5 storm surge. The storm surge averaged twelve feet on the island, flooding 70%-75% of the Island's businesses and housing stock. Private and commercial property damage is estimated to exceed \$1 billion. Further damages were incurred to the City's Port (\$500 million), Medical facility (\$600 million) and buildings, equipment and infrastructure (\$123 million). First responders included the State of Texas inclusive of local assistance through the Governor's Division of Emergency Management, the Federal Emergency Management Agency (FEMA) and many regional local governments and faith-based groups.

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

Immediately following the hurricane the United States Congress allocated \$6.5 billion in emergency funding for disaster recovery assistance to 13 States and Puerto Rico. On November 26, 2008, the US Department of Housing and Urban Development (HUD) announced the first of three allocations, amounting to \$2.1 billion. The funds are to be administered through the State, and Texas relegated administration to the Office of Rural Community Affairs (ORCA) as the lead state administrator. The Houston-Galveston Area Council (H-GAC) was asked by the State to recommend a method of distribution for portions designated for the Galveston and Houston areas. On February 17, 2008 the City received notice that H-GAC took action to award \$267 million to the City of Galveston, the highest award of any of the jurisdictions in the Houston-Galveston region. The funds are to be allocated between housing (60%) and non-housing (40%). Significant recovery funds follow:

- \$267 million in CDBG funding for low-moderate income housing and non-housing (infrastructure) activities.
- \$100 million in proposed State legislative action to rebate two years sales tax for recovery and economic development funds.
- \$4.4 billion remaining funds remain for allocation.
- Special provision for nonconventional (exceeding standard limits) Community Disaster Loans, provided in the Federal Economic Stimulus Act.

The University of Texas Medical Branch (UTMB) is the island's largest employer with a labor force of better than 12,000. Since September 13, 2008 the hospital has reduced the force by nearly 3,000 employees and reduced hospital beds from 600 to 200. The hospital's level one trauma center remains closed, further burdening other regional facilities. The hospital's board of regents commissioned an operational efficiency study that concluded that the medical branch should move most clinical operations off the island. On the whole, the community is strongly opposed to the recommendation and instead desires the UTMB facility to return to service-levels and condition pre-Ike. Four of the hospital's board of regents are gathering public comment before a final recommendation is brought to the full board on March 2, 2009.

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. Hurricane Ike resulted in considerable damage to the City's Gulf beaches. The Galveston Park's Board, in conjunction with the State General Land Office, timely launched an effort to reconstruct the beaches from 61st to 16th. This is a \$10 million project and involves emergency sand placement to protect the seawall. The source of sand is from accreting areas around Stewart Beach and Apffel Park. The majority of the work is scheduled for completion by March 31, 2009 or before the Kemp's Ridley turtle nesting season.

On November 4, 2008 Galveston voters approved an extension to the 4B Economic Development Sales Tax, a local option tax to be used to promote a wide range of civic and commercial projects. The ballot specified four general concentrations of sales tax proceeds, subordinate only to debt service outstanding. The general areas of eligibility will be (1) parks, (2) beach renourishment, (3) economic development and (4) drainage and sewers.

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

On July 2, 2008 the Port of Galveston issued \$28 million in parity bonds through the Texas Industrial Development (TID) program. Of the proceeds, \$11.5 million will be used as local matching funds for a U.S. Corps of Engineers project to deepen the Galveston Ship Channel from 40 to 45 feet. The remaining \$16.5 million will be used to fill and reconstruct the Ports' Piers 12-14, which badly need replacement. This pier reconstruction will also add 15 acres of cargo storage area to Port property. The Port has had great success with the investment of \$45 million in the development of cruise ship facilities. The Port of Galveston now ranks as the number one cruise port on the Gulf of Mexico, number four cruise port in the U.S. and the twelfth busiest cruise port in the world. Currently Carnival Cruise Lines and Royal Caribbean International have cruise ships operating out of Galveston. The Port of Galveston has promoted industrial growth as CHS, Inc. and Gulf Copper Shipyard join existing customers Del Monte Fresh Produce, ADM Grain Elevator, "K" Line, Galveston Terminals, Hoegh Lines and Wallenius Wilhelmsen Logistics along the Galveston Harbor. On September 13, 2008 the Port incurred damages from Hurricane Ike to its facilities and docks estimated at \$45-\$55 million. One week following the storm the Port was handling cargo and just six weeks later, on November 1, 2008, the Port's Cruise Terminals were back in full operation. Remaining damage to the Port is currently being surveyed for repairs which will be scheduled for the immediate future. These damages have not adversely effected the Ports current operations

Funding of Major Capital Projects: During the fiscal year, golf course improvements totaled \$7.3 million. The Moody Foundation improvements to the course were part of a project began in the prior year. Totals course improvements amount to \$16.5 million. The City course opened in June 2008.

The Menard Park Recreation Center has \$3.4 million of work-in-progress at year-end. Significant work was done on the Terramar Beach Wastewater Treatment Plant reconstruction totaling \$3 million, Terramar Beach Trunk Sewer lines capitalized at \$2.5 million and the 81st Street & Airport Wastewater treatment plant headworks project that was capitalized for \$3.6 million. Progress on the 30th St. Pump Station is at \$2.6 million and the City spent \$1.2 million for the West End Sea Isle Subdivisions utility system.

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 0.94% to 5.34%. Much of the portfolio resides in TexPool, consistent with strategic liquidity action prior to peak hurricane season. During the year the Federal Open Market Committee reduced the target federal funds rate from 3.00% to 0.25%.

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.

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

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.

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, 2008, the plan had a funding ratio of 87.2% 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 2008.

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, 2008, the plans were 60.2% (Police) and 84.8% (Firefighters) actuarially funded.

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for fiscal year ended September 30, 2007. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government reports.

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

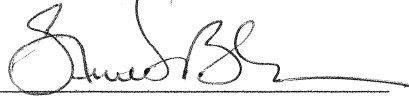
The award is valid for a period of one year only. We believe that our current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

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

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

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

Respectfully submitted,



Steve LeBlanc
City Manager



Jeffrey G. Miller, CPA
Director of Finance

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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, 2007

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.



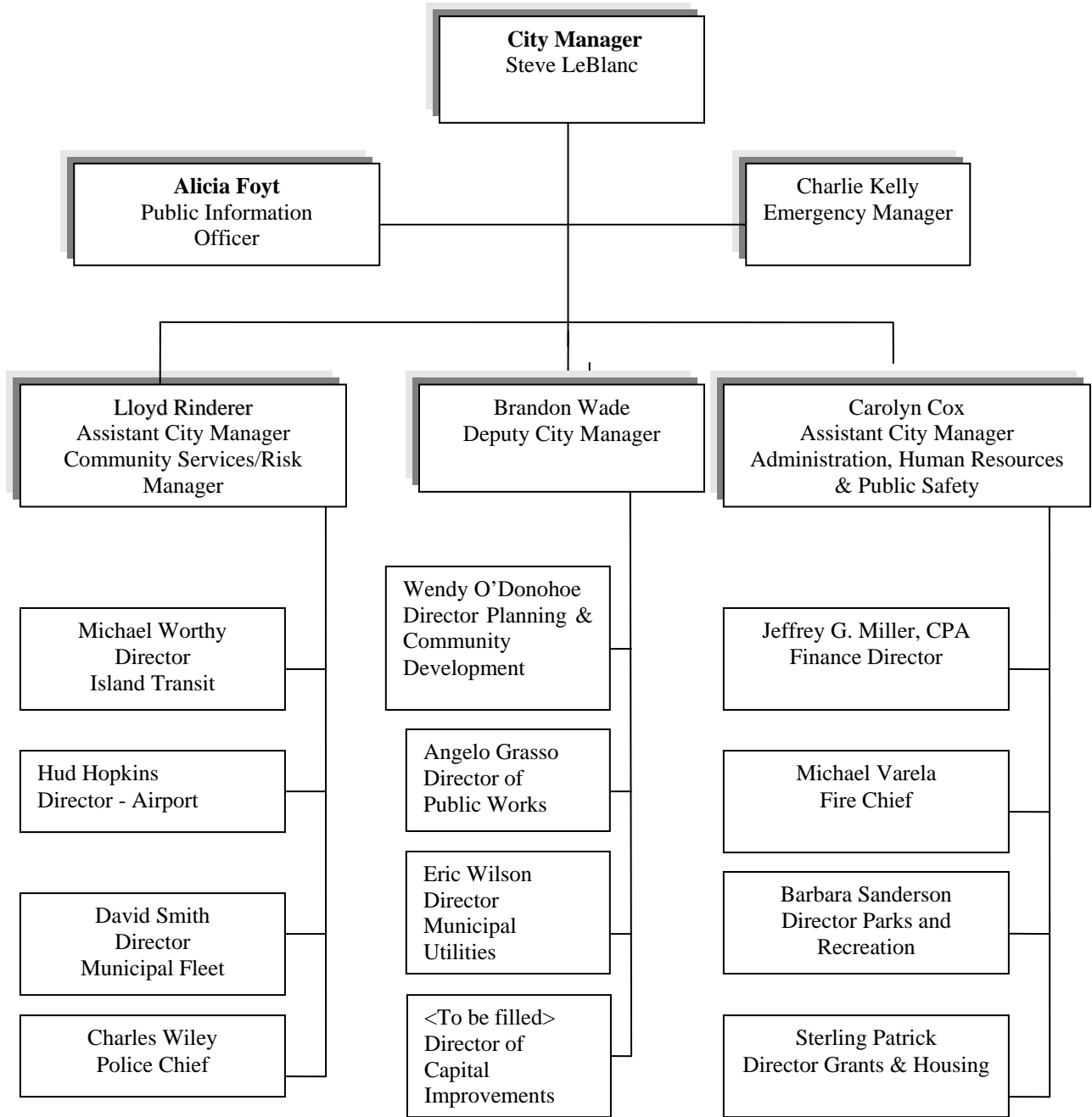
A handwritten signature in black ink, appearing to read "M. L. R. M.", positioned above the title "President".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer", positioned above the title "Executive Director".

Executive Director

City of Galveston, Texas Organizational Chart



CITY OF GALVESTON, TEXAS

Incorporated March 1839

Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council		City Council Appointees	
Mayor	Lyda Ann Thomas	City Manager	Steven J. LeBlanc
Mayor Pro Tem	Danny Weber, Sr.	City Secretary	Barbara S. Lawrence
Council Member	Tarris L. Woods	City Attorney	Susie Green
Council Member	Linda Colbert	Court Judge	Jim Schweitzer
Council Member	Elizabeth Beaton	City Auditor	Mike McNeely
Council Member	Susan Fennewald		
Council Member	Karen Mahoney		

**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	Kathy Price
Municipal Garage	David A. Smith
Parks and Recreation	Barbara E. Sanderson
Planning and Housing	Wendy O’Donohoe
Police	Charles Wiley

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Financial Section

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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, 2008, which collectively comprise the City's 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 following discretely presented component units of the City of Galveston, Texas: the Park Board of Trustees of the City of Galveston, Texas, the City of Galveston Property Finance Authority or the Galveston Housing Finance Corporation, of which, represents 71% of total assets and 45% 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. 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, 2008, and the respective changes in financial position and, where applicable, cash flows 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions or laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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, which has been issued separately from this document, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The management's discussion and analysis, budgetary comparison and pension system information on pages 3 through 14 and 87 through 91, 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 section 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 and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Houston, Texas
March 20, 2009

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2008

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, 2008. 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 2007. 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 \$163.1 million (net assets). Of these assets, capital assets increased \$5.1 million, or 2.40%, from the prior year.
- The ratio of total assets to total liabilities for governmental activities was 1.62 times; for business type activities the ratio was 1.76 times.
- General Fund cash and equivalents increased \$1.9 million or 18.0% compared to the prior year.
- The fund balance of the General Fund increased from \$13.9 million to \$14.1 million, a 2.0% increase. The ending balance represents 34.6% of the \$40.9 million in expenditures. Total undesignated and unreserved fund balance was \$11.4 million, or 27.9% of expenditures.
- Business-type assets increased \$4.6 million over the last fiscal year. Of these, capital assets decreased \$8.8 million, a decrease of 7.2% from the prior year.

Overview of the Financial Statements

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The business-type activities of the City include potable water supply, wastewater collection and treatment, solid waste management, drainage management and improvement and an airport facility.

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

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 Increment 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 16-19 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Island Transit Fund and Hurricane Ike Fund, which are considered to be major funds. Data from the other seventeen 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 20-25 of this report.

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

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, management information systems, central building services, print shop activities, mailroom, insurance and construction support. Because all of these services predominantly benefit governmental rather than business-type functions, the largest portion of the amounts has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the waterworks services and wastewater services, both of which are considered to be major funds of the City. Data from the other three proprietary funds are combined into a single aggregated presentation. Individual fund data for these funds can be found in statements elsewhere in this report. The portion of the internal service funds activities that relate to the proprietary activities are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The City's proprietary fund financial statements can be found on pages 27-30 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 31-32 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 33-83 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information beginning on page 91. Information concerning the City's progress in funding its obligation to provide pension benefits to its employees is presented.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, government-wide assets exceeded liabilities by \$163.1 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (69.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the citizenry; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
September 30, 2008

CITY OF GALVESTON
Net Assets (in thousands)
September 30, 2008

Table A-1

With comparative totals for September 30, 2007

	Governmental activities		Business - type activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 90,772	\$ 70,070	\$ 89,979	\$ 76,628	\$ 180,750	\$ 146,698
Capital assets	105,394	91,468	113,317	122,109	218,711	213,577
Total assets	196,166	161,538	203,296	198,737	399,461	360,275
Current liabilities	31,162	8,280	12,059	5,838	43,221	14,118
Long term liabilities	89,668	91,263	103,472	94,614	193,141	185,877
Total liabilities	120,830	99,543	115,531	100,452	236,361	199,995
Net assets						
Invested in capital assets, net of related debt	49,273	37,327	64,348	73,991	113,620	111,318
Restricted	19,950	18,757	11,053	10,327	31,003	29,084
Unrestricted	6,113	5,911	12,364	13,967	18,477	19,878
Total net assets	\$ 75,336	\$ 61,995	\$ 87,764	\$ 98,285	\$ 163,100	\$ 160,280

An additional portion of the City's net assets (19.0%) 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.

As a consequence of damage incurred and subsequent recovery costs resultant from Hurricane Ike, the City will not have 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 a reduction in fund balances or net assets.

Of the business-type activities, the Waterworks system and the Sewer system are by far the largest operation at the City with total combined assets of \$179.7 million, comprising 88.7% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net assets were \$30.6 million and \$36.3 million, respectively, which is 76.9% of total net assets compared to 81.1% for 2007. The combined unrestricted business-type net assets of the Waterworks system and the Sewer system comprise 63.5% 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 69.5% and 30.5% respectively. Expenses were divided between governmental activities and business-type activities 69.9% and 30.1% respectively. Net assets increased \$ 13.3 million, or 21.5% from the prior period for governmental activities and decreased \$ 10.5 million or 10.7% for business-type activities, The overall effect is an increase of 1.8%.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
September 30, 2008

CITY OF GALVESTON

Changes in Net Assets (in thousands)

Table A-2

For the Fiscal Year Ended September 30, 2008

With comparative totals for fiscal year ended September 30, 2007

	Governmental activities		Business - type activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues:						
Charges for services	\$ 6,910	\$ 7,519	\$ 34,910	\$ 35,755	\$ 41,820	\$ 43,274
Operating grants and contributions	6,627	5,731			6,627	5,731
Capital grants and contributions	25,995	11,292	1,925	6,065	27,920	17,357
General revenues:						
Property taxes	18,640	16,333			18,640	16,333
Sales taxes	17,747	17,497			17,747	17,497
Hotel occupancy taxes	4,958	4,619			4,958	4,619
Franchise fees	5,450	5,375			5,450	5,375
Payments in lieu of taxes	126	737			126	737
Other	1,707	3,283	1,942	2,506	3,649	5,789
Total revenues	88,161	72,386	38,776	44,326	126,937	116,712
Expenses						
General government	5,307	5,166			5,307	5,166
Public safety	32,145	27,040			32,145	27,040
Public works	12,735	5,990			12,735	5,990
Culture and recreation	9,020	8,258			9,020	8,258
Planning and community development	4,936	4,483			4,936	4,483
Transportation system	4,548	5,552			4,548	5,552
Interest on long-term debt	2,839	3,096			2,839	3,096
Waterworks system			13,350	13,000	13,350	13,000
Sewer system			10,806	11,536	10,806	11,536
Sanitation services			3,808	3,781	3,808	3,781
Drainage utility			1,651	1,312	1,651	1,312
Airport			1,184	1,201	1,184	1,201
Golf Course				333		333
Total Expenses	71,530	59,585	30,800	31,163	102,330	90,748
Increase (decrease) in net assets before transfers	16,630	12,801	7,976	13,163	24,607	25,964
Extraordinary Item - Loss on assets due to Hurricane Ike	(2,022)				(2,022)	
Extraordinary Item - Impairments to assets due to Hurricane Ike	(1,868)		(17,897)		(19,765)	
Transfer in (out)	600	1,690	(600)	(1,690)		
Change in net assets	13,341	14,491	(10,521)	11,473	2,820	25,964
Net assets at beginning of year	61,995	47,504	98,285	86,812	160,280	134,316
Net assets at end of year	\$ 75,336	\$ 61,995	\$ 87,764	\$ 98,285	\$ 163,100	\$ 160,280

Table A-2 above reflects that:

- The cost of all governmental activities for the fiscal year was \$71.2 million, an increase of \$ 11.9 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 44.9% of governmental activities compared to 45.4% in 2007. Public safety operating expenses increased \$2.4 million or 9.6% compared to the prior year. Collective bargaining included a 17% increase in wages for Police and 3% increase in wages for Fire personnel. Additionally, public safety includes \$9.6 million in connection with first response

CITY OF GALVESTON, TEXAS

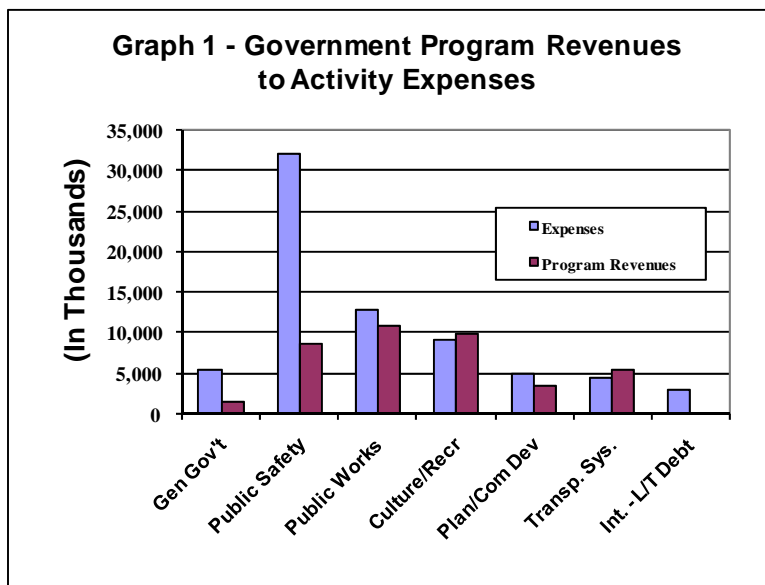
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

expenses subsequent to Hurricane Ike and include shelters for displaced citizens (\$.6 million); establishment of City Hall base camp at the San Luis, Hilton and Holiday Inn (\$1.7 million); Police, Fire and civilian overtime (\$2.5 million) and debris clean up (\$4.5 million).

- 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 \$ 46.9 million, an increase over the previous year of \$ 2.4 million. Taxes and franchise fees contributed 53.2% of governmental activities revenue compared to 61.6% in fiscal year 2007.
- The second largest source of revenue is from governments and organizations that subsidize certain programs with grants and contributions. \$ 32.6 million was received in 2008 versus \$ 17.0 million in 2007. Capital grants and contributions include amounts due from Federal Emergency Management Administration for debris removal and emergency protective measures, \$9.6 million, the Moody Foundation’s investment in the City’s golf course, \$7.3, and Urban Mass Transit Agency capital funds for buses, \$1.5 million.
- Charges for services account for 7.8% of governmental activities, and decreased \$ 0.6 million in fiscal 2008 to \$ 6.9 million. The decrease is attributable to a decline in Island Transit ridership from UTMB (\$37,000) and the Port (\$134,000) and the remainder is due to a slowdown in Community Development home loan rehabilitation projects.

Graph 1 below presents the cost of each of the City’s major governmental functions, as well as the associated program revenues. Total expenses were \$ 71.5 million. Program revenues provided \$ 39.5 million, for a net cost of services of \$ 32.0 million. The cost of providing public safety was \$ 32.1 million or 44.9% of the cost of governmental activities, a decrease from 45.4% of cost of governmental activities in 2007. Typical of governmental activities, the subsidy required from taxpayers provides the majority support to these core services.

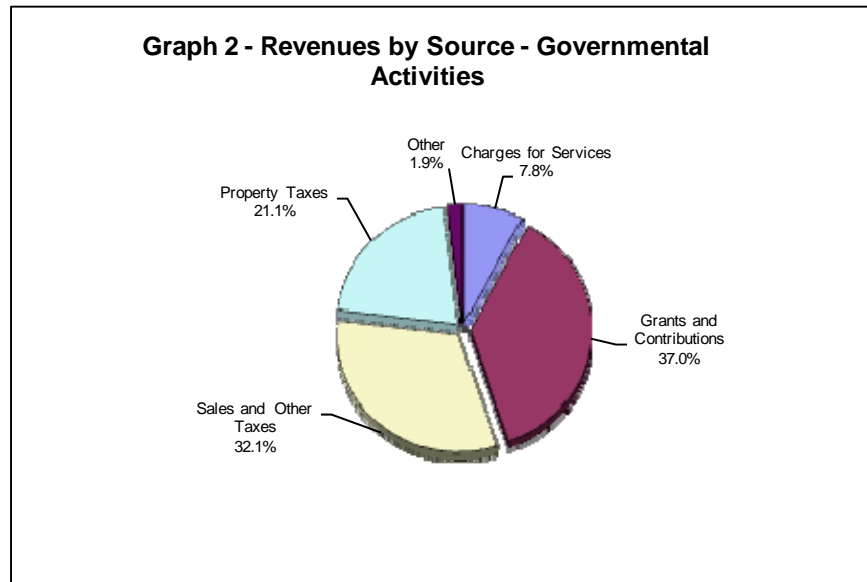


CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

Graph 2 below presents the sources of revenue for governmental activities. A combination of sales taxes (20.1%), hotel taxes (6.1%), franchise fees (6.2%), and payments in lieu of taxes received from business-type activities (0.1%) comprise 32.1% of the total revenues. The City's property taxes contributed an additional 21.1% of total revenues.



Business-type Activities. Business-type activities decreased the City's net assets by \$ 10.5 million, or 10.7%. Business-type net assets accounted for 53.8% of the City's total net assets. Revenues derived from charges for services account for 94.8% of business-type program revenues.

CITY OF GALVESTON

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

Table A-3

For the Fiscal Year Ended September 30, 2008

With comparative totals for fiscal year ended September 30, 2007

Program	Expenses	Program Revenues	2008 Net Revenue (Cost) of Services	2007 Net Revenue (Cost) of Services
Waterworks system	\$ 13,350	\$ 14,640	\$ 1,290	\$ 2,843
Sewer system	10,806	13,667	2,860	4,574
Sanitation services	3,808	4,380	572	806
Drainage utility	1,651	3,187	1,536	1,545
Airport	1,184	960	(224)	1,032
Golf course				(144)
Totals	\$ 30,800	\$ 36,834	\$ 6,034	\$ 10,656

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

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 96.2% of all the expenses of business-type activities.

Related revenues of those funds totaled \$ 35.9 million, or 97.4% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$ 34.5 million and expenses were \$ 29.6 million. Consumption increased 3.8% in fiscal year 2008.

The net excess of program revenues over expenses for the four public utility related funds was \$ 6.3 million compared to \$ 9.8 million in 2007. In total, business type activity excess revenues over expenses were \$ 6.0 million in 2008 compared to \$ 10.6 million in 2007.

Table A-4 shows business-type activities revenues by source. Charges for services provided 90.1% of the total, capital grants and contributions provided 5.0% and interest earnings and other provided the balance of 4.9%.

City of Galveston, Texas

Revenues by Source- Business Type

Activities (in thousands)

Table A-4

For the Fiscal Year Ended September 30, 2008

With comparative totals for fiscal year ended September 30, 2007

	2008		2007	
	Dollars	Percentage	Dollars	Percentage
Charges for services	\$ 34,910	90.1%	\$ 35,755	80.7%
Capital grants and contributions	1,925	5.0%	6,065	13.7%
Other	1,942	4.9%	2,506	5.6%
Totals	\$ 38,776	100%	\$ 44,326	100%

Financial Analysis of the Government's Funds

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

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

The following is of note relating to governmental funds:

- Total assets of the General Fund grew from \$17.6 million in fiscal 2007 to \$17.7 million in fiscal 2008. Cash and temporary investments amount to \$12.1 million or 68.7% of total assets and net receivables are reported at \$5.5 million, or 30.8% of the total. Sales and property taxes along with franchise fees account for 15.4% of net receivables.
- General Fund liabilities decreased by \$0.2 million. Liabilities were \$3.5 million in 2008. Deferred revenue from property taxes amounted to 43.8% of General Fund liabilities compared to 39.2% for fiscal year 2007.

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

- General Fund actual revenues were \$1.1 million less than budgeted for the 2007-2008 fiscal year. Significant variances were in property tax revenues, under budget by \$553,000 and licenses and permit revenue, under budget by \$493,000. The revenue shortfall was identified early in the year and was followed by spending limits on discretionary items as well as a general hiring freeze. Vacancy lapse and spending constraints resulted in actual expenditures incurred under budgeted appropriations by \$1.3 million
- The General fund's unreserved, undesignated fund balance increased \$0.2 million in 2008 to \$11.4 million. The favorable variance in expenditures, as mentioned above contributed to the gain in fund balance.
- The General Fund unreserved, designated-for-emergency fund balance increased from \$2.4 million in 2007 to \$2.6 million in 2008. A \$200 thousand increase has been provided in the 2008-2009 budget.
- Other governmental non-major funds (17 separate funds) have cash and investments totaling \$23.6 million, comprising 36.2% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$216,170 to \$4.0 million at the end of 2008.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$37.1 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 (\$4.6 million), capital project (\$10.9 million) and debt service (\$10.3 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 \$179.7 million, which comprises 88.7% of the total assets of all proprietary funds. Unrestricted net assets (deficit) of those two funds are \$1.9 million and \$5.5 million respectively.

General Fund Budgetary Highlights

A primary goal for the General Fund operating budget is that current budgeted revenues will equal or exceed current budgeted expenditures. Only unforeseen or emergency circumstances will be considered justification for utilizing the fund balance or contingency funds during the annual budget process. During fiscal year 2008 all departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2008 set General Fund revenue and expenditures at \$41.5 million (exclusive of transfers), 6.3% increase in estimated revenue over the prior year. Most revenue streams were budgeted to remain fairly constant with the exception of property tax revenue. Property taxes were budgeted in the 2008 year to increase 21.2% over the prior year. The basis for this increase was predicated on new property values brought on the role from annexation of Galveston Municipal Utility District #1. Annexation of Galveston Municipal 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 was expected 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. Actual results were \$335,000 higher than budgetary estimates.

CITY OF GALVESTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)
September 30, 2008

Major negative variances between budget and actual revenues include a \$500,000 variance in property tax revenues due to escalation of MUD rebates, a \$493,000 variance in licenses and permits due to general slowdown in home improvements and new construction, a \$114,000 variance in charges for services resulting from a decline in metered parking revenues and a \$204,000 variance in investment earnings as a result of Federal Open Market Committee interest rates cuts.

General Fund expenditures were \$1.3 million under appropriation. Savings were realized in all departments, including general government, \$290,000; public safety, \$359,000; public works, \$338,000; parks and recreation, \$117,000; and planning and community development, \$163,000. Vacancies and restrictive spending policies contributed to the savings.

Capital Asset and Debt Administration

CITY OF GALVESTON

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

Table A-5

September 30, 2008

With comparative totals for September 30, 2007

	Governmental activities		Busines - type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,716	\$ 2,716	\$ 2,449	\$ 2,277	\$ 5,165	\$ 4,993
Infrastructure	53,007	31,164	55,891	63,430	108,898	94,593
Buildings	34,944	35,961	30,620	26,685	65,563	62,647
Equipment and furniture	6,117	9,597	5,319	4,375	11,436	13,972
Construction in progress	8,610	12,031	19,038	25,342	27,649	37,373
Totals	\$ 105,394	\$ 91,468	\$ 113,317	\$ 122,109	\$ 218,712	\$ 213,577

As shown in Table A-5, at the end of 2008, the City's investment in capital assets has a carrying value of \$ 218.7 million . This includes a broad range of capital assets, such as utility system infrastructure, contractual rights to the City's water supply, streets, airport structures and runways, several buildings, police and fire equipment, park facilities, and other equipment and furniture. Governmental funds contributed \$ 105.4 million in capital assets, while business-type activities have invested in \$ 113.3 million of capital assets.

Governmental capital assets subject to depreciation increased \$26.4 million. Construction in progress decreased \$17.6 million. Contributed assets of \$7.6 million were conveyed to the City from Galveston Redevelopment Authority. Depreciation expense accounted for a decrease in carrying value of \$4.9 million, while additional losses and impairment write-downs resultant from damages incurred from Hurricane Ike totaled \$3.9 million.

Business type capital assets subject to depreciation increased \$20.3 million. Construction in progress decreased \$18.3 million. Depreciation expense accounted for a decrease in carrying value of \$4.8 million, while losses and impairments incurred from Hurricane Ike totaled \$ 17.9 million.

Total construction in progress has decreased from \$ 37.4 million in fiscal year 2007 to \$ 27.6 million at the close of fiscal year 2008. Golf course improvements of \$7.3 million were contributed to the City in the current year. With the completion of the renovation, the \$7.3 million coupled with the prior year golf reconstruction costs totaling \$9.2 million, accounts for a \$16.5 million decrease to construction in progress. Major additions to construction in progress are \$3 million for Menard Park Recreation Center, Terramar Beach Wastewater Treatment Plant reconstruction costs placed in service for \$3 million, Terramar Beach Trunk Sewer lines capitalized at \$2.5 million and the 81st street & Airport Wastewater treatment plant headworks project that was capitalized for \$3.6 million. Other increases to construction in

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 2008

progress for water projects are \$2.6 million for the 30th Street pump station and \$1.2 million for the West End Sea Isle Subdivisions.

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

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$180.4 million. Of this amount, \$22.0 million was comprised of debt backed by the full faith and credit of the government and \$35.5 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 (\$85.2 million) primarily represents bonds secured solely by specified revenue sources, \$45.4 million and certificates of obligation, \$39.8 million. In August of the current fiscal year, certificates of obligation for \$19.9 million were issued. Proceeds of the sale of the Certificates will be used to construct a fire and emergency public safety facility and certain water and wastewater infrastructure and facilities.

CITY OF GALVESTON

Outstanding Debt (in thousands)

September 30, 2008

With comparative totals for September 30, 2007

Table A-6

	Governmental activities		Business - type activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 21,967	\$ 22,898	\$	\$	\$ 21,967	\$ 22,898
Special obligation bonds	35,535	36,985			35,535	36,985
Contracts payable			37,684	39,481	37,684	39,481
Revenue bonds			45,420	47,100	45,420	47,100
Certificates of obligation	22,905	19,324	16,849	630	39,754	19,954
Notes payable	1,462	1,531	8,145	9,077	9,606	10,609
Capital lease obligations	542	756	1,278	405	1,820	1,161
Total Debt	\$ 82,411	\$ 81,494	\$ 109,375	\$ 96,693	\$ 191,785	\$ 178,187

The City's total debt overall increased \$13.6 million, or 7.6% during the current fiscal year. Notes payable decreased \$1.0 million, representing payment on an energy conservation loan consisting of City Hall lighting and air handling project under State guidelines. Revenue bonds decreased by a net \$1.7 million in the 2008 year.

On January 26, 2009 Standard and Poor's downgraded the City's general obligation and revenue bond rating from A2 to BBB. The rating service cited damage caused by Hurricane Ike and a significant long-term impact on the City's economy and local revenue base as the basis for their action. The City maintains 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 72.1% of the City's Government Fund revenue. The City's budgeted property tax revenue has been projected to increase 4.9% over the prior year. Appraised values increased moderately, some 4.5% relative to the entire roll. Sales tax revenue has been budgeted to increase 4.1% based on a five-year historical trend.

The property tax rate remained the same for fiscal year 2008-2009, at 49.40 cents per \$100 of valuation for all funds. The rate for the General Fund (maintenance and operation) increased 0.85% from 38.98 cents to 39.31cents per \$100. Additional property tax revenue of \$1.2 million is projected in 2009.

CITY OF GALVESTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

September 30, 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.

Rate increases have been included for budgets of Waterworks (19.8%) and Sewer System (12.1%). The rate changes were included to provide funds for principal and interest payments on a proposed revenue bond issue for capital projects in Water (\$20 million) and Sewer (\$10 million). Rates for the municipal Sanitation and Drainage Funds remained the same.

New businesses and construction new to the Island for calendar year 2008 total approximately \$318.8 million. Of this amount, \$57.3 million occurred within the four tax increment reinvestment zones, and is therefore restricted to public improvements within specific geographic areas.

Unemployment rate for the City is currently 5.6%, which is an increase from a rate of 4.9% a year ago. This compares unfavorably to the state's average unemployment rate of about 5.1% and favorably to the national average rate of 6.2% as of year-end.

All of these factors were considered in preparing the City's budget for the 2009 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, 2008

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and equivalents	\$ 38,567,689	\$ 7,442,457	\$ 46,010,146
Investments			
Original issue discount			
Receivables, net of allowance for uncollectibles	5,066,150	9,477,715	14,543,865
Internal balances	(740,930)	740,930	
Due from other governments	23,785,372		23,785,372
Due from component units	19,323,672		19,323,672
Restricted assets	3,743,206	54,684,132	58,427,338
Inventories	545,383	90,676	636,059
Prepaid items	434,100	24,932	459,032
Deferred charges	46,952	2,150,007	2,196,959
Contractual rights to water supply		15,367,889	15,367,889
Net investments in direct financing lease			
Capital assets not being depreciated	11,326,259	21,487,193	32,813,452
Capital assets net of depreciation	94,068,078	91,829,629	185,897,707
Total Assets	196,165,931	203,295,560	399,461,491
Liabilities			
Accounts payable and accrued expenses	14,506,818	2,469,274	16,976,092
Accrued interest	990,630	850,196	1,840,826
Due to other governments	378,739	230,158	608,897
Due to primary government			
Unearned revenue	11,792,096	63,069	11,855,165
Customer deposits		2,287,568	2,287,568
Net pension obligation	1,215,857		1,215,857
Long-term liabilities:			
Due within one year	2,277,618	6,158,634	8,436,252
Due in more than one year	89,668,422	103,472,356	193,140,778
Total Liabilities	120,830,180	115,531,255	236,361,435
Net Assets			
Invested in capital assets, net of related debt	49,272,633	64,347,547	113,620,180
Restricted for:			
Capital projects	6,312,010		6,312,010
Debt service	9,435,164	11,052,634	20,487,798
Other purposes	4,202,965		4,202,965
Unrestricted	6,112,979	12,364,124	18,477,103
Total net assets	\$ 75,335,751	\$ 87,764,305	\$ 163,100,056

See Notes to Financial Statements.

Exhibit I

Component Units	
Governmental Activities	Business- Type Activities
\$ 8,988,879	\$ 15,419,699
5,010	994,895
15,347	
3,802,875	5,441,827
1,064,854	11,026,157
6,284	
88,472	556,778
65,145	980,521
	12,214,632
	16,075,383
305,351,479	68,146,520
<u>319,388,345</u>	<u>130,856,412</u>
1,227,742	4,765,723
280,602	1,039,545
158,447	197,182
	19,323,672
	4,135,236
1,740,954	3,663,900
8,446,228	27,719,083
<u>11,853,973</u>	<u>60,844,341</u>
303,911,689	48,425,005
1,410,367	5,142,227
666,437	
1,545,879	16,444,839
<u>\$ 307,534,372</u>	<u>\$ 70,012,071</u>

CITY OF GALVESTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General government	\$ 5,306,876	\$ 1,552,315	\$	\$
Public safety	32,144,849	3,338,383	311,697	5,085,985
Public works	12,735,486	36,731		10,752,112
Culture and recreation	9,020,072	166,048	935,975	8,655,843
Planning and community development	4,935,967	1,119,334	2,244,025	
Transportation system	4,547,592	696,975	3,135,773	1,501,005
Interest on long-term debt	2,839,483			
Total governmental activities	<u>71,530,325</u>	<u>6,909,786</u>	<u>6,627,470</u>	<u>25,994,945</u>
Business-type Activities				
Waterworks	13,350,252	14,640,143		
Sewer system	10,806,375	12,258,821		1,408,224
Sanitation	3,807,958	4,359,763		20,731
Drainage	1,651,102	2,690,774		495,971
Airport	1,184,394	960,329		
Total business-type activities	<u>30,800,081</u>	<u>34,909,830</u>		<u>1,924,926</u>
Total primary government	<u>\$ 102,330,406</u>	<u>\$ 41,819,616</u>	<u>\$ 6,627,470</u>	<u>\$ 27,919,871</u>
Component Units				
Governmental activities	\$ 20,429,717	\$ 4,135,884	\$	\$ 7,708,876
Business-type activities	16,766,388	22,129,776		2,340,495
Total component units	<u>\$ 37,196,105</u>	<u>\$ 26,265,660</u>	<u>\$</u>	<u>\$ 10,049,371</u>

General revenues:

Taxes:

Property taxes

Sales and use taxes

Hotel occupancy taxes

Franchise fees

Payments in lieu of taxes

Unrestricted investment earnings

Miscellaneous

Extraordinary item - Assets lost to Hurricane Ike

Extraordinary item - Capital asset impairments due to hurricane

Transfers

Total general revenues, extraordinary items and transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (3,754,561)		\$ (3,754,561)		
(23,408,784)		(23,408,784)		
(1,946,643)		(1,946,643)		
737,794		737,794		
(1,572,608)		(1,572,608)		
786,161		786,161		
(2,839,483)		(2,839,483)		
<u>(31,998,124)</u>		<u>(31,998,124)</u>		
	\$ 1,289,891	1,289,891		
	2,860,670	2,860,670		
	572,536	572,536		
	1,535,643	1,535,643		
	<u>(224,065)</u>	<u>(224,065)</u>		
	<u>6,034,675</u>	<u>6,034,675</u>		
<u>(31,998,124)</u>	<u>6,034,675</u>	<u>(25,963,449)</u>		
			\$ (8,584,957)	\$
			<u>(8,584,957)</u>	<u>7,703,883</u>
				<u>7,703,883</u>
18,640,341		18,640,341	2,134,126	
17,746,607		17,746,607	1,113,759	
4,958,206		4,958,206	6,887,804	
5,450,345		5,450,345		
125,880		125,880		
1,482,876	1,805,267	3,288,143	108,555	1,327,621
224,295	136,431	360,726		(2,352,395)
(2,022,064)		(2,022,064)	1,171,054	
(1,867,629)	(17,897,323)	(19,764,952)		
600,000	(600,000)			
<u>45,338,857</u>	<u>(16,555,625)</u>	<u>28,783,232</u>	<u>11,415,298</u>	<u>(1,024,774)</u>
13,340,733	(10,520,950)	2,819,783	2,830,341	6,679,109
61,995,018	98,285,255	160,280,273	304,704,031	63,332,962
<u>\$ 75,335,751</u>	<u>\$ 87,764,305</u>	<u>\$ 163,100,056</u>	<u>\$ 307,534,372</u>	<u>\$ 70,012,071</u>

CITY OF GALVESTON, TEXAS

Exhibit 3

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2008

	General Fund	Island Transit	Hurricane Ike	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 12,142,220	\$ 200	\$	\$ 23,646,730	\$ 35,789,150
Receivables, net of allowance for uncollectibles	2,849,827	113,320	296,432	1,197,731	4,457,310
Due from other governments	2,214,590	94,122	19,336,332	2,140,328	23,785,372
Due from other funds	390,347			429,998	820,345
Inventories		363,026			363,026
Prepaid items	86,688				86,688
Total Assets	\$ 17,683,672	\$ 570,668	\$ 19,632,764	\$ 27,414,787	\$ 65,301,891
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 403,950	\$ 42,955	\$ 7,140,314	\$ 2,304,480	\$ 9,891,699
Accrued expenditures	1,309,128	100,685	2,446,928	27,587	3,884,328
Due to other funds	15,000	57,431	39,102	515,030	626,563
Payable to other governments	265,270			110,287	375,557
Deferred revenue	1,556,528	75,000	10,006,420	1,780,326	13,418,274
Total Liabilities	3,549,876	276,071	19,632,764	4,737,710	28,196,421
Fund balances:					
Reserved for:					
Inventories		363,026			363,026
Prepaid items	86,688				86,688
Capital projects				10,867,753	10,867,753
Debt service				10,306,711	10,306,711
Other purposes	2,625,226			1,577,739	4,202,965
Unreserved	11,421,882	(68,429)		(75,126)	11,278,327
Total Fund Balances	14,133,796	294,597		22,677,077	37,105,470
Total Liabilities and Fund Balances	\$ 17,683,672	\$ 570,668	\$ 19,632,764	\$ 27,414,787	\$ 65,301,891

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS*Exhibit 4***RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS***September 30, 2008*

Total fund balance, governmental funds	\$ 37,105,470
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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.	102,760,454
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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	1,388,566
Adjudicated municipal court fines	237,612
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.	2,240,615
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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	(76,825,215)
Capital lease obligation	(542,021)
Compensated absences	(7,903,406)
Accrued interest	(990,630)
Net pension obligation	(1,215,857)
Deferred bond issuance premium / discount	(243,509)

Net Assets of Governmental Activities in the Statement of Net Assets	\$ 75,335,751
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See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS

Exhibit 5

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2008

	<u>General Fund</u>	<u>Island Transit</u>	<u>Hurricane Ike</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 14,670,247	\$	\$	\$ 3,977,747	\$ 18,647,994
Sales and use taxes	13,530,970			9,173,843	22,704,813
Franchise fees	5,450,345				5,450,345
Licenses and permits	1,000,361				1,000,361
Fines and forfeitures	2,471,291			130,295	2,601,586
Charges for services	1,948,225	660,548		230,207	2,838,980
Investment earnings	556,987	206		821,094	1,378,287
Intergovernmental	116,101	2,709,547	9,579,911	4,249,300	16,654,859
Other	642,634	36,427	46,432	842,277	1,567,770
Payments in lieu of taxes	125,880				125,880
Total Revenues	<u>40,513,041</u>	<u>3,406,728</u>	<u>9,626,343</u>	<u>19,424,763</u>	<u>72,970,875</u>
Expenditures					
Current:					
General government	5,301,243		24,976	156,474	5,482,693
Public safety	27,513,193		3,349,929	165,363	31,028,485
Highways and roads	3,179,574		6,256,296	43,919	9,479,789
Culture and recreation	1,858,565		1,803	5,955,632	7,816,000
Planning and community development	1,785,665			1,746,251	3,531,916
Transportation	773,197	3,561,139		688,387	5,022,723
Debt Service:					
Principal	214,100			1,762,268	1,976,368
Interest and other charges	31,319			3,469,708	3,501,027
Capital outlay	225,702			7,802,170	8,027,872
Total Expenditures	<u>40,882,558</u>	<u>3,561,139</u>	<u>9,633,004</u>	<u>21,790,172</u>	<u>75,866,873</u>
Excess (deficiency) of revenues over expenditures	<u>(369,517)</u>	<u>(154,411)</u>	<u>(6,661)</u>	<u>(2,365,409)</u>	<u>(2,895,998)</u>
Other Financing Sources (Uses)					
Sale of assets	29,143	32,096			61,239
Transfers in	673,360		6,661	3,584,663	4,264,684
Transfers (out)	(50,633)	(250)		(3,612,970)	(3,663,853)
Total Other Financing Sources (Uses)	<u>651,870</u>	<u>31,846</u>	<u>6,661</u>	<u>(28,307)</u>	<u>662,070</u>
Net change in fund balances	282,353	(122,565)		(2,393,716)	(2,233,928)
Fund balances - beginning	<u>13,851,443</u>	<u>417,162</u>		<u>25,070,793</u>	<u>39,339,398</u>
Fund balances - ending	<u>\$ 14,133,796</u>	<u>\$ 294,597</u>	<u>\$</u>	<u>\$ 22,677,077</u>	<u>\$ 37,105,470</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS

Exhibit 6

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, 2008

Net change in fund balances - total governmental funds: \$ (2,233,928)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay (\$21,637,202) exceeds depreciation (\$4,819,145) in the current period. 16,818,057

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. (258,048)

Similarly, governmental funds do not report non-cash activities involving capital assets. The following losses are, however, reported in the government-wide financial statements:
 Loss on assets due to Hurricane Ike (2,022,064)
 Impairments on capital assets due to Hurricane Ike (1,867,629)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues (property taxes and municipal fines) are reported in the Statement of Activities when earned. 118,314

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.
 Bond principal repayments 1,762,268
 Repayment of accreted interest 635,068
 Lease principal payments 214,100

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 (4,843)
 Changes in accrued compensated absences 341,301
 Changes in net pension obligation 525

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. (162,388)

Change in net assets of governmental activities \$ 13,340,733

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS

GENERAL FUND AND BUDGETED MAJOR SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended September 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
	Original	Final		
Revenues				
Property taxes	\$ 15,223,241	\$ 15,223,241	\$ 14,670,247	\$ (552,994)
Sales and use taxes	13,196,039	13,196,039	13,530,970	334,931
Franchise taxes	5,411,308	5,411,308	5,450,345	39,037
Licenses and permits	1,493,209	1,493,209	1,000,361	(492,848)
Intergovernmental	122,195	122,195	125,880	3,685
Charges for services	2,061,930	2,061,930	1,948,225	(113,705)
Fines and forfeitures	2,457,617	2,457,617	2,471,291	13,674
Investment earnings	760,516	760,516	556,596	(203,920)
Other	750,059	750,059	642,634	(107,425)
Total Revenues	41,476,114	41,476,114	40,396,549	(1,079,565)
Expenditures				
Current:				
General government	5,907,473	5,597,818	5,307,474	290,344
Public safety	27,911,058	28,118,189	27,759,457	358,732
Public works	3,399,864	3,518,364	3,180,424	337,940
Culture and recreation	1,977,964	2,002,964	1,885,505	117,459
Planning and community development	1,989,255	1,948,279	1,785,665	162,614
Transportation	850,000	850,000	847,932	2,068
Total Expenditures	42,035,614	42,035,614	40,766,457	1,269,157
Excess (deficiency) of revenues over expenditures	(559,500)	(559,500)	(369,908)	189,592
Other Financing Sources (Uses)				
Transfer to emergency reserves	(200,000)	(200,000)	(200,000)	
Sale of assets	159,500	159,500	29,143	(130,357)
Transfers (out)	600,000	600,000	622,727	22,727
Total Other Financing Sources (Uses)	559,500	559,500	451,870	(107,630)
Revenues and other financing sources over (under) expenditures and other financing (uses)			81,962	81,962
Fund balances - beginning	12,948,921	12,948,921	12,948,921	
Fund balances - ending	\$ 12,948,921	\$ 12,948,921	\$ 13,030,883	\$ 81,962

See Notes to Financial Statements.

ISLAND TRANSIT

Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive/(Negative)
Original	Final		
\$	\$	\$	\$
2,599,061	2,599,061	2,709,547	110,486
850,966	850,966	660,548	(190,418)
		206	206
<u>255,401</u>	<u>255,401</u>	<u>36,427</u>	<u>(218,974)</u>
<u>3,705,428</u>	<u>3,705,428</u>	<u>3,406,728</u>	<u>(298,700)</u>
<u>3,705,428</u>	<u>3,705,428</u>	<u>3,561,139</u>	<u>144,289</u>
<u>3,705,428</u>	<u>3,705,428</u>	<u>3,561,139</u>	<u>144,289</u>
		<u>(154,411)</u>	<u>(154,411)</u>
		32,096	32,096
		<u>(250)</u>	<u>(250)</u>
		<u>31,846</u>	<u>31,846</u>
		(122,565)	(122,565)
<u>417,162</u>	<u>417,162</u>	<u>417,162</u>	
<u>\$ 417,162</u>	<u>\$ 417,162</u>	<u>\$ 294,597</u>	<u>\$ (122,565)</u>

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CITY OF GALVESTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2008

Exhibit 8

	Enterprise Funds				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current assets:					
Cash and temporary investments	\$ 2,506,804	\$ 2,554,036	\$ 2,381,617	\$ 7,442,457	\$ 2,679,381
Accounts receivable, net of allowance for doubtful accounts	3,185,823	3,504,850	2,787,042	9,477,715	608,840
Inventories	45,338	45,338		90,676	182,357
Prepaid expenses	4,667	4,667	15,598	24,932	347,412
Restricted assets:					
Cash and investments	27,910,455	19,017,106	1,571,286	48,498,847	3,743,206
Cash in escrow					99,158
Investment with trustee	6,185,285			6,185,285	
Total current assets	39,838,372	25,125,997	6,755,543	71,719,912	7,660,354
Non-current assets:					
Deferred charges	1,606,558	532,980	10,469	2,150,007	46,952
Contractual rights to water supply	15,367,889			15,367,889	
Capital assets not being depreciated	6,468,149	11,571,462	3,447,582	21,487,193	
Capital assets (net of depreciation)	38,527,712	40,650,303	12,651,614	91,829,629	2,633,883
Total non-current assets	61,970,308	52,754,745	16,109,665	130,834,718	2,680,835
Total Assets	101,808,680	77,880,742	22,865,208	202,554,630	10,341,189
Liabilities					
Current Liabilities:					
Accounts payable and accrued expenses	1,033,776	1,132,828	302,670	2,469,274	733,975
Accrued interest payable	372,260	472,123	5,813	850,196	
Due to other funds					193,782
Due to other governments	19,333	4,524	206,301	230,158	
Customer deposits	1,140,533	1,147,035		2,287,568	
Unearned revenue			63,069	63,069	
Long-term debt, current portion:					
Compensated absences	6,006	12,956	15,068	34,030	
Capital lease obligation			356,696	356,696	
Claims and judgments					24,000
Contracts payable	2,354,262			2,354,262	
Notes payable	480,473	480,473		960,946	78,910
Bonds and certificates of obligation payable	889,336	1,463,364	100,000	2,452,700	132,300
Total Current Liabilities	6,295,979	4,713,303	1,049,617	12,058,899	1,356,749
Non-current liabilities:					
Long-term debt, noncurrent portion:					
Compensated absences	163,351	345,989	362,883	872,223	328,872
Capital lease obligation			921,038	921,038	
Claims and judgments					1,056,371
Contracts payable	35,329,745			35,329,745	
Notes payable	3,591,811	3,591,811		7,183,622	1,383,549
Bonds and certificates of obligation payable	25,828,370	32,902,358	435,000	59,165,728	3,427,885
Total non-current liabilities	64,913,277	36,840,158	1,718,921	103,472,356	6,196,677
Total Liabilities	71,209,256	41,553,461	2,768,538	115,531,255	7,553,426
Net Assets					
Invested in capital assets, net of related debt	22,086,564	26,522,096	15,738,887	64,347,547	1,092,051
Restricted for debt service	6,586,302	4,354,704	111,628	11,052,634	262,394
Unrestricted	1,926,558	5,450,481	4,246,155	11,623,194	1,627,100
Total Net Assets	\$ 30,599,424	\$ 36,327,281	\$ 20,096,670	\$ 87,023,375	\$ 2,981,545

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

Total net assets per Government-Wide financial statements 740,930
\$ 87,764,305

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, 2008

	Business-type Activities - Enterprise Funds		
	Waterworks System	Sewer System	Other Enterprise Funds
Operating Revenues			
Charges for services	\$ 14,696,331	\$ 12,464,015	\$ 8,104,797
Miscellaneous	8,162	1,383	126,210
Total Operating Revenues	14,704,493	12,465,398	8,231,007
Operating Expenses			
Personnel services	1,335,619	2,767,879	3,165,949
Contractual services	589,092	1,613,988	1,854,939
Supplies and materials	1,032,326	1,486,205	286,961
Surface water contract	5,480,170		
Insurance claims and premiums			
Other expenses	301,677	394,835	319,222
Administrative charge	560,850	342,308	264,260
Bad debt expense	56,188	205,194	93,931
Depreciation	2,691,578	2,538,032	679,830
Total Operating Expenses	12,047,500	9,348,441	6,665,092
Operating income (loss)	2,656,993	3,116,957	1,565,915
Non-Operating Revenues (Expenses)			
Interest and investment revenue	1,256,077	416,704	132,486
Gain (loss) on disposal of capital assets		(218,079)	676
Interest expense	(981,688)	(1,372,323)	(53,502)
Amortization of bond issuance costs	(398,348)	(60,862)	(2,243)
Total Non-Operating Revenues (Expenses)	(123,959)	(1,234,560)	77,417
Income (loss) before contributions and transfers	2,533,034	1,882,397	1,643,332
Capital contributions		1,408,225	516,702
Transfers out	(200,000)	(200,000)	(200,000)
Extraordinary item-impairments on capital assets due to hurricane	(1,390,562)	(16,227,413)	(279,348)
Change in net assets	942,472	(13,136,791)	1,680,686
Total net assets - beginning	29,656,952	49,464,072	18,415,984
Total net assets - ending	\$ 30,599,424	\$ 36,327,281	\$ 20,096,670

Change in net assets, per above

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

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

See Notes to Financial Statements.

Exhibit 9

Total	Governmental Activities Internal Service Funds
\$ 35,265,143	\$ 13,259,489
135,755	34,857
35,400,898	13,294,346
7,269,447	1,936,396
4,058,019	1,997,772
2,805,492	3,184,633
5,480,170	
	5,659,058
1,015,734	749,942
1,167,418	
355,313	
5,909,440	90,678
28,061,033	13,618,479
7,339,865	(324,133)
1,805,267	168,493
(217,403)	52,608
(2,407,513)	(63,905)
(461,453)	(1,937)
(1,281,102)	155,259
6,058,763	(168,874)
1,924,927	
(600,000)	(831)
(17,897,323)	
(10,513,633)	(169,705)
97,537,008	3,151,250
\$ 87,023,375	\$ 2,981,545
\$ (10,513,633)	
(7,317)	
\$ (10,520,950)	

CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

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	\$ 13,868,742	\$ 11,716,444	\$ 7,843,998	\$ 33,429,184	\$ 12,909,047
Disbursed for personnel services	(1,345,534)	(2,821,382)	(3,151,805)	(7,318,721)	(1,935,148)
Disbursed for goods and services	(7,164,533)	(3,829,032)	(2,414,741)	(13,408,306)	(11,313,758)
Administrative service charge	(560,850)	(342,308)	(264,260)	(1,167,418)	
Other operating revenues	8,162	1,383		9,545	
Net cash provided (used) by operating activities	<u>4,805,987</u>	<u>4,725,105</u>	<u>2,013,192</u>	<u>11,544,284</u>	<u>(339,859)</u>
Cash Flows from Non-Capital Financing Activities					
Due from other governments	39,211			39,211	
Interfund transfers out	(200,000)	(200,000)	(200,000)	(600,000)	(831)
Net cash provided by (used by) noncapital financing activities	<u>(160,789)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>(560,789)</u>	<u>(831)</u>
Cash Flows from Capital and Related Financing Activities					
Payments for capital acquisitions (net of sales)	(4,771,508)	(5,434,714)	(2,003,277)	(12,209,499)	(1,293,865)
Proceeds from issuance of bonds	8,156,950	8,156,950			3,581,100
Proceeds from issuance of capital lease			1,240,182	1,240,182	
Principal payments on debt - bonds	(2,362,226)	(1,114,739)	(95,000)	(3,571,965)	
Principal payments on debt- long term contracts	(466,325)	(466,325)		(932,650)	
Principal payments on debt- capital leases	(67,845)	(67,845)	(231,266)	(366,956)	(69,031)
Interest paid on revenue bonds	(805,858)	(1,206,043)		(2,011,901)	
Interest paid on capital leases	(134,810)	(134,810)	(54,690)	(324,310)	(63,905)
Bond issuance costs	(135,196)	(74,171)		(209,367)	(69,804)
Net cash used by capital and related financing activities	<u>(586,818)</u>	<u>(341,697)</u>	<u>(1,144,051)</u>	<u>(18,386,466)</u>	<u>2,084,495</u>
Cash Flows from Investing Activities					
Investment with trustee	191,392			191,392	
Interest on investments	1,256,077	416,704	132,486	1,805,267	168,493
Net cash provided by (used by) investing activities	<u>1,447,469</u>	<u>416,704</u>	<u>132,486</u>	<u>1,996,659</u>	<u>168,493</u>
Net increase (decrease) in cash and equivalents	5,505,849	4,600,112	801,627	(5,406,312)	1,912,298
Cash and equivalents, beginning of year	<u>24,911,410</u>	<u>16,971,030</u>	<u>3,151,276</u>	<u>45,033,716</u>	<u>4,609,447</u>
Cash and equivalents, end of year	<u>\$ 30,417,259</u>	<u>\$ 21,571,142</u>	<u>\$ 3,952,903</u>	<u>\$ 55,941,304</u>	<u>\$ 6,521,745</u>
Unrestricted cash and equivalents	\$ 2,506,804	\$ 2,554,036	\$ 2,381,617	\$ 7,442,457	\$ 2,500,159
Restricted cash and equivalents	27,910,455	19,017,106	1,571,286	48,498,847	4,021,586
	<u>\$ 30,417,259</u>	<u>\$ 21,571,142</u>	<u>\$ 3,952,903</u>	<u>\$ 55,941,304</u>	<u>\$ 6,521,745</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income (loss)	\$ 2,656,993	\$ 3,116,957	\$ 1,565,915	\$ 7,339,865	\$ (324,133)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	2,691,578	2,538,032	679,830	5,909,440	90,678
(Increase) decrease in accounts receivable	(814,500)	(510,341)	(312,229)	(1,637,070)	(385,296)
(Increase) decrease in inventory and prepaid expenses	42,279	(38,333)	4,670	8,616	(42,854)
(Increase) decrease in deferred revenue			19,151	19,151	
Increase (decrease) in accounts payable	196,453	(295,671)	41,711	(57,507)	320,498
Increase (decrease) in salaries payable	(11,434)	(1,456)	31,694	18,804	11,150
Increase (decrease) in customer deposits	43,099	(32,036)		11,063	
Increase (decrease) in compensated absences payable	1,519	(52,047)	(17,550)	(68,078)	(9,902)
Net cash provided by operating activities	<u>\$ 4,805,987</u>	<u>\$ 4,725,105</u>	<u>\$ 2,013,192</u>	<u>\$ 11,544,284</u>	<u>\$ (339,859)</u>

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2008

Exhibit 11

	Pension Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 8,645,977	\$ 571,016
Receivables:		
Interest and dividends	132,477	
Loans to participants	192,385	
From employer	906,527	
Total receivables	<u>1,231,389</u>	<u> </u>
Investments:		
Common stock	48,372,932	
Equity funds	22,541,073	
Corporate and foreign bonds	19,978,479	
Total investments	<u>90,892,484</u>	<u> </u>
Prepaid benefits	203,279	
Total assets	<u>100,973,129</u>	<u>571,016</u>
 Liabilities		
Accounts payable	58,932	3,534
Refunds payable and others		567,482
Total liabilities	<u>58,932</u>	<u>\$ 571,016</u>
 Net Assets		
Held in trust for benefits and other purposes	<u>\$ 100,914,197</u>	

See Notes to Financial Statements.

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2008

Exhibit 12

	Pension Trust Fund
Additions	
Contributions:	
Employer	\$ 3,301,502
Plan members	2,718,465
Total contributions	<u>6,019,967</u>
Investment earnings:	
Net increase in fair value of investments	4,318,870
Interest	1,669,934
Dividends	1,163,592
Investment activity expense	(665,060)
Total net investment earnings	<u>6,487,336</u>
Other Additions:	
Miscellaneous	109,860
Total additions	<u>12,617,163</u>
 Deductions	
Benefits	7,818,427
Administrative	230,085
Total deductions	<u>8,048,512</u>
Change in net assets	4,568,651
Net assets - beginning	<u>96,345,546</u>
Net assets - ending	<u><u>\$ 100,914,197</u></u>

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

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

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

A. 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, 2007.

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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 nine-member board responsible for operations. The Park Board financial records are the Board's responsibility. Complete financial statements for the Park Board may be obtained at the following address:

Park Board of Trustees of the City of Galveston
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 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. Separately issued financial statements are not available.

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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. Separately issued financial statements are not available.

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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. 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 Hurricane Ike Fund** is used to account for grant resources from the Federal Emergency Management Agency (FEMA), insurance recoveries and various sources. The use of these resources is restricted to specific expenditures related to Hurricane Ike.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Additionally, the government reports the following fund types:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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 43.8% of total property taxes including the related penalty and interest accrual as of year end. The allowance for enterprise fund charges for services is 7.0% of total outstanding charges as of year end.

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

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, 2008, are recorded as prepaid items.

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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:

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

5. Compensated Absences

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

6. Long-term Obligations

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

Note 1 - Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

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:

Restricted for:	Enterprise Funds				Total Business Type Activities
	Waterworks System	Sewer System	Sanitation	Drainage	
Capital projects	\$ 23,537,823	\$ 12,968,506	\$ 44,663	\$ 1,409,182	\$ 37,960,174
Debt service	3,232,105	4,826,827	117,441		8,176,373
Investments with Trustee- Debt Service	3,875,516				3,875,516
Investments with Trustee- Capital Projects	2,309,769				2,309,769
Meter Deposits	1,140,527	1,221,773			2,362,300
	<u>\$ 34,095,740</u>	<u>\$ 19,017,106</u>	<u>\$ 162,104</u>	<u>\$ 1,409,182</u>	<u>\$ 54,684,132</u>

Note 1 - Summary of Significant Accounting Policies (Continued)

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 2008. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

F. Legal Compliance - Budgets (Continued)

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

Revenue and Expenditure/Expenses Analysis in Comparison to Budget

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

	General Fund				GAAP Basis
	Budgetary Basis	Classification Differences	Unbudgeted Funds	Budgeted Transfer to Reserves	
Revenues	\$ 40,396,549	\$	\$ 116,492	\$	\$40,513,041
Expenditures	40,766,457		116,101		40,882,558
Revenues over (under) expenditures	(369,908)		391		(369,517)
Other financing sources (uses)	451,870			200,000	651,870
Revenues and other financing sources over (under) expenditures and other financing (uses)	81,962		391	200,000	282,353
Fund balance at beginning of year	<u>12,948,921</u>		<u>2,522</u>	<u>900,000</u>	<u>13,851,443</u>
Fund balance at end of year	<u><u>\$ 13,030,883</u></u>	<u>\$</u>	<u><u>\$ 2,913</u></u>	<u><u>\$ 1,100,000</u></u>	<u><u>\$ 14,133,796</u></u>

Note 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.

Note 2 - Deposits and Investments (Continued)

Credit Risk (Continued)

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

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

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

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

As of September 30, 2008,

- investment in the State Treasurer's AAA-rated local government investment pool represented 81.17% of the total portfolio,
- holdings in a rated money market mutual fund represented 12.80% of the total portfolio, and
- holdings in US Government securities rated AAA represented 6.03% 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, 2008,

- holdings in one AAA-rated local government investment pool represented 81.17% of the total portfolio,
- holdings in a AAA-rated money market mutual fund represented 12.80% of the total portfolio.

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk:

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

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

Exhibit A

<u>Investment Type</u>	<u>Investment Maturities</u>
	<u>in Years</u>
	<u>Less than 1 year</u>
US Treasury Notes and Bills	\$
US Agencies:	
FFCB	5,018,750
FHLB	995,938
2A-7 like Local Government Pools	80,941,728
SEC Registered Money Market Fund	12,765,617
Demand Deposit Accounts	29
	<u>\$ 99,722,062</u>

As of September 30, 2008, the portfolio contained:

- no holding in the portfolio had a stated maturity date beyond nine months, and
- the dollar weighted average of the total combined portfolios was 16 days.

As of September 30, 2008, the portfolio contained one structured note as shown in Exhibit B.

Exhibit B

Annual GASB 40 Report
City of Galveston, Texas
Period Ending September 30, 2008
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>
Discretely callable securities:									
FHLB	\$ 1,000,000	2.600%	5/28/2008	05/28/09	11/28/2008	one time call	3133XRAM2	\$1,000,000	\$ 995,938

Note 2 - Deposits and Investments (Continued)

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, 2008:

- 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.

Note 3 - Property Tax

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

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

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

Within these guidelines, the adopted tax rate per \$100 of assessed valuation, for the year ended September 30, 2008, was \$ 0.494. The tax rate to finance general governmental services was set at \$0.43984 and the tax rate for all other purposes, including debt service, was set at \$ 0.054158 per \$100 of assessed valuation.

Note 4 - Sales Tax

The City's sales tax rate is 2 cents for the year ended September 30, 2008. 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 \$4.2 million in fiscal year 2008. The total maximum allowable tax rate of \$ 0.70 was thus limited to \$0.58274 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 ½ 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 streets and drainage improvement projects and ¼ is for sanitary sewer projects.

Note 4 - Sales Tax (Continued)

On November 4, 2008, the voters extended the ½ cent offset for IDC projects for 20 years, to expire on April 1, 2029. Effective April 1, 2009, the purpose of the IDC ½ cent will change slightly. The previous ¼ cent that was allocated for sanitary sewer projects will be 1/8 cent. The other 1/8 cent that was previously allocated to sanitary sewer projects will be used for projects that promote or develop new or expanded business enterprises that create or retain primary jobs in Galveston.

Note 5 - Receivables

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

	General	Island Transit	Hurricane Ike	Non-major Governmental Funds	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total
Receivables:									
Taxes	\$ 3,052,377	\$	\$	\$ 331,007	\$	\$	\$	\$	\$ 3,383,384
Accounts	2,027,699	113,320	296,432	975,691	3,329,113	3,779,331	3,033,322	608,840	14,163,748
Gross receivables	5,080,076	113,320	296,432	1,306,698	3,329,113	3,779,331	3,033,322	608,840	17,547,132
Less: allowance for uncollectibles	(2,230,249)			(108,967)	(143,288)	(274,481)	(246,280)		(3,003,265)
Net total receivables	\$ 2,849,827	\$ 113,320	\$ 296,432	\$ 1,197,731	\$3,185,825	\$3,504,850	\$2,787,042	\$608,840	\$14,543,867

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.

Note 6 - Interfund Activities

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

Transfer Out Fund	Transfer In Fund							Totals
	General Fund	Hurricane Ike Fund	Convention Center Funds	Debt Service Fund	Drainage & Street Improvements	Sewer Improvements	Bond 2001 Capital Projects	
General Fund	\$	\$ 5,580	\$ 45,053	\$	\$	\$	\$	\$ 50,633
Island Transit		250						250
Other Governmental Funds:								
Parks and Recreation Improvement							216,890	216,890
Grants and Government Contracts	1,476							1,476
Industrial Development Corporation				1,324,435	643,791	1,221,047		3,189,273
Project Specific Programs	41,860					133,447		175,307
Convention Center Funds	30,024							30,024
Waterworks System	200,000							200,000
Sewer System	200,000							200,000
Other Enterprise Funds:								
Sanitation Fund	200,000							200,000
Internal Service Funds:								
Central Garage		61						61
Casualty & Liability Insurance		28						28
Central Service		742						742
Totals	\$ 673,360	\$ 6,661	\$ 45,053	\$ 1,324,435	\$ 643,791	\$ 1,354,494	\$ 216,890	\$4,264,684

Note 6 - Interfund Activities (Continued)

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	Hurricane Ike Convention Center Funds	Local match for public assistance Budget transfer for special events
Island Transit	Hurricane Ike	Local match for public assistance
Parks and Recreation Improvement	Bond 2001 Capital Projects	Budget transfer for architectural services
Grants and Government Contracts	General Fund	Grant matching funds
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
Project Specific Programs	General Fund	Transfer investment earnings available for appropriation
Convention Center Funds	General Fund	Transfer investment earnings available for appropriation
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
Central Garage	Hurricane Ike	Local match for public assistance
Casualty & Liability Insurance	Hurricane Ike	Local match for public assistance
Central Service	Hurricane Ike	Local match for public assistance

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	Project Specific Programs	
Governmental Funds:					
General Fund	\$	\$	\$	\$ 15,000	\$ 15,000
Island Transit Capital Projects	88,013				88,013
Island Transit Operations	57,431				57,431
Hurricane Ike Fund	39,102				39,102
Island Transit Grant Fund	12,019				12,019
IDC Sales Tax Revenue Fund		160,511	254,487		414,998
Internal Service Funds:					
Casualty & Liability Insurance	193,782				193,782
	<u>\$ 390,347</u>	<u>\$ 160,511</u>	<u>\$ 254,487</u>	<u>\$ 15,000</u>	<u>\$ 820,345</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 Hurricane Ike Fund inter-fund receivable/payable shown above represents funding that the General Fund had to provide to supplement pre-storm expenses as part of the FEMA 75% / 25% cost share as set forth by the Emergency Declaration number 3294EM.

The IDC Sales Tax Revenue Fund inter-fund receivable/payable shown above represents sales tax revenue for August and September that will be received in FY 2009. 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.

The Casualty and Life Fund inter-fund receivable/payable shown above represents charges for services between funds during the fiscal year and settled shortly after year-end.

Note 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	\$ 2,715,803	\$	\$	\$ 2,715,803
Construction in progress	12,030,836	14,201,325	(17,621,705)	8,610,456
Total capital assets, not being depreciated	<u>14,746,639</u>	<u>14,201,325</u>	<u>(17,621,705)</u>	<u>11,326,259</u>
Capital assets, being depreciated:				
Buildings	39,418,918	90,921	(170,813)	39,339,026
Improvements other than buildings	4,968,155			4,968,153
Machinery and equipment	8,948,095	275,935	(1,392,959)	7,831,071
Licensed vehicles	15,281,675	767,545	(6,576,152)	9,473,068
Infrastructure	81,182,781	25,269,659	(1,250,183)	105,202,257
Total capital assets being depreciated	<u>149,799,624</u>	<u>26,404,060</u>	<u>(9,390,107)</u>	<u>166,813,575</u>
Less accumulated depreciation for:				
Buildings	(5,288,204)	(808,459)	76,701	(6,019,962)
Improvements other than buildings	(3,137,525)	(206,012)		(3,343,537)
Machinery and equipment	(6,003,575)	(660,578)	684,606	(5,979,547)
Licensed vehicles	(8,629,488)	(1,040,584)	4,462,826	(5,207,246)
Infrastructure	(50,019,248)	(2,194,190)	18,233	(52,195,205)
Total accumulated depreciation	<u>(73,078,040)</u>	<u>(4,909,823)</u>	<u>5,242,366</u>	<u>(72,745,497)</u>
Total capital assets, being depreciated, net	<u>76,721,584</u>	<u>21,494,237</u>	<u>(4,147,741)</u>	<u>94,068,078</u>
Governmental activities capital assets, net	<u>\$ 91,468,223</u>	<u>\$ 35,695,562</u>	<u>\$ (21,769,446)</u>	<u>\$105,394,337</u>

Note 7 - Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,276,760	\$ 172,203	\$	\$ 2,448,963
Construction in progress	25,341,701	11,957,816	(18,261,287)	19,038,230
Total capital assets, not being depreciated	<u>27,618,461</u>	<u>12,130,019</u>	<u>(18,261,287)</u>	<u>21,487,193</u>
Capital assets, being depreciated:				
Buildings and system	40,569,778	5,331,569	(764,696)	45,136,651
Improvements other than buildings	99,813,866	13,032,994	(20,200,636)	92,646,224
Machinery and equipment	14,545,330	1,910,935	(869,923)	15,586,342
Total capital assets, being depreciated	<u>154,928,974</u>	<u>20,275,498</u>	<u>(21,835,255)</u>	<u>153,369,217</u>
Less accumulated depreciation for:				
Buildings and system	(13,884,584)	(1,124,298)	491,821	(14,517,061)
Improvements other than buildings	(36,384,138)	(2,953,560)	2,582,661	(36,755,037)
Machinery and equipment	(10,169,862)	(733,876)	636,248	(10,267,490)
Total accumulated depreciation	<u>(60,438,584)</u>	<u>(4,811,734)</u>	<u>3,710,730</u>	<u>(61,539,588)</u>
Total capital assets, being depreciated, net	<u>94,490,390</u>	<u>15,463,764</u>	<u>(18,124,525)</u>	<u>91,829,629</u>
Business-type activities capital assets, net	<u>\$ 122,108,851</u>	<u>\$ 27,593,783</u>	<u>\$ (36,385,812)</u>	<u>\$113,316,822</u>

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

Governmental activities:

General government	\$ 38,211
Public safety	636,812
Public works	1,714,092
Culture and recreation	1,433,011
Planning and community development	158,979
Transportation system	838,039
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>90,679</u>
Total depreciation expense - governmental activities	<u>\$ 4,909,823</u>

Business-type activities:

Waterworks	\$ 1,593,872
Sewer system	2,538,032
Sanitation	159,513
Drainage	42,885
Airport	<u>477,432</u>
Total depreciation expense - business-type activities	<u>\$ 4,811,734</u>

Note 7 - Capital Assets (Continued)

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	\$ 4,086,131	\$ 3,364,410	\$ 721,721
Seawall Beautification - design only	112,000	112,000	
Traffic signal improvement project	389,903	366,927	22,976
Island Transit maintenance facility - design	636,500	453,750	182,750
Island Transit downtown terminal (Goodman)	400,000	481,786	(81,786)
LA Morgan Renaissance Zone		1,811	(1,811)
Lasker Park Restrooms		5,227	(5,227)
Broadway Beautification	1,477,845	393,258	1,084,587
Trolley Rehab	511,556	44,441	467,115
Trolley Diamond Crossing- residual costs	7,961	8,188	(227)
Livable Community Initiatives	2,437,158	142,683	2,294,475
Sea Isle Subdivision - Paving	1,224,851	1,141,832	83,019
Puesta del Sol Roadway Improvements	100,000	100,000	
Palm Beach Infrastructure Improvements-Streets	1,600,509	39,167	1,561,342
Terramar Beach Subdivision-Streets	348,160	254,025	94,135
Traffic Signal Unwarranting Study (5 Broadway Inter)	43,400	35,428	7,972
11 Mile Rd Stewart Beach to Stewart Rd.		779	(779)
Cloud Lane 91st thru 103rd	25,729	15,594	10,135
19th Street Paving & Drainage Project	294,955		294,955
21st & 23rd Street Paving	449,621	945	448,676
Energy Savings Project	1,548,421	1,577,860	(29,439)
Fire Station	3,500,000	70,345	3,429,655
	<u>\$ 19,194,700</u>	<u>\$ 8,610,456</u>	<u>\$ 10,584,244</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)	\$ 1,752,467	\$ 485,334	\$ 1,267,133
30th Street Pump Station	16,020,947	2,575,695	13,445,252
West End Unserved Areas-Sea Isle Subdivision	1,505,178	1,414,013	91,165
Various other	2,098,571	1,309,246	789,325
<i>Sewer System Fund Projects</i>			
West End Unserved Areas-Engineering Only	1,158,257	1,158,257	
Terramar Beach Subdivision Contract IV	2,471,488	1,648,440	823,048
Sea Isle Subdivision Contract 3 Construction	2,816,423	2,628,596	187,827
Design of Near West End Unserved Areas	699,794	597,610	102,184
Sewer Rehab Phase 1 and Phase 2	1,571,576	983,875	587,701
Various sewer projects	5,103,077	4,020,346	1,082,731
<i>Drainage Fund Projects</i>			
Various drainage projects	2,322,530	2,179,616	142,914
<i>Airport Fund Projects</i>			
	37,202	37,202	
Totals	<u>\$ 37,557,510</u>	<u>\$ 19,038,230</u>	<u>\$ 18,519,280</u>

Note 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	\$ 19,929,159	\$	\$ (234,896)	\$ 19,694,263	\$ 294,608
Accretion on Capital Interest Bonds	2,968,485	(400,000)	(296,205)	2,272,280	
Special Obligation Bonds	36,985,000		(1,450,000)	35,535,000	1,525,000
Certificates of Obligation	19,323,672	3,581,100		22,904,772	
Capital Leases	756,122		(214,100)	542,021	222,800
Notes Payable	1,531,490		(69,031)	1,462,459	78,910
Accrued Compensated Absences	8,583,481	542,143	(893,346)	8,232,278	156,300
Claims payable-Unemployment Tax	24,000	75,480	(75,480)	24,000	
Claims Payable - Workers Comp.	524,695	423,056	(423,056)	524,695	
Claims Payable-Health Insurance	413,201	3,720,635	(3,602,158)	531,678	
Deferred Bond Issuance Discount/Premium	259,743		(37,149)	222,594	
Total primary Government	91,299,048	7,942,414	(7,295,421)	91,946,040	2,277,618
Discretely presented component units					
Special Revenue Bonds	2,070,000		(600,000)	1,470,000	630,000
Capital Leases		279,897	(74,161)	205,736	
Notes Payable	951,620	7,899,250	(616,816)	8,234,054	980,954
Accrued Compensated Absences	119,172	33,288	(5,068)	147,392	
Payable to Concessionaire	260,000		(130,000)	130,000	130,000
Total discretely presented component units	3,400,792	8,212,435	(1,426,045)	10,187,182	1,740,954
Total reporting entity	\$ 94,699,840	\$ 16,154,849	\$ (8,721,466)	\$ 102,133,222	\$ 4,018,572

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.

Note 8 - Long-Term Debt (Continued)

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

Governmental Activities

Primary Government:

General Obligation Bonds

	<u>Total</u>
\$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 \$796,177.	\$ 1,075,338
\$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 \$1,321,314.	12,096,417
\$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 \$139,342.	<u>8,794,788</u>
Total General Obligation Bonds	<u><u>\$ 21,966,543</u></u>

Special Obligation Bonds

\$1,925,000 - 2001A Industrial Development Corporation Refunding Bonds due in annual installments of \$350,000 to \$410,000 through March 1, 2009; interest at 3.75% to 4.0% (this debt is being serviced, principal and interest, by Industrial Development Corporation).	\$ 410,000
\$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).	5,315,000
\$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%.	15,225,000
\$15,700,000 - 2002B Hotel Occupancy Tax Bonds due in annual installments of \$150,000 to \$1,165,000 through September 1, 2032; interest at 3.0% to 5.0%.	<u>14,585,000</u>
Total Special Obligation Bonds	<u><u>\$ 35,535,000</u></u>

Certificates Of Obligation Bonds

\$19,323,672 - 2004 Wharves and Terminal Revenue Bonds due in annual installments of \$2,425,000 to \$1,390,621 through February 1, 2020, interest at 4.25% to 5.18%.	\$ 19,323,672
\$3,581,100 - 2008 Combination Tax and Revenue Certificates of Obligation due in annual installments of \$81,900 to \$237,600 through May 2033, interest at 4.5% to 5.18%.	<u>3,581,100</u>
Total Certificates of Obligation	<u><u>\$ 22,904,772</u></u>

Note 8 - Long-Term Debt (Continued)

Capital Leases

\$349,786 - 2005 capital lease purchase due in semi-annual installments of \$75,563 through January 2009; interest at 3.67%. \$ 72,882

\$767,043 - 2007 Capital Lease Purchase due in semi-annual installment of \$169,856 through June 2011; interest at 3.604%. 469,139

Total Capital Leases \$ 542,021

Notes Payable

\$1,531,488- 2007 note payable incurred due in semi-annual installment of \$69,380 through July 2022; interest 3.80%. \$ 1,462,459

Discretely Presented Component Units:

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%. \$ 545,000

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. 925,000

Total Special Obligation Bonds \$ 1,470,000

Notes payable

Park Board of Trustees - \$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, 2009. \$ 434,054

Park Board of Trustees - \$800,000 construction loan with Moody National Bank, secured by real estate, accrued interest only due from March 2008 until February 2009; thereafter principal and interest due monthly at \$6,178; remaining principal due on at maturity date of February 2013. 800,000

Galveston Island Redevelopment Authority - \$7,000,000 Tax Increment Note, Series 2007A, secured by the available TIRZ 14 Tax Increment; principal and interest due in annual installments; interest rate 4/65%; matures October 1, 2022. 7,000,000

Total Notes Payable \$ 8,234,054

Capital Leases

Park Board of Trustees - \$205,736 capital lease purchase due in annual installments of \$74,161 through September 30, 2011. \$ 205,736

Note 8 - Long-Term Debt (Continued)

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

Primary Government

Fiscal Year ending September 30,	General Obligation Bonds		Special Obligation Bonds		Certificates Of Obligation	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 279,161	\$ 1,723,949	\$ 1,525,000	\$ 1,703,459	\$ 132,300	\$ 906,432
2010	1,058,993	1,029,565	1,175,000	1,650,329	81,900	950,958
2011	1,032,612	1,053,796	1,240,000	1,614,129	85,500	947,273
2012	1,006,391	1,083,217	1,305,000	1,559,091	89,100	943,425
2013	988,350	1,098,632	1,380,000	1,506,069	2,518,600	878,791
2014	976,829	1,111,966	1,465,000	1,443,019	2,637,200	761,567
2015	966,927	1,122,931	1,550,000	1,375,413	2,761,700	638,548
2016	1,460,000	630,433	740,000	1,303,050	2,901,200	497,851
2017	1,525,000	564,518	795,000	1,270,675	3,050,700	349,962
2018	1,590,000	495,330	860,000	1,226,950	3,205,200	203,557
2019	1,675,000	417,740	930,000	1,179,650	1,602,751	1,807,410
2020	1,750,000	335,680	1,005,000	1,128,500	1,516,621	1,893,855
2021	1,575,000	249,510	1,085,000	1,078,250	131,400	118,806
2022	1,865,000	170,948	1,160,000	1,024,000	137,700	112,893
2023	1,945,000	87,909	1,245,000	966,000	144,000	106,525
2024			1,335,000	903,750	151,200	99,325
2025			1,425,000	837,000	158,400	91,765
2026			1,525,000	765,750	166,500	83,845
2027			1,630,000	689,500	174,600	75,312
2028			1,735,000	608,000	183,600	66,363
2029			1,850,000	521,250	193,500	56,954
2030			1,975,000	425,750	203,400	46,698
2031			2,105,000	330,000	214,200	35,918
2032			2,220,000	224,750	225,900	24,566
2033			1,110,000	113,750	237,600	12,591
2034			1,165,000	58,250		
Total	\$19,694,263	\$ 11,176,124	\$ 35,535,000	\$ 25,506,334	\$ 22,904,772	\$ 11,711,190

Note 8 - Long-Term Debt (Continued)

Fiscal Year Ending September 30,	Discretely Presented Component Units			
	Park Board of Trustees Special Obligation Bonds		Galveston Island Redevelopment Authority	
	Principal	Interest	Principal	Interest
2009	\$ 545,000	\$ 25,615	\$ 555,000	\$ 309,128
2010			525,000	341,841
2011			550,000	317,291
2012			575,000	291,532
2013			600,000	264,454
2014			630,000	236,280
2015			665,000	206,584
2016			500,000	175,381
2017			520,000	151,811
2018			415,000	130,433
2019			435,000	111,135
2020			455,000	90,908
2021			475,000	69,750
2022			500,000	47,663
2023			525,000	24,413
Total	\$ 545,000	\$ 25,615	\$ 7,925,000	\$ 2,768,604

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
2009	\$ 245,419
2010	169,856
2011	169,856
Total minimum payments	585,131
Less: Interest	(74,429)
Present value of minimum lease payments	510,702
Current portion	214,100
Long term portion	<u>\$ 296,602</u>

Note 8 - Long-Term Debt (Continued)

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)	\$ 39,480,972	\$	\$ (1,796,965)	\$ 37,684,007	\$ 2,354,262
Revenue Bonds-Water Fund	19,462,357		(565,261)	18,897,096	587,986
Revenue Bonds-Sewer Fund	27,637,643		(1,114,739)	26,522,904	1,162,014
Certificates of Obligation	630,000	16,313,900	(95,000)	16,848,900	702,700
Notes Payable	9,077,218		(932,650)	8,144,568	960,946
Capital Lease	404,508	1,240,181	(366,955)	1,277,734	356,696
Accrued Compensated Absences	974,331	(32,570)	(35,508)	906,253	34,030
Deferred Bond Issuance Discount/Premium	(590,764)	(95,598)	35,890	(650,472)	
Total primary government	97,076,265	17,425,913	(4,871,188)	109,630,990	6,158,634
Discretely presented component units					
Special Obligation Bonds	10,500,000		(2,000,000)	8,500,000	
Revenue Bonds	13,475,000		(2,115,000)	11,360,000	2,090,000
Notes payable	7,474,258	3,303,075	(1,470,392)	9,306,941	1,400,000
Capital Lease	1,723,683		(109,237)	1,614,446	109,512
Accrued Compensated Absences	521,753	310,225	(230,382)	601,596	
Total discretely presented component units	33,694,694	3,613,300	(5,925,011)	31,382,983	3,599,512
Total reporting entity	\$ 130,770,959	\$ 21,039,213	\$(10,796,199)	\$ 141,013,973	\$ 9,758,146

Note 8 - Long-Term Debt (Continued)

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

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%.	\$ 464,391
\$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%.	6,910,000
\$24,640,000 - Gulf Coast Water Authority Contract Revenue Bonds, Series 1998A, due in annual installments of \$1,950,000 to \$2,595,000 through August 15, 2022; interest at 4.15% to 5%. (Liability represents the City's 98.693% share of the remaining balance).	20,794,616
\$11,315,000 - Gulf Coast Water Authority Contract Revenue Bonds, Series 2002, due in annual installments of \$425,000 to \$595,000 through August 15, 2013; interest at 4.0% to 4.5%.	<u>9,515,000</u>
Total Contracts Payable - Enterprise Funds	<u><u>\$ 37,684,007</u></u>

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%.	\$ 450,000
\$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%.	8,925,000
\$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%.	<u>36,045,000</u>
Total Revenue Bonds, Face Value	<u><u>\$ 45,420,000</u></u>

Certificates of Obligation

\$1,000,000 - 2003 Sanitation Certificates of Obligation due in annual installments of \$90,000 to \$115,000 through May 1, 2013; interest at 2.85% to 3.75%.	\$ 535,000
\$16,313,900 - 2008 Combination Tax and Revenue Certificates of Obligation bonds due in annual installments of \$373,100 to \$1,082,400 through May 1, 2033; interest at 4.5% to 5.30%.	<u>16,313,900</u>
Total Certificates of Obligation, Face Value	<u><u>\$ 16,848,900</u></u>

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.	<u><u>\$ 8,144,568</u></u>
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Note 8 - Long-Term Debt (Continued)

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 \$70,719 as of year end.	\$ 56,519
\$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.	94,891
\$1,240,182 - capital lease purchase due in semi-annual installments of \$137,236 through December 15, 2012; interest at 3.77%; net carrying value of equipment purchased \$1,212,450 as of year end.	<u>1,126,324</u>
Total Capital Leases - Enterprise Funds, Net	<u>\$ 1,277,734</u>

Discretely Presented Component Units:

Special Obligation bonds

\$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>
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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%.	\$ 330,000
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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%.	4,925,000
\$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%.	2,405,000
\$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>3,700,000</u>

Total Revenue Bonds	<u>\$11,360,000</u>
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Notes Payable

Carnival Cruise Lines, payable from passenger service charges on future lender cruises; interest at 4.5%	<u>\$ 9,306,941</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>\$ 1,614,446</u>
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Note 8 - Long-Term Debt (Continued)

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%. \$ 450,000

\$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%. 8,925,000

\$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%. 36,045,000

Total Revenue Bonds, Face Value \$ 45,420,000

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%. \$ 535,000

\$16,313,900 - 2008 Combination Tax and Revenue Certificates of Obligation bonds due in annual installments of \$373,100 to \$1,082,400 through May 1, 2033; interest at 4.5% to 5.30%. 16,313,900

Total Certificates of Obligation, Face Value \$ 16,848,900

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. \$ 8,144,568

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 \$70,719 as of year end. \$ 56,519

\$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. 94,891

\$1,240,182 - capital lease purchase due in semi-annual installments of \$137,236 through December 15, 2012; interest at 3.77%; net carrying value of equipment purchased \$1,212,450 as of year end. 1,126,324

Total Capital Leases - Enterprise Funds, Net \$ 1,277,734

Note 8 - Long-Term Debt (Continued)

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
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	\$45,420,000	\$ 21,516,559	\$ 37,684,007	\$ 14,994,120

Note 8 - Long-Term Debt (Continued)

Fiscal Year Ending 9/30	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2009	\$ 702,700	\$ 583,500	\$ 960,946	\$ 233,594
2010	478,100	783,492	990,100	204,439
2011	494,500	763,421	1,020,139	174,401
2012	515,900	742,349	1,051,089	143,450
2013	541,400	720,345	1,082,981	111,561
2014	442,800	697,132	1,115,835	78,705
2015	463,300	678,312	1,149,688	44,850
2016	483,800	658,622	773,790	10,806
2017	504,300	638,060		
2018	524,800	616,628		
2019	545,300	594,324		
2020	574,000	567,058		
2021	598,600	541,228		
2022	627,300	514,292		
2023	656,000	485,280		
2024	688,800	452,480		
2025	721,600	418,040		
2026	758,500	381,960		
2027	795,400	343,086		
2028	836,400	302,322		
2029	881,500	259,456		
2030	926,600	212,736		
2031	975,800	163,626		
2032	1,029,100	111,910		
2033	1,082,400	57,368		
Total	\$ 16,848,900	\$ 12,287,027	\$ 8,144,568	\$1,001,806

Discretely presented component units

Year Ending December 31,	Special obligation bonds		Revenue bonds	
	Principal	Interest	Principal	Interest
2008	\$	\$ 467,500	\$ 2,090,000	\$ 476,214
2009		467,500	2,200,000	374,061
2010		467,500	2,250,000	269,161
2011		467,500	2,355,000	165,825
2012		467,500	2,465,000	56,207
2013		467,500		
2014		467,500		
2015	8,500,000	233,750		
Total	\$ 8,500,000	\$ 3,506,250	\$ 11,360,000	\$ 1,341,468

Note 8 - Long-Term Debt (Continued)

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

Fiscal year ending September 30	Business-type activities			Total
	Municipal Airport	Sanitation Fund	Drainage Fund	
2009	\$ 70,631	\$ 274,472	\$ 57,088	\$ 402,191
2010	29,429	274,472		303,901
2011		274,472		274,472
2012		274,471		274,471
2013		137,236		137,236
Total minimum payments	100,060	1,235,123	57,088	1,392,271
Less: Interest	(5,169)	(108,799)	(569)	(114,537)
Present value of minimum lease payments	94,891	1,126,324	56,519	1,277,734
Current portion	65,981	234,196	56,519	356,696
Long term portion	\$ 28,910	\$ 892,128	\$	\$ 921,038

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, 2007 are as follows:

Year Ended December 31,	Minimum Payments
2008	\$ 118,125
	\$ 118,125

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.

Note 8 - Long-Term Debt (Continued)

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 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.

Note 8 - Long-Term Debt (Continued)

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

Issue	Refunded Principal Outstanding 10/1/2007	Retirements	Refunded Principal Outstanding 9/30/2008
Series 1994	\$ 830,000	\$ (405,000)	\$ 425,000
Series 1990	90,598	(46,979)	43,619
Series 2001	2,500,000		2,500,000
Series 1995	5,795,000	(590,000)	5,205,000
Series 2000	6,900,000		6,900,000
	\$ 16,115,598	\$ (1,041,979)	\$ 15,073,619

Note 9 - Fund Equity

Deficit Fund Balance

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

	Deficit Balance
Non-major Governmental Funds:	
Special Revenue Funds:	
Grants and Government Contracts	\$ (19,057)
Capital Project Funds:	
Island Transit Capital Projects	(56,069)
Internal Service Funds:	
Workers Compensation Insurance	(20,535)

Note 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.

Note 10 - Contingent Liabilities (Continued)

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.

Note 11 - Risk Management

The City is exposed to various risks of loss related to torts, thefts, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City has commercial insurance policies for liability and property insurance. The major insurance policies 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.

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.

Note 11 - Risk Management (Continued)

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>
2007	\$ 311,943	\$ 686,372	\$ (473,620)	\$ 524,695
2008	524,695	423,056	(423,056)	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>
2007	\$ 397,132	\$ 2,215,223	\$ (2,199,154)	\$ 413,201
2008	413,201	3,720,635	(3,602,158)	531,678

Note 12 - Major Contracts and Commitments

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

Emergency Medical Services Contract:

Through agreement with the Galveston County Health District (the District), the District provides emergency medical services including trained personnel for treatment and dispatching, transport of victims to hospitals, ambulances and supplies, public education regarding medical emergencies, and management and system evaluation. Operation and management is under control of the 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

Notes Payable

Park Board has a \$540,000 line of credit with Moody National Bank, secured by a Certificate of Deposit, to finance capital improvements and automobile purchases. The interest rate is 3.5%, due monthly. Principle is due on demand or September 30, 2009. The balance of the line of credit at September 30, 2008 is \$434,054.

In addition, the Park Board entered into an \$800,000 construction loan agreement with Moody National Bank to build a new maintenance facility. The loan is secured by real estate. Accrued interest only is due from March 2008 until February 2009 and then monthly principal and interest payments of \$6,178 will be due until maturity on February 2013 when all remaining principal will be due and payable. The balance of the construction loan at September 30, 2008 is \$800,000 .

Fiscal Year Ending 9/30	Park Board of Trustees		
	Notes Payable		
	Principal	Interest	Total
2009	\$ 11,005	\$ 32,244	\$ 43,249
2010	19,933	54,208	74,141
2011	21,363	52,778	74,141
2012	22,896	51,245	74,141
2013	724,803	20,874	745,677
Totals	\$ 800,000	\$ 211,349	\$ 1,011,349

Note 12 - Major Contracts and Commitments (Continued)

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.

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

<u>Year Ending</u> <u>September 30</u>	<u>2504 Church</u>
2009	\$ 87,600
Total	<u>\$ 87,600</u>

Capital Lease Obligation

Park Board purchases vehicles and equipment that are required to be reported as capital leases.

Capital lease requirements are as follows:

<u>Fiscal Year Ending 9/30</u>	<u>Park Board of Trustees</u>		
	<u>Capital Lease Requirements</u>		
	<u>Minimum</u> <u>Lease</u> <u>Payments</u>	<u>Present Value</u> <u>Lease</u> <u>Payments</u>	<u>Representing</u> <u>Interest</u>
2009	\$ 74,161	\$ 65,895	\$ 8,266
2010	74,161	68,541	5,620
2011	74,162	71,300	2,862
Totals	<u>\$ 222,484</u>	<u>\$ 205,736</u>	<u>\$ 16,748</u>

Obligations to Concessionaire

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

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

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

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

Note 12 - Major Contracts and Commitments (Continued)

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 balance of the 1998 special revenue bond as of December 31, 2007, was \$8,500,000. 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, 2007:

	<u>12/31/2007</u>
Minimum lease rental payments receivable	
Due within one year	\$ 956,606
Due after one year	20,481,806
	<u>21,438,412</u>
Unearned income, direct financing lease	
Due within one year	\$ 754,169
Due after one year	8,267,174
	<u>9,021,343</u>
Net investment in direct financing lease	<u>\$ 12,417,069</u>

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

Note 12 - Major Contracts and Commitments (Continued)

Combination Lease - Sales-Type/Operating

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, 2007 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.

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

Year Ended December 31	Future Minimum Lease Payments
2008	\$ 956,607
2009	956,607
2010	956,607
2011	956,607
2012	956,607
Thereafter	16,655,377
Total	\$ 21,438,412

Note 12 - Major Contracts and Commitments (Continued)

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
2008	\$ 1,306,307
2009	774,556
2010	771,556
2011	771,556
Thereafter	2,689,805
Total	\$ 6,313,780

Note 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 866 employees and retirees, Firemen's Relief and Retirement Fund (FRRF) covers 195 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 265 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.

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

Note 13 - Employee Retirement Benefits (Continued)

A. Primary Government Benefit Plans (Continued)

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	12/31/2005	\$ 976,965	\$ 955,662	98%	\$
	12/31/2006	1,269,296	1,246,748	98%	
for City Employees	12/31/2007	1,502,821	1,508,251	100%	
Firemen's Retirement and Retirement Fund	12/31/2005	775,852	804,587	104%	
	12/31/2006	729,557	826,577	113%	
	12/31/2007	894,068	933,123	104%	
Employees' Retirement Plan for Police	12/31/2005	1,171,439	570,724	49%	1,114,173
	12/31/2006	754,559	652,350	86%	1,216,382
	12/31/2007	859,603	860,128	100%	1,215,857

Note 13 - Employee Retirement Benefits (Continued)

A. Primary Government Benefit Plans (Continued)

	Employees' Retirement Plan	Firemen's Retirement Plan	Police Retirement Plan
Contribution Rates:			
City	6.00%	14.00%	10.00%
Plan Members	6.00%	12.00%	10.00%
Actuarial valuation date	01/01/08	01/01/08	01/01/08
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age
Asset valuation method	Smoothed market value	Smoothed market value	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	Level percentage of projected payroll, open
Amortization period	30	17.5	15.6
Actuarial assumptions:			
Inflation	3.25%	3.25%	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 12/31/06	\$ 1,216,382
Plus:	
Annual required contribution	\$ 833,781
Interest on NPO	91,229
Adjustment to ARC	<u>(65,407)</u>
Annual pension cost	859,603
Actual contributions made	<u>(860,128)</u>
NPO 12/31/07	<u><u>\$ 1,215,857</u></u>

Note 13 - Employee Retirement Benefits (Continued)

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, 2007</u>	<u>January 1, 2006</u>	<u>January 1, 2005</u>
Actuarial value of plan assets	\$ 10,160,401	\$ 7,996,824	\$ 7,866,184
Actuarial accrued liability	<u>10,348,148</u>	<u>9,167,920</u>	<u>8,635,341</u>
Total funding excess (deficit)	<u>\$ (187,747)</u>	<u>\$ (1,171,096)</u>	<u>\$ (769,157)</u>
Annual covered payroll	<u>\$ 3,963,526</u>	<u>\$ 3,575,578</u>	<u>\$ 3,328,157</u>
Ratio-over (under) funded to covered payroll	<u>-5%</u>	<u>-33%</u>	<u>-23%</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 a 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 2007 were \$274,395 . At December 31, 2007 the Plan had an unfunded actuarial liability of \$187,747 .

Note 13 - Employee Retirement Benefits (Continued)

B. Discretely Presented Component Unit Benefit Plans (Continued)

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 employees' 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 \$70,666, which was five percent (5%) of \$1,413,309, its current-year covered payroll. Employees' required and actual contributions amounted to \$58,227. Total current year payroll was \$3,297,440.

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.

Note 14 - Extraordinary Items - Hurricane Ike

Hurricane Ike made landfall in the City of Galveston on September 13, 2008. It generated hurricane force winds, storm surge, and severe flooding which caused extensive damage to structures, vehicles and resulted in widespread debris over the entire island. It caused severe damage to the Scholes International Airport property and facilities including 21 hangars. All of these facilities are owned by the City of Galveston. Widespread destruction was also done to the City's water and sewer systems, the City's fleet and to municipal buildings.

The cost of future repairs or replacements to some buildings and water and sewer systems is not known at this time; however, costs are expected to be substantially recovered from a variety of sources which include the Federal Emergency Management Agency (FEMA) and insurance proceeds.

In October, 2008 the City received \$14,250,000 from the FEMA as a 50% advance for debris cleanup. Numerous additional requests (project worksheets) have been written up and submitted to FEMA for reimbursement of further storm-related repairs and debris removal. Insurance proceeds have also been received in the subsequent fiscal year.

It is management's opinion that insurance proceeds and federal grant revenues will be sufficient to cover the majority of the costs to repair and replace assets damaged by the hurricane.

Note 15 - Major Discretely Presented Component Units

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

Note 15 - Major Discretely Presented Component Units (Continued)

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF NET ASSETS
 September 30, 2008

	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores- Public Improvement District No. 1
Assets			
Cash and equivalents	\$ 6,194,266	\$ 2,780,850	\$ 9,996
Original issue discount	15,347		
Investments	5,010		
Receivables-less allowance for uncollectibles	3,688,448	131	114,296
Inventories	6,284		
Prepaid items	88,472		
Deferred charges		65,145	
Restricted assets	1,064,854		
Capital assets (net of accumulated depreciation)	305,351,479		
Total assets	316,414,160	2,846,126	124,292
Liabilities			
Accounts payable and accrued expenses	1,041,989	185,753	
Accrued interest		280,602	
Due to other governments	154,947		
Long-term liabilities:			
Due within one year	1,185,954	555,000	
Due in more than one year	1,076,228	7,370,000	
Total liabilities	3,459,118	8,391,355	
Net Assets			
Invested in capital assets, net of related debt	303,911,689		
Restricted:			
Debt service	574,765	835,602	
Other projects	666,437		
Unrestricted	7,802,151	(6,380,831)	124,292
Total Net Assets	\$ 312,955,042	\$ (5,545,229)	\$ 124,292

Note 15 - Major Discretely Presented Component Units (Continued)

Preserve at Sweetwater Lake- Public Improvement District	Totals
\$ 3,767	\$ 8,988,879
	15,347
	5,010
	3,802,875
	6,284
	88,472
	65,145
	1,064,854
	305,351,479
<u>3,767</u>	<u>319,388,345</u>
	1,227,742
	280,602
3,500	158,447
	1,740,954
	8,446,228
<u>3,500</u>	<u>11,853,973</u>
	303,911,689
	1,410,367
	666,437
267	1,545,879
<u>\$ 267</u>	<u>\$ 307,534,372</u>

Note 15 - Major Discretely Presented Component Units (Continued)

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Unit				
Park Board of Trustees	\$ 19,378,778	\$ 4,135,884	\$	\$ 7,708,876
Galveston Island Redevelopment Authority	905,153			
Campeche Shores- Public Improvement District No. 1	145,786			
Preserve at Sweetwater Lake- Public Improvement District				
	<u>\$ 20,429,717</u>	<u>\$ 4,135,884</u>	<u>\$</u>	<u>\$ 7,708,876</u>

General revenues:

Taxes:

Property taxes

Sales and use tax

Hotel occupancy taxes

Unrestricted investment earnings

Extraordinary items-gain on asset disposals caused by hurricane

Total general revenues and extraordinary items

Change in net assets

Net assets, beginning, as restated

Net assets, ending

Note 15 - Major Discretely Presented Component Units (Continued)

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
\$ (7,534,018)	\$	\$	\$	\$ (7,534,018)
	(905,153)			(905,153)
		(145,786)		(145,786)
<u>(7,534,018)</u>	<u>(905,153)</u>	<u>(145,786)</u>		<u>(8,584,957)</u>
	1,957,726	176,400		2,134,126
1,113,759				1,113,759
6,887,804				6,887,804
100,870	5,213	2,337	135	108,555
1,171,054				1,171,054
<u>9,273,487</u>	<u>1,962,939</u>	<u>178,737</u>	<u>135</u>	<u>11,415,298</u>
1,739,469	1,057,786	32,951	135	2,830,341
311,215,573	(6,603,015)	91,341	132	304,704,031
<u>\$ 312,955,042</u>	<u>\$ (5,545,229)</u>	<u>\$ 124,292</u>	<u>\$ 267</u>	<u>\$ 307,534,372</u>

Note 15 - Major Discretely Presented Component Units (Continued)

DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
Assets				
Cash and equivalents	\$ 15,128,685	\$ 193,483	\$ 97,531	\$ 15,419,699
Investments			994,895	994,895
Receivables-less allowance for uncollectibles	5,441,827			5,441,827
Internal balances		(48,956)	48,956	
Prepays	556,778			556,778
Restricted assets	10,780,428		245,729	11,026,157
Deferred charges	980,521			980,521
Net investment in direct financing and capital leases- noncurrent	12,214,632			12,214,632
Capital assets not being depreciated	15,873,875	201,508		16,075,383
Capital assets (net of accumulated depreciation)	68,146,520			68,146,520
Total Assets	129,123,266	346,035	1,387,111	130,856,412
Liabilities				
Accounts payable and accrued expenses	4,740,731	12,496	12,496	4,765,723
Accrued interest	1,030,195		9,350	1,039,545
Due to other governmental agencies	197,182			197,182
Due to primary government	19,323,672			19,323,672
Deferred revenues	4,135,236			4,135,236
Long-term liabilities				
Due within one year	3,548,900		115,000	3,663,900
Due in more than one year	27,504,083		215,000	27,719,083
Total liabilities	60,479,999	12,496	351,846	60,844,341
Net Assets				
Invested in capital assets, net of related debt	48,425,005			48,425,005
Restricted for:				
Debt service	5,032,631		109,596	5,142,227
Unrestricted	15,185,631	333,539	925,669	16,444,839
Total Net Assets	\$ 68,643,267	\$ 333,539	\$ 1,035,265	\$ 70,012,071

CITY OF GALVESTON
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

Exhibit 13
(Continued)

Note 15 - Major Discretely Presented Component Units (Continued)

DISCRETELY PRESENTED COMPONENT UNIT - BUSINESS ACTIVITY TYPES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>			
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Component Unit</u>			<u>Total</u>
				<u>Board of Trustees of Galveston Wharves</u>	<u>Galveston Housing Finance Corporation</u>	<u>Galveston Property Finance Authority</u>	
Component Units							
Business-type Activities							
Board of Trustees of Galveston Wharves	\$ 16,676,026	\$ 22,098,700	\$ 2,340,495	\$ 7,763,169	\$	\$	\$ 7,763,169
Galveston Housing Finance Corporation	27,052	1,000			(26,052)		(26,052)
Galveston Property Finance Authority	63,310	30,076				(33,234)	(33,234)
Totals	<u>\$ 16,766,388</u>	<u>\$ 22,129,776</u>	<u>\$ 2,340,495</u>	<u>7,763,169</u>	<u>(26,052)</u>	<u>(33,234)</u>	<u>7,703,883</u>
General revenues:							
Unrestricted investment earnings				1,251,475	2,293	73,853	1,327,621
Miscellaneous				(2,352,395)			(2,352,395)
Transfers					85,770	(85,770)	
Total general revenues and transfers				<u>(1,100,920)</u>	<u>88,063</u>	<u>(11,917)</u>	<u>(1,024,774)</u>
Change in net assets				6,662,249	62,011	(45,151)	6,679,109
Net assets - beginning				<u>61,981,018</u>	<u>271,528</u>	<u>1,080,416</u>	<u>63,332,962</u>
Net assets - ending				<u>\$ 68,643,267</u>	<u>\$ 333,539</u>	<u>\$ 1,035,265</u>	<u>\$ 70,012,071</u>

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Required Supplementary Information

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CITY OF GALVESTON, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION
January 1, 2007 and 2008
Unaudited

Exhibit 14

Primary Government

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
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%
01/01/2008	\$ 38,314,362	\$ 43,922,499	\$ 5,608,137	87.2%	\$ 17,331,890	32.4%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
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%
01/01/2008	\$ 36,660,215	\$ 43,218,834	\$ 6,558,619	84.8%	\$ 6,125,532	107.1%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
1/1/2006	\$ 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%
1/1/2008	\$ 26,151,141	\$ 43,468,468	\$ 17,317,327	60.2%	\$ 9,960,275	173.9%

Discretely presented component unit

SCHEDULES OF FUNDING PROGRESS
Board of Trustees of Galveston Wharves Pension Plan (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded Actuarial Liability (UAAL) (b-a)	Fund Ratio (%) (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
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%
01/01/2007	\$ 10,160,401	\$ 10,348,148	\$ 187,747	98.2%	\$ 3,963,526	4.7%

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General Fund

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CITY OF GALVESTON, TEXAS

Exhibit A-1

GENERAL FUND

**SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL ON BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
General government			
Legislative	\$ 430,180	\$ 386,586	\$ 43,594
Judicial	639,542	620,185	19,357
Executive	1,362,913	1,305,158	57,755
City auditor	33,911	23,759	10,152
Finance	1,922,149	1,880,281	41,868
Legal	715,783	628,445	87,338
Personnel	335,548	309,502	26,046
Taxation	157,777	153,558	4,219
Total general government	\$ 5,597,803	\$ 5,307,474	\$ 290,329
Public safety			
Police	17,776,182	17,561,126	215,056
Special events	340,000	324,899	15,101
Fire	9,309,318	9,237,434	71,884
Emergency medical service	526,080	526,080	
Emergency management	166,608	109,918	56,690
Total public safety	\$ 28,118,188	\$ 27,759,457	\$ 358,731
Public works and traffic	3,518,364	3,180,424	337,940
Culture and recreation	2,002,964	1,885,505	117,459
Planning and community development	1,948,293	1,785,665	162,628
Transportation system	850,000	847,931	2,069
Total expenditures	\$ 42,035,612	\$ 40,766,457	\$ 1,269,155

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

Street Improvements - to account for receipts and expenditures for, street improvements street resurfacing projects.

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

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

Convention Center Fund - to account for operating and capital reserves relating to the Convention Center.

Island Transit Grant Fund - to account for receipt and expenditure of Federal and State revenues designated for the operations of the Electric Bus Program (EBUS).

2007 State Homeland Security Program Grant - to account for receipt and expenditure of Federal and State revenues designated for emergency preparedness.

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.

Nonmajor Governmental Funds (Continued)

Capital Projects Funds

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

Drainage and Street Improvements - to account for capital outlay 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
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2008

	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Street Improvements
Assets				
Cash and cash equivalents	\$ 3,722	\$ 18,180	\$ 135,055	\$ 118
Due from other funds				
Receivables (net of allowance for uncollectibles)	102,957		965,627	
Due from other governments			365,076	
Total Assets	\$ 106,679	\$ 18,180	\$ 1,465,758	\$ 118
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,722	\$ 2,120	\$ 8,363	\$
Other accrued expenses			23,757	
Due to other funds				
Payable to other governments			1,272	
Deferred revenue	102,957		1,451,423	
Total Liabilities	106,679	2,120	1,484,815	
Fund balances:				
Reserved for:				
Capital projects				
Debt service				
Other purposes		16,060		118
Unreserved			(19,057)	
Total Fund Balances		16,060	(19,057)	118
Total Liabilities and Fund Balances	\$ 106,679	\$ 18,180	\$ 1,465,758	\$ 118

Industrial Development Corporation	Project Specific Programs	Convention Center Funds	Island Transit Grant Fund	2007 SHSP Grant
\$	\$ 1,641,975 15,000	\$ 3,262,337	\$	\$
	10,064			
553,331	908,077		19,719	
<u>\$ 553,331</u>	<u>\$ 2,575,116</u>	<u>\$ 3,262,337</u>	<u>\$ 19,719</u>	<u>\$</u>
\$ 138,333	\$ 933,308	\$	\$ 7,700	\$
414,998			12,019	
	74,717			
	5,530			
<u>553,331</u>	<u>1,013,555</u>		<u>19,719</u>	
		3,262,337		
	1,561,561			
	<u>1,561,561</u>	<u>3,262,337</u>		
<u>\$ 553,331</u>	<u>\$ 2,575,116</u>	<u>\$ 3,262,337</u>	<u>\$ 19,719</u>	<u>\$</u>

CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2008

	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Drainage and Street Improvements	Sewer Improvements
Assets				
Cash and cash equivalents	\$ 3,956,527	\$ 3,089,535	\$ 2,065,177	\$ 4,355,323
Due from other funds			160,511	254,487
Receivables (net of allowance for uncollectibles)	119,083			
Due from other governments				
Total Assets	\$ 4,075,610	\$ 3,089,535	\$ 2,225,688	\$ 4,609,810
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,688	\$	\$ 169,029	\$ 354,459
Other accrued expenses				
Due to other funds				
Payable to other governments				
Deferred revenue	119,083			
Total Liabilities	120,771		169,029	354,459
Fund balances:				
Reserved for:				
Capital projects			2,056,659	4,255,351
Debt service	3,954,839	3,089,535		
Other purposes				
Unreserved				
Total Fund Balances	3,954,839	3,089,535	2,056,659	4,255,351
Total Liabilities and Fund Balances	\$ 4,075,610	\$ 3,089,535	\$ 2,225,688	\$ 4,609,810

Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Project	Totals
\$ 743,303	\$	\$ 4,375,478	\$ 23,646,730
			429,998
			1,197,731
	294,125		2,140,328
<u>\$ 743,303</u>	<u>\$ 294,125</u>	<u>\$ 4,375,478</u>	<u>\$ 27,414,787</u>
\$ 139,788	\$ 122,720	\$ 423,250	\$ 2,304,480
	3,830		27,587
	88,013		515,030
	34,298		110,287
	101,333		1,780,326
<u>139,788</u>	<u>350,194</u>	<u>423,250</u>	<u>4,737,710</u>
603,515		3,952,228	10,867,753
			10,306,711
			1,577,739
	(56,069)		(75,126)
<u>603,515</u>	<u>(56,069)</u>	<u>3,952,228</u>	<u>22,677,077</u>
<u>\$ 743,303</u>	<u>\$ 294,125</u>	<u>\$ 4,375,478</u>	<u>\$ 27,414,787</u>

CITY OF GALVESTON, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2008

	Rosenberg Library	Parks and Recreation Improvement	Grants and Government Contracts	Street Improvements
Revenues				
Property taxes	\$ 1,901,006	\$	\$	\$
Sales and use taxes				
Fines and forfeitures				
Charges for services			136,819	
Investment earnings		9,380	1,510	
Intergovernmental		15,000	2,246,195	
Other				
Total Revenues	<u>1,901,006</u>	<u>24,380</u>	<u>2,384,524</u>	
Expenditures				
Current:				
General government				
Public safety			(1,540)	
Highways and roads			17,615	
Culture and recreation	1,901,006		1,868	
Planning and community development			1,746,251	
Transportation				
Debt Service:				
Principal				
Interest and other charges				
Capital outlay		222,789	622,682	
Total Expenditures	<u>1,901,006</u>	<u>222,789</u>	<u>2,386,876</u>	
Excess (deficiency) of revenues over expenditures		<u>(198,409)</u>	<u>(2,352)</u>	
Other Financing Sources (Uses)				
Transfers in				
Transfers (out)		(216,890)	(1,476)	
Total Other Financing Sources (Uses)		<u>(216,890)</u>	<u>(1,476)</u>	
Net change in fund balances		(415,299)	(3,828)	
Fund balances - beginning		<u>431,359</u>	<u>(15,229)</u>	<u>118</u>
Fund balances - ending	<u>\$</u>	<u>\$ 16,060</u>	<u>\$ (19,057)</u>	<u>\$ 118</u>

Industrial Development Corporation	Project Specific Programs	Convention Center Funds	Island Transit Grant Fund	2007 SHSP Grant
\$	\$	\$	\$	\$
4,215,637	69,030	3,100,907		
	130,295			
	93,388			
27,545	59,036	29,576		
	50,927		306,058	9,947
	99,482	742,795		
<u>4,243,182</u>	<u>502,158</u>	<u>3,873,278</u>	<u>306,058</u>	<u>9,947</u>
	156,474			
	156,956			9,947
1,053,909	139,220	2,859,629		
			306,058	
<u>1,053,909</u>	<u>452,650</u>	<u>2,859,629</u>	<u>306,058</u>	<u>9,947</u>
<u>3,189,273</u>	<u>49,508</u>	<u>1,013,649</u>		
		45,053		
(3,189,273)	(175,307)	(30,024)		
<u>(3,189,273)</u>	<u>(175,307)</u>	<u>15,029</u>		
	(125,799)	1,028,678		
	1,687,360	2,233,659		
<u>\$</u>	<u>\$ 1,561,561</u>	<u>\$ 3,262,337</u>	<u>\$</u>	<u>\$</u>

CITY OF GALVESTON, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2008

	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Drainage and Street Improvements	Sewer Improvements
Revenues				
Property taxes	\$ 2,076,741	\$	\$	\$
Sales and use taxes		1,788,269		
Fines and forfeitures				
Charges for services				
Investment earnings	162,759	104,386	68,780	128,531
Intergovernmental				
Other				
Total Revenues	<u>2,239,500</u>	<u>1,892,655</u>	<u>68,780</u>	<u>128,531</u>
Expenditures				
Current:				
General government				
Public safety				
Highways and roads				
Culture and recreation				
Planning and community development				
Transportation				
Debt Service:				
Principal	1,347,268	415,000		
Interest and other charges	2,000,497	1,469,211		
Capital outlay			884,050	1,095,080
Total Expenditures	<u>3,347,765</u>	<u>1,884,211</u>	<u>884,050</u>	<u>1,095,080</u>
Excess (deficiency) of revenues over expenditures	<u>(1,108,265)</u>	<u>8,444</u>	<u>(815,270)</u>	<u>(966,549)</u>
Other Financing Sources (Uses)				
Transfers in	1,324,435		643,791	1,354,494
Transfers (out)				
Total Other Financing Sources (Uses)	<u>1,324,435</u>		<u>643,791</u>	<u>1,354,494</u>
Net change in fund balances	216,170	8,444	(171,479)	387,945
Fund balances - beginning	<u>3,738,669</u>	<u>3,081,091</u>	<u>2,228,138</u>	<u>3,867,406</u>
Fund balances - ending	<u>\$ 3,954,839</u>	<u>\$ 3,089,535</u>	<u>\$ 2,056,659</u>	<u>\$ 4,255,351</u>

Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Project	Totals
\$	\$	\$	\$ 3,977,747
			9,173,843
			130,295
			230,207
32,991	855	195,745	821,094
	1,621,173		4,249,300
			842,277
<u>32,991</u>	<u>1,622,028</u>	<u>195,745</u>	<u>19,424,763</u>
			156,474
			165,363
		26,304	43,919
			5,955,632
			1,746,251
	382,329		688,387
			1,762,268
			3,469,708
764,519	1,238,845	2,974,205	7,802,170
<u>764,519</u>	<u>1,621,174</u>	<u>3,000,509</u>	<u>21,790,172</u>
<u>(731,528)</u>	<u>854</u>	<u>(2,804,764)</u>	<u>(2,365,409)</u>
			216,890
			3,584,663
			(3,612,970)
<u>216,890</u>			<u>(28,307)</u>
(514,638)	854	(2,804,764)	(2,393,716)
1,118,153	(56,923)	6,756,992	25,070,793
<u>\$ 603,515</u>	<u>\$ (56,069)</u>	<u>\$ 3,952,228</u>	<u>\$ 22,677,077</u>

CITY OF GALVESTON, TEXAS

Exhibit B-3

SPECIAL REVENUE FUND - ISLAND TRANSIT

SCHEDULE OF REVENUES, EXPENDITURES AND

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

For the Year Ended September 30, 2008

	2008		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Intergovernmental - federal	\$ 1,705,000	\$ 1,729,541	\$ 24,541
Intergovernmental - state	244,061	355,329	111,268
Intergovernmental - local	650,000	624,677	(25,323)
Farebox revenues	410,966	362,276	(48,690)
Charges for services	440,000	298,272	(141,728)
Other	255,401	36,633	(218,768)
Total Revenues	3,705,428	3,406,728	(298,700)
Expenditures			
Current:			
Transportation system:			
Transit system:			
Personnel services	1,403,794	1,364,401	39,393
Materials and supplies	76,000	72,190	3,810
Contractual services	369,025	467,698	(98,673)
Other charges	99,398	110,398	(11,000)
Total transit system expenditures	1,948,217	2,014,687	(66,470)
Maintenance:			
Personnel services	1,004,761	883,974	120,787
Materials and supplies	279,000	193,723	85,277
Contractual services	111,425	87,909	23,516
Other charges	35,000	59,217	(24,217)
Total maintenance expenditures	1,430,186	1,224,823	205,363
Administration:			
Personnel services	189,989	202,003	(12,014)
Materials and supplies	58,200	49,050	9,150
Contractual services	78,336	70,150	8,186
Other charges	500	426	74
Total administration expenditures	327,025	321,629	5,396
Total Expenditures	3,705,428	3,561,139	144,289
Revenues over (under) expenditures		(154,411)	(154,411)
Other Financing Sources (Uses)			
Proceeds from sale of assets		32,096	32,096
Transfers (out)		(250)	(250)
Revenues and other financing sources over/(under) expenditures		(122,565)	(122,565)
Fund balances, beginning of year	417,162	417,162	
Fund balances at year end	\$ 417,162	\$ 294,597	\$ (122,565)

CITY OF GALVESTON, TEXAS

Exhibit B-4

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, 2008

	2008		
	Budget	Actual	Variance Positive / (Negative)
Revenues			
Property taxes - current	\$ 1,863,566	\$ 1,853,543	\$ (10,023)
Property taxes - delinquent	36,644	47,463	10,819
Earnings on investment			
Total Revenues	<u>1,900,210</u>	<u>1,901,006</u>	<u>796</u>
Expenditures			
Current:			
Culture and recreation			
Payments to Rosenberg Library	1,900,210	1,901,006	(796)
Total Expenditures	<u>1,900,210</u>	<u>1,901,006</u>	<u>(796)</u>
Revenues over (under) expenditures			
Fund balances, beginning of year			
Fund balances at year end	<u>\$</u>	<u>\$</u>	<u>\$</u>

CITY OF GALVESTON, TEXAS
SPECIAL REVENUE FUND - PARKS AND RECREATION IMPROVEMENT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended September 30, 2008

Exhibit B-5

	2008		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Investment earnings	\$ 8,290	\$ 9,380	\$ 1,090
Intergovernmental	15,000	15,000	
Total Revenues	<u>23,290</u>	<u>24,380</u>	<u>1,090</u>
Expenditures			
Current:			
Community services			
Capital outlay	237,759	222,789	14,970
Total Expenditures	<u>237,759</u>	<u>222,789</u>	<u>14,970</u>
Revenues over (under) expenditures	<u>(214,469)</u>	<u>(198,409)</u>	<u>16,060</u>
Other Financing Sources (Uses)			
Transfers (out)	<u>(216,890)</u>	<u>(216,890)</u>	
Revenues and other financing sources over/(under) expenditures	(431,359)	(415,299)	16,060
Fund balances, beginning of year	431,359	431,359	
Fund balances at year end	<u>\$ 16,060</u>	<u>\$ 16,060</u>	<u>\$ 16,060</u>

CITY OF GALVESTON, TEXAS

Exhibit B-6

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND

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

For the Year Ended September 30, 2008

	2008		Variance Positive / (Negative)
	Budget	Actual	
Revenues			
Property taxes	\$ 2,064,672	\$ 2,076,741	\$ 12,069
Earnings on investments	180,000	162,759	(17,241)
Total Revenues	<u>2,244,672</u>	<u>2,239,500</u>	<u>(5,172)</u>
Expenditures			
Principal retirement	1,347,268	1,347,268	
Interest and fiscal agent fees	2,010,625	2,000,497	10,128
Total Expenditures	<u>3,357,893</u>	<u>3,347,765</u>	<u>10,128</u>
Revenues over (under) expenditures	<u>(1,113,221)</u>	<u>(1,108,265)</u>	<u>4,956</u>
Other Financing Sources (Uses)			
Transfer in:			
Industrial Development Corporation	1,329,335	1,324,435	(4,900)
	<u>1,329,335</u>	<u>1,324,435</u>	<u>(4,900)</u>
Revenues and other financing sources over/(under) expenditures	216,114	216,170	56
Fund balances, beginning of year	<u>3,738,669</u>	<u>3,738,669</u>	
Fund balances at year end	<u>\$ 3,954,783</u>	<u>\$ 3,954,839</u>	<u>\$ 56</u>

Non-Major Enterprise Funds

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

Sanitation Services - to account for the provision of, a sanitation system to the residents of 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.

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
September 30, 2008

Exhibit C-1

	Business-type Activities - Enterprise Funds			
	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
Assets				
Current Assets:				
Cash and temporary investments	\$ 1,207,856	\$ 753,186	\$ 420,575	\$ 2,381,617
Accounts receivable, net of allowance for doubtful accounts	1,954,110	736,814	96,118	2,787,042
Prepaid expenses	1,867	1,244	12,487	15,598
Restricted assets:				
Cash and investments	162,104	1,409,182		1,571,286
Total current assets	<u>3,325,937</u>	<u>2,900,426</u>	<u>529,180</u>	<u>6,755,543</u>
Non-current Assets:				
Deferred charges	10,469			10,469
Capital assets not being depreciated		2,179,616	1,267,966	3,447,582
Capital assets (net of depreciation)	2,548,993	1,351,117	8,751,504	12,651,614
Total non-current assets	<u>2,559,462</u>	<u>3,530,733</u>	<u>10,019,470</u>	<u>16,109,665</u>
Total Assets	<u>5,885,399</u>	<u>6,431,159</u>	<u>10,548,650</u>	<u>22,865,208</u>
Liabilities				
Current Liabilities:				
Accounts payable and accrued expenses	198,394	78,312	25,964	302,670
Accrued interest payable	5,813			5,813
Due to other governments	206,211		90	206,301
Unearned revenue	6,800		56,269	63,069
Long-term debt, current portion				
Compensated absences	11,850	3,218		15,068
Capital lease obligation	234,196	56,519	65,981	356,696
Bonds and certificates of obligation payable	100,000			100,000
Total current liabilities	<u>763,264</u>	<u>138,049</u>	<u>148,304</u>	<u>1,049,617</u>
Non-current Liabilities:				
Long-term debt, noncurrent portion:				
Compensated absences	174,878	129,002	59,003	362,883
Capital lease obligation	892,128		28,910	921,038
Bonds and certificates of obligation payable	435,000			435,000
Total non-current liabilities	<u>1,502,006</u>	<u>129,002</u>	<u>87,913</u>	<u>1,718,921</u>
Total Liabilities	<u>2,265,270</u>	<u>267,051</u>	<u>236,217</u>	<u>2,768,538</u>
Net Assets				
Invested in capital assets, net of related debt	930,915	4,883,393	9,924,579	15,738,887
Restricted for debt service	111,628			111,628
Unrestricted	2,577,586	1,280,715	387,854	4,246,155
Total Net Assets	<u>\$ 3,620,129</u>	<u>\$ 6,164,108</u>	<u>\$ 10,312,433</u>	<u>\$ 20,096,670</u>

CITY OF GALVESTON, TEXAS

Exhibit C-2

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

NON-MAJOR ENTERPRISE FUNDS

For the Year Ended September 30, 2008

	Enterprise Funds			Total
	Sanitation	Drainage	Airport	
Operating Revenues				
Charges for services	\$4,399,921	\$2,744,547	\$ 960,329	\$ 8,104,797
Miscellaneous	66,499	59,521	190	126,210
Total Operating Revenues	<u>4,466,420</u>	<u>2,804,068</u>	<u>960,519</u>	<u>8,231,007</u>
Operating Expenses				
Personnel services	1,772,187	1,045,837	347,925	3,165,949
Contractual services	1,417,518	352,096	85,325	1,854,939
Supplies and materials	70,056	86,150	130,755	286,961
Other expenses	144,589	86,866	87,767	319,222
Administrative charge	178,401	40,141	45,718	264,260
Bad debt expense	40,158	53,773		93,931
Depreciation	159,513	42,885	477,432	679,830
Total Operating Expenses	<u>3,782,422</u>	<u>1,707,748</u>	<u>1,174,922</u>	<u>6,665,092</u>
Operating income (loss)	<u>683,998</u>	<u>1,096,320</u>	<u>(214,403)</u>	<u>1,565,915</u>
Non-Operating Revenues (Expenses)				
Interest and investment revenue	51,247	68,419	12,820	132,486
Gain (loss) on disposal of capital assets	676			676
Interest expense	(43,192)	(1,120)	(9,190)	(53,502)
Amortization of bond issuance costs	(2,243)			(2,243)
Total Non-Operating Revenues (Expenses)	<u>6,488</u>	<u>67,299</u>	<u>3,630</u>	<u>77,417</u>
Income (loss) before contributions and transfers	690,486	1,163,619	(210,773)	1,643,332
Capital contributions	20,731	495,971		516,702
Transfers out	(200,000)			(200,000)
Extraordinary item-impairments on capital assets due to hurricane	(34,568)	(6,473)	(238,307)	(279,348)
Change in net assets	476,649	1,653,117	(449,080)	1,680,686
Total net assets - beginning	<u>3,143,480</u>	<u>4,510,991</u>	<u>10,761,513</u>	<u>18,415,984</u>
Total net assets - ending	<u><u>\$3,620,129</u></u>	<u><u>\$6,164,108</u></u>	<u><u>\$10,312,433</u></u>	<u><u>\$20,096,670</u></u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2008

Exhibit C-3
Page 1 of 2

	Sanitation Services	Drainage Utility	Airport	Totals
Cash flows from operating activities				
Cash received from customers	\$ 4,207,527	\$ 2,690,875	\$ 945,596	\$ 7,843,998
Cash payments to suppliers for goods and services	(1,617,911)	(504,114)	(292,716)	(2,414,741)
Cash payments to employees	(1,801,743)	(1,008,663)	(341,399)	(3,151,805)
Administrative service charge	(178,401)	(40,141)	(45,718)	(264,260)
Net cash provided by (used for) operating activities	<u>609,472</u>	<u>1,137,957</u>	<u>265,763</u>	<u>2,013,192</u>
Cash flows from noncapital and related financing activities:				
Interfund transfers out	<u>(200,000)</u>			<u>(200,000)</u>
Net cash provided by (used for) noncapital and related financing activities	<u>(200,000)</u>			<u>(200,000)</u>
Cash flows from capital and related financing activities				
Payments for capital acquisitions (net of sales)	(1,230,372)	(713,192)	(59,713)	(2,003,277)
Proceeds from issuance of capital lease	1,240,182			1,240,182
Principal paid on bonds	(95,000)			(95,000)
Principal paid on capital leases	(113,858)	(55,967)	(61,441)	(231,266)
Interest paid on capital leases	<u>(44,380)</u>	<u>(1,120)</u>	<u>(9,190)</u>	<u>(54,690)</u>
Net cash provided by (used for) capital and related financing activities	<u>(243,428)</u>	<u>(770,279)</u>	<u>(130,344)</u>	<u>(1,144,051)</u>
Cash flows from investing activities				
Interest on investments	<u>51,247</u>	<u>68,419</u>	<u>12,820</u>	<u>132,486</u>
Net increase (decrease) in equity in pooled cash and investments	217,291	436,097	148,239	801,627
Cash and temporary investments, beginning of year	<u>1,152,669</u>	<u>1,726,271</u>	<u>272,336</u>	<u>3,151,276</u>
Cash and temporary investments, end of year	<u><u>\$ 1,369,960</u></u>	<u><u>\$ 2,162,368</u></u>	<u><u>\$ 420,575</u></u>	<u><u>\$ 3,952,903</u></u>
Cash and temporary investments per balance sheet				
Unrestricted	\$ 1,207,856	\$ 753,186	\$ 420,575	\$ 2,381,617
Restricted	<u>162,104</u>	<u>1,409,182</u>		<u>1,571,286</u>
Cash and temporary investments, end of year	<u><u>\$ 1,369,960</u></u>	<u><u>\$ 2,162,368</u></u>	<u><u>\$ 420,575</u></u>	<u><u>\$ 3,952,903</u></u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS-continued
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended September 30, 2008

Exhibit C-3
Page 2 of 2

	<u>Sanitation Services</u>	<u>Drainage Utility</u>	<u>Airport</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 683,998	\$ 1,096,320	\$ (214,403)	\$ 1,565,915
Adjustments to reconcile operating income to net cash provided by operating activities:				
Amortization and depreciation expense	159,513	42,885	477,432	679,830
(Increase) decrease in accounts receivable	(214,435)	(59,420)	(38,374)	(312,229)
(Increase) decrease in inventory and prepaid	2,802	1,868		4,670
Increase (decrease) in salaries and benefits payable	16,346	12,701	2,647	31,694
Increase (decrease) in accounts payable	11,450	19,130	11,131	41,711
Increase (decrease) in deferred revenue	(4,300)		23,451	19,151
Increase (decrease) in compensated absences payable	(45,902)	24,473	3,879	(17,550)
Total adjustments	<u>(74,526)</u>	<u>41,637</u>	<u>480,166</u>	<u>447,277</u>
Net cash provided by (used for) operating activities	<u>\$ 609,472</u>	<u>\$ 1,137,957</u>	<u>\$ 265,763</u>	<u>\$ 2,013,192</u>

CITY OF GALVESTON, TEXAS
WATERWORKS SYSTEM ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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, net:						
Water sales	\$ 13,896,596	\$ 13,896,596	\$ 14,208,282	\$	\$ 14,208,282	\$ 311,686
Tap fees	282,000	282,000	231,343		231,343	(50,657)
Other	160,000	160,000	208,680		208,680	48,680
Total Operating Revenues	<u>14,338,596</u>	<u>14,338,596</u>	<u>14,648,305</u>		<u>14,648,305</u>	<u>309,709</u>
Operating Expenses						
Personnel services	1,467,764	1,379,874	1,335,619		1,335,619	44,255
Materials and supplies	858,406	1,084,902	1,032,326		1,032,326	52,576
Contractual services	637,786	658,857	589,092	34,444	623,536	35,321
Other charges	282,088	284,713	301,677		301,677	(16,964)
Administrative service charge	560,850	560,850	560,850		560,850	
Surface water contract	7,431,352	7,431,352	5,480,170	1,796,965	7,277,135	154,217
Depreciation			2,691,578	(2,691,578)		
Total Operating Expenses	<u>11,238,246</u>	<u>11,400,548</u>	<u>11,991,312</u>	<u>(860,169)</u>	<u>11,131,143</u>	<u>269,405</u>
Operating income (loss)	<u>3,100,350</u>	<u>2,938,048</u>	<u>2,656,993</u>	<u>860,169</u>	<u>3,517,162</u>	<u>579,114</u>
Non-Operating Revenues (Expenses)						
Interest earned	150,000	150,000	1,256,077		1,256,077	1,106,077
Interest expense	(1,341,378)	(1,266,192)	(981,688)		(981,688)	284,504
Principal expenditure	(1,239,557)	(1,121,741)		(1,031,586)	(1,031,586)	90,155
Capital outlay	(6,750)	(16,050)		(9,300)	(9,300)	6,750
Gain (loss) on retirement of capital asset	2,000	2,000				(2,000)
Amortization of bond issuance costs	(142,325)	(139,825)	(398,348)	256,621	(141,727)	(1,902)
Total Non-Operating Revenues (Expenses)	<u>(2,578,010)</u>	<u>(2,391,808)</u>	<u>(123,959)</u>	<u>(784,265)</u>	<u>(908,224)</u>	<u>1,483,584</u>
Income (loss) before operating transfers and capital contributions	522,340	546,240	2,533,034	75,904	2,608,938	2,062,698
Capital contributions						
Operating transfer in (out)	(450,000)	(474,000)	(200,000)		(200,000)	(274,000)
Extraordinary item-impairments to capital assets due to hurricane			(1,390,562)			
Change in net assets	72,340	72,240	942,472	75,904	2,408,938	1,788,698
Net assets, beginning of year	<u>29,656,952</u>	<u>29,656,952</u>	<u>29,656,952</u>		<u>29,669,834</u>	
Net assets, end of year	<u>\$ 29,729,292</u>	<u>\$ 29,729,192</u>	<u>\$ 30,599,424</u>	<u>\$ 75,904</u>	<u>\$ 32,078,772</u>	<u>\$ 1,788,698</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, 2008

Exhibit C-5

	Budgeted Amounts		Actual Amounts			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, net:						
Sewer charges	\$ 11,350,000	\$ 11,350,000	\$ 11,829,835	\$	\$ 11,829,835	\$ 479,835
Tap fees	65,000	65,000	100,036		100,036	35,036
Waste hauler fees	240,000	240,000	148,432		148,432	(91,568)
Other	150,000	150,000	181,901		181,901	31,901
Total Operating Revenues	11,805,000	11,805,000	12,260,204		12,260,204	455,204
Operating Expenses						
Personnel services	3,294,895	3,224,965	2,767,879		2,767,879	457,086
Materials and supplies	1,561,141	1,583,541	1,486,205		1,486,205	97,336
Contractual services	1,370,821	1,362,121	1,613,988		1,613,988	(251,867)
Other charges	384,805	377,270	394,835		394,835	(17,565)
Administrative service charge	342,308	342,308	342,308		342,308	
Depreciation			2,538,032	(2,538,032)		
Total Operating Expenses	6,953,970	6,890,205	9,143,247	(2,538,032)	6,605,215	284,990
Operating income (loss)	4,851,030	4,914,795	3,116,957	2,538,032	5,654,989	740,194
Non-Operating Revenues (Expenses)						
Interest earned	140,000	140,000	416,704		416,704	276,704
Interest expense	(1,680,667)	(1,683,908)	(1,372,323)		(1,372,323)	311,585
Principal expenditure	(1,789,660)	(1,789,660)		(1,581,064)	(1,581,064)	208,596
Capital outlay	(6,750)	(91,775)		(66,109)	(66,109)	25,666
Gain (loss) on retirement of capital asset	100	100	(218,079)		(218,079)	(218,179)
Amortization of bond issuance costs	(50,500)	(50,500)	(60,862)	10,480	(50,382)	118
Total Non-Operating Revenues (Expenses)	(3,387,477)	(3,475,743)	(1,234,560)	(1,636,693)	(2,871,253)	604,490
Income (loss) before operating transfers and capital contributions	1,463,553	1,439,052	1,882,397	901,339	2,783,736	1,344,684
Capital contributions	411,447	411,447	1,408,225		1,408,225	(996,778)
Operating transfer in (out)	(1,875,000)	(1,850,499)	(200,000)		(200,000)	(1,650,499)
Extraordinary item-impairments to capital assets due to hurricane			(16,227,413)		(16,227,413)	16,227,413
Change in net assets			(13,136,791)	901,339	(12,235,452)	14,924,820
Net assets, beginning of year	49,464,072	49,464,072	49,464,072		49,545,321	
Net assets, end of year	\$ 49,464,072	\$ 49,464,072	\$ 36,327,281	\$ 901,339	\$ 37,309,869	\$ 14,924,820

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, 2008

Exhibit C-6

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual (GAAP Basis)</u>	<u>Reconciling Items</u>		
Operating Revenues						
Charges for sales and services, net	\$ 4,435,637	\$ 4,435,637	\$ 4,359,763	\$	\$ 4,359,763	\$ (75,874)
Other	97,489	97,489	66,499		66,499	(30,990)
Total Operating Revenues	<u>4,533,126</u>	<u>4,533,126</u>	<u>4,426,262</u>		<u>4,426,262</u>	<u>(106,864)</u>
Operating Expenses						
Personnel services	2,022,146	1,939,906	1,772,187		1,772,187	167,719
Materials and supplies	68,162	79,595	70,056		70,056	9,539
Contractual services	1,344,632	1,418,337	1,417,518		1,417,518	819
Other charges	143,349	140,451	144,589		144,589	(4,138)
Administrative service charge	178,401	178,401	178,401		178,401	
Depreciation			159,513	(159,513)		
Total Operating Expenses	<u>3,756,690</u>	<u>3,756,690</u>	<u>3,742,264</u>	<u>(159,513)</u>	<u>3,582,751</u>	<u>173,939</u>
Operating income (loss)	776,436	776,436	683,998	159,513	843,511	67,075
Non-Operating Revenues (Expenses)						
Interest earned	41,000	41,000	51,247		51,247	10,247
Interest expense	(124,332)	(124,332)	(43,192)		(43,192)	81,140
Principal expenditure	(288,160)	(288,160)		(208,858)	(208,858)	79,302
Capital outlay - software	(2,700)	(2,700)				2,700
Capital outlay - improvements	(200,000)	(200,000)				200,000
Gain (loss) on retirement of capital asset			676		676	676
Amortization of bond issuance costs	(2,244)	(2,244)	(2,243)		(2,243)	1
Total Non-Operating Revenues (Expenses)	<u>(576,436)</u>	<u>(576,436)</u>	<u>6,488</u>	<u>(208,858)</u>	<u>(202,370)</u>	<u>374,066</u>
Income (loss) before operating transfers	200,000	200,000	690,486	(49,345)	641,141	441,141
Capital contributions			20,731	(20,731)		
Operating transfer in (out)	(200,000)	(200,000)	(200,000)		(200,000)	
Extraordinary item-impairments to capital assets due to hurricane			(34,568)			
Changes in net assets			476,649	(70,076)	441,141	441,141
Net assets, beginning of year	<u>3,143,480</u>	<u>3,143,480</u>	<u>3,143,480</u>		<u>3,143,480</u>	
Net assets, end of year	<u>\$ 3,143,480</u>	<u>\$ 3,143,480</u>	<u>\$ 3,620,129</u>	<u>\$ (70,076)</u>	<u>\$ 3,584,621</u>	<u>\$ 441,141</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, 2008

Exhibit C-7

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Positive (Negative)
	Original	Final	Actual (GAAP Basis)	Reconciling Items	
Operating Revenues					
Charges for sales and services, net	\$ 2,750,000	\$ 2,750,000	\$ 2,690,774	\$ 2,690,774	\$ (59,226)
Other	29,000	29,000	59,521	59,521	30,521
Total Operating Revenues	2,779,000	2,779,000	2,750,295	2,750,295	(28,705)
Operating Expenses					
Personnel services	1,137,324	1,113,324	1,045,837	1,045,837	67,487
Materials and supplies	82,525	97,650	86,150	86,150	11,500
Contractual services	334,412	311,062	352,096	352,096	(41,034)
Other charges	137,700	137,700	86,866	86,866	50,834
Administrative service charge	40,141	40,141	40,141	40,141	
Depreciation			42,885	(42,885)	
Total Operating Expenses	1,732,102	1,699,877	1,653,975	(42,885)	88,787
Operating income (loss)	1,046,898	1,079,123	1,096,320	42,885	1,139,205
Non-Operating Revenues (Expenses)					
Interest earned	15,000	15,000	68,419	68,419	53,419
Interest expense	(3,361)	(3,361)	(1,120)	(1,120)	2,241
Principal expenditure	(53,730)	(53,730)		(55,967)	(2,237)
Capital outlay - software, etc.	(136,800)	(169,025)		(28,970)	140,055
Capital outlay - improvements	(1,000,000)	(1,000,000)		(1,000,752)	(752)
Total Non-Operating Revenues (Expenses)	(1,178,891)	(1,211,116)	67,299	(1,085,689)	192,726
Income (loss) before capital contributions	(131,993)	(131,993)	1,163,619	(1,042,804)	252,808
Capital contributions	131,993	131,993	495,971	495,971	(363,978)
Operating transfer in (out)	1,000,000	1,000,000			1,000,000
Extraordinary item-impairments to capital assets due to hurricane			(6,473)		
Changes in net assets	1,000,000	1,000,000	1,653,117	(1,042,804)	888,830
Net assets, beginning of year	4,510,991	4,510,991	4,510,991	4,510,991	
Net assets, end of year	\$ 5,510,991	\$ 5,510,991	\$ 6,164,108	\$ (1,042,804)	\$ 888,830

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, 2008

Exhibit C-8

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Positive (Negative)
	Original	Final	Actual (GAAP) Basis	Reconciling Items	
Operating Revenues					
Charges for sales and services:					
Building rental	\$ 99,380	\$ 99,380	\$ 92,427	\$ 92,427	\$ (6,953)
Hangar rental	74,750	74,750	61,076	61,076	(13,674)
Terminal space rental	58,474	58,474	52,555	52,555	(5,919)
Land lease rental	726,579	726,579	702,404	702,404	(24,175)
Oil company receipts	75,000	75,000	50,867	50,867	(24,133)
Other	1,913	1,913	1,190	1,190	(723)
Total Operating Revenues	1,036,096	1,036,096	960,519	960,519	(75,577)
Operating Expenses					
Personnel services	365,907	365,907	347,925	347,925	17,982
Materials and supplies	97,200	140,149	130,755	130,755	9,394
Contractual services	81,942	95,860	85,325	85,325	10,535
Other charges & bad debt expense	152,464	91,307	87,767	87,767	3,540
Administrative service charge	45,718	45,718	45,718	45,718	
Depreciation			477,432	(477,432)	
Total Operating Expenses	743,231	738,941	1,174,922	(477,432)	41,451
Operating income (loss)	292,865	297,155	(214,403)	477,432	(34,126)
Non-Operating Revenues (Expenses)					
Interest earned	10,000	10,000	12,820	12,820	2,820
Interest expense	(9,190)	(9,191)	(9,190)	(9,190)	1
Capital outlay - improvements	(260,000)	(264,289)		(59,713)	204,576
Principal expenditure	(61,441)	(61,441)		(61,441)	
Total Non-Operating Revenues (Expenses)	(320,631)	(324,921)	3,630	(121,154)	207,397
Income (loss) before capital contributions	(27,766)	(27,766)	(210,773)	356,278	173,271
Extraordinary item-impairments to capital assets due to hurricane			(238,307)		(238,307)
Changes in net assets	(27,766)	(27,766)	(449,080)	356,278	173,271
Net assets, beginning of year	8,512,136	8,512,136	10,761,513	10,761,513	(2,249,377)
Net assets, end of year	\$ 8,484,370	\$ 8,484,370	\$ 10,312,433	\$ 356,278	\$ (2,076,106)

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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.

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.

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

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

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2008

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Assets			
Current Assets:			
Cash and temporary investments	\$ 188,702	\$	\$ 312,871
Accounts receivable, net of allowance for doubtful accounts	177,173		3,007
Inventories	182,357		
Prepaid expenses		279,604	
Restricted assets:			
Cash and investments			3,743,206
Cash in escrow			99,158
Total current assets	<u>548,232</u>	<u>279,604</u>	<u>4,158,242</u>
Non-current Assets:			
Deferred charges			46,952
Capital assets (net of depreciation)	110,457		2,523,426
Total non-current assets	<u>110,457</u>	<u></u>	<u>2,570,378</u>
Total assets	<u>658,689</u>	<u>279,604</u>	<u>6,728,620</u>
Liabilities			
Current Liabilities:			
Accounts payable and accrued expenses	216,462	46,553	188,193
Due to other funds		193,782	
Long-term debt, current portion:			
Claims and judgments		24,000	
Notes payable			78,910
Bonds and certificates of obligation payable			132,300
Total current liabilities	<u>216,462</u>	<u>458,117</u>	<u>399,403</u>
Non-current Liabilities:			
Compensated absences	152,548	13,814	131,263
Claims and judgments			
Notes payable			1,383,549
Bonds and certificates of obligation payable			3,427,885
Total non-current liabilities	<u>152,548</u>	<u>13,814</u>	<u>4,942,697</u>
Total liabilities	<u>369,010</u>	<u>471,931</u>	<u>5,342,100</u>
Net Assets			
Invested in capital assets, net of related debt	110,457		981,594
Restricted for debt service			262,394
Unrestricted	179,222	1,455	142,532
Total net assets	<u>\$ 289,679</u>	<u>\$ 1,455</u>	<u>\$ 1,386,520</u>

Exhibit D-1

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 35,893	\$ 505,621	\$ 1,636,294	\$ 2,679,381
		428,660	608,840
	67,808		182,357
			347,412
			3,743,206
			99,158
<u>35,893</u>	<u>573,429</u>	<u>2,064,954</u>	<u>7,660,354</u>
			46,952
			2,633,883
			2,680,835
<u>35,893</u>	<u>573,429</u>	<u>2,064,954</u>	<u>10,341,189</u>
			1,474
	69,270	212,023	733,975
			193,782
			24,000
			78,910
			132,300
<u>1,474</u>	<u>69,270</u>	<u>212,023</u>	<u>1,356,749</u>
			31,247
	524,694	531,677	328,872
			1,056,371
			1,383,549
			3,427,885
<u>31,247</u>	<u>524,694</u>	<u>531,677</u>	<u>6,196,677</u>
<u>32,721</u>	<u>593,964</u>	<u>743,700</u>	<u>7,553,426</u>
			1,092,051
			262,394
3,172	(20,535)	1,321,254	1,627,100
<u>\$ 3,172</u>	<u>\$ (20,535)</u>	<u>\$ 1,321,254</u>	<u>\$ 2,981,545</u>

CITY OF GALVESTON, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

INTERNAL SERVICE FUNDS

For the Year Ended September 30, 2008

	Central Garage	Casualty & Liability Insurance	Central Service
Operating Revenues			
Charges for services	\$ 4,554,073	\$ 1,740,351	\$ 2,287,139
Miscellaneous	34,857		
Total Operating Revenues	<u>4,588,930</u>	<u>1,740,351</u>	<u>2,287,139</u>
Operating Expenses			
Personnel services	982,956	165,881	777,881
Contractual services	441,378	15,250	591,112
Supplies and materials	2,853,409		323,300
Insurance claims and premiums		1,501,959	
Other expenses	322,988		71,383
Depreciation	26,130		64,548
Total Operating Expenses	<u>4,626,861</u>	<u>1,683,090</u>	<u>1,828,224</u>
Operating income (loss)	<u>(37,931)</u>	<u>57,261</u>	<u>458,915</u>
Non-Operating Revenues (Expenses)			
Interest and investment revenue	4,342		60,494
Gain (loss) on disposal of capital assets	52,608		
Interest expense			(63,905)
Amortization of bond issuance costs			(1,937)
Total Non-Operating Revenues (Expenses)	<u>56,950</u>		<u>(5,348)</u>
Income (loss) before contributions and transfers	19,019	57,261	453,567
Transfers out	(61)	(28)	(742)
Change in net assets	18,958	57,233	452,825
Total net assets - beginning	<u>270,721</u>	<u>(55,778)</u>	<u>933,695</u>
Total net assets - ending	<u>\$ 289,679</u>	<u>\$ 1,455</u>	<u>\$ 1,386,520</u>

Exhibit D-2

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 67,579	\$ 690,964	\$ 3,919,383	\$ 13,259,489
			34,857
<u>67,579</u>	<u>690,964</u>	<u>3,919,383</u>	<u>13,294,346</u>
9,678			1,936,396
28,778	85,397	835,857	1,997,772
7,924			3,184,633
	423,056	3,734,043	5,659,058
21,647	41,685	292,239	749,942
			90,678
<u>68,027</u>	<u>550,138</u>	<u>4,862,139</u>	<u>13,618,479</u>
<u>(448)</u>	<u>140,826</u>	<u>(942,756)</u>	<u>(324,133)</u>
448	13,646	89,563	168,493
			52,608
			(63,905)
			(1,937)
<u>448</u>	<u>13,646</u>	<u>89,563</u>	<u>155,259</u>
	154,472	(853,193)	(168,874)
			(831)
	154,472	(853,193)	(169,705)
3,172	(175,007)	2,174,447	3,151,250
<u>\$ 3,172</u>	<u>\$ (20,535)</u>	<u>\$ 1,321,254</u>	<u>\$ 2,981,545</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended September 30, 2008

	<u>Central Garage</u>	<u>Casualty & Liability Insurance</u>	<u>Central Service</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 4,541,573	\$ 1,752,748	\$ 2,284,132
Disbursed for personnel services	(967,361)	(174,387)	(778,978)
Disbursed for goods and services	(3,640,557)	(1,578,333)	(928,415)
Net cash provided (used) by operating activities	<u>(66,345)</u>	<u>28</u>	<u>576,739</u>
Cash Flows from Non-Capital Financing Activities			
Interfund transfers in			
Interfund transfers out	(61)	(28)	(742)
Net cash provided by (used by) non-capital financing activities	<u>(61)</u>	<u>(28)</u>	<u>(742)</u>
Cash Flows from Capital and Related Financing Activities			
Payments for capital acquisitions (net of sales)	52,608		(1,346,473)
Proceeds from issuance of bonds			3,581,100
Principal payments on debt			(69,031)
Interest payments on capital leases			(63,905)
Bond issuance costs			(69,804)
Net cash used by capital and related financing activities	<u>52,608</u>		<u>2,031,887</u>
Cash Flows from Investing Activities			
Interest received	4,342		60,494
Net cash provided by (used by) investing activities	<u>4,342</u>		<u>60,494</u>
Net increase (decrease) in cash and equivalents	(9,456)		2,668,378
Cash and equivalents, beginning of year	198,158		1,486,857
Cash and equivalents, at end of year	<u>\$ 188,702</u>	<u>\$</u>	<u>\$ 4,155,235</u>
Unrestricted cash and equivalents	\$ 9,480	\$	\$ 312,871
Restricted cash and equivalents	179,222		3,842,364
	<u>\$ 188,702</u>	<u>\$</u>	<u>\$ 4,155,235</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income (loss)	\$ (37,931)	\$ 57,261	\$ 458,915
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	26,130		64,548
(Increase) decrease in accounts receivable	(47,357)	12,397	(3,007)
(Increase) decrease in inventory	(60,586)		8,748
(Increase) decrease in prepaid expenses		8,984	
Increase (decrease) in accounts payable	37,804	(70,108)	48,632
Increase (decrease) in salaries payable	8,015	1,106	1,617
Increase (decrease) in compensated absences payable	7,580	(9,612)	(2,714)
Net cash provided by operating activities	<u>\$ (66,345)</u>	<u>\$ 28</u>	<u>\$ 576,739</u>

Exhibit D-3

<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
\$ 67,576	\$ 690,964	\$ 3,572,054	\$ 12,909,047
(14,422)			(1,935,148)
(58,032)	(485,546)	(4,622,875)	(11,313,758)
<u>(4,878)</u>	<u>205,418</u>	<u>(1,050,821)</u>	<u>(339,859)</u>
			(831)
			(831)
			(1,293,865)
			3,581,100
			(69,031)
			(63,905)
			(69,804)
			<u>2,084,495</u>
448	13,646	89,563	168,493
<u>448</u>	<u>13,646</u>	<u>89,563</u>	<u>168,493</u>
(4,430)	219,064	(961,258)	1,912,298
40,323	286,557	2,597,552	4,609,447
<u>\$ 35,893</u>	<u>\$ 505,621</u>	<u>\$ 1,636,294</u>	<u>\$ 6,521,745</u>
\$ 35,893	\$ 505,621	\$ 1,636,294	\$ 2,500,159
			4,021,586
<u>\$ 35,893</u>	<u>\$ 505,621</u>	<u>\$ 1,636,294</u>	<u>\$ 6,521,745</u>
\$ (448)	\$ 140,826	\$ (942,756)	\$ (324,133)
			90,678
		(347,329)	(385,296)
			(51,838)
			8,984
314	64,592	239,264	320,498
412			11,150
(5,156)			(9,902)
<u>\$ (4,878)</u>	<u>\$ 205,418</u>	<u>\$ (1,050,821)</u>	<u>\$ (339,859)</u>

Fiduciary Funds

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

Pension Trust - to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. These funds are reported on a calendar year basis for the year ended December 31, 2007.

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

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2007

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	\$ 1,126,109	\$ 4,655,301	\$ 2,864,567	\$ 8,645,977
Receivables:				
Interest and dividends	107,699	24,778		132,477
Loans to participants	192,385			192,385
From employer		906,527		906,527
Total receivables	300,084	931,305		1,231,389
Investments:				
U.S. Government agencies				
Common stocks	13,081,625	17,115,915	18,175,392	48,372,932
Mutual funds (Equity funds)	2,782,366	3,608,876	16,149,831	22,541,073
Corporate and foreign bonds	8,198,054	11,780,425		19,978,479
Total investments	24,062,045	32,505,216	34,325,223	90,892,484
Prepaid benefits	203,279			203,279
Total assets	25,691,517	38,091,822	37,189,790	100,973,129
Liabilities				
Accounts payable		53,026	5,906	58,932
Net Assets				
Held in trust for benefits and other purposes	\$ 25,691,517	\$ 38,038,796	\$ 37,183,884	\$ 100,914,197

CITY OF GALVESTON, TEXAS

Exhibit E-2

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

For the Year Ended December 31, 2007

	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	\$ 860,128	\$ 1,508,251	\$ 933,123	\$ 3,301,502
Plan members	897,484	1,041,478	779,503	2,718,465
Total contributions	1,757,612	2,549,729	1,712,626	6,019,967
Investment earnings:				
Net increase in fair value of investments	298,457	1,619,444	2,400,969	4,318,870
Interest	451,516	499,639	718,779	1,669,934
Dividends	371,700	497,674	294,218	1,163,592
Investment activity expense	(228,704)	(258,038)	(178,318)	(665,060)
Total net investment earnings	892,969	2,358,719	3,235,648	6,487,336
Other income		109,860		109,860
Total additions	2,650,581	5,018,308	4,948,274	12,617,163
Deductions				
Benefits	2,981,070	3,103,359	1,733,998	7,818,427
Administrative	67,612	93,721	68,752	230,085
Total deductions	3,048,682	3,197,080	1,802,750	8,048,512
Change in net assets	(398,101)	1,821,228	3,145,524	4,568,651
Net assets - beginning	26,089,618	36,217,568	34,038,360	96,345,546
Net assets - ending	\$ 25,691,517	\$ 38,038,796	\$ 37,183,884	\$ 100,914,197

CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended September 30, 2008

Exhibit E-3

	<u>September 30,</u> <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30,</u> <u>2008</u>
Assets				
Cash and temporary investments	\$ 403,885	\$ 167,131	\$	\$ 571,016
Accounts receivable				
Total assets	<u>\$ 403,885</u>	<u>\$ 167,131</u>	<u>\$</u>	<u>\$ 571,016</u>
 Liabilities				
Accounts payable and other current liabilities	\$ 2,998	\$ 536	\$	\$ 3,534
Due to other funds				
Refunds payable and others	400,887	166,595		567,482
Total liabilities	<u>\$ 403,885</u>	<u>\$ 167,131</u>	<u>\$</u>	<u>\$ 571,016</u>

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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>Page</u>
Financial Trends	130-137
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	138-145
These schedules contain information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.	
Debt Capacity	146-149
These schedules present information to help the reader assess the affordability of the City of Galveston's current levels of outstanding debt and its ability to issue additional debt in the future.	
Demographic and Economic Information	150-153
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	154-157
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.

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

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

*The City of Galveston, Texas implemented GASB Statement No. 34 in 2003, therefore only six years of information is available.

Exhibit I

<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 25,631	\$ 37,327	\$ 49,273
10,791	18,757	19,950
11,081	5,912	6,113
<u>\$ 47,503</u>	<u>\$ 61,996</u>	<u>\$ 75,336</u>
\$ 71,492	\$ 73,991	\$ 64,348
9,502	10,327	11,053
5,817	13,967	12,364
<u>\$ 86,811</u>	<u>\$ 98,285</u>	<u>\$ 87,764</u>
\$ 97,123	\$ 111,318	\$ 113,620
20,293	29,084	31,003
16,898	19,879	18,477
<u>\$ 134,314</u>	<u>\$ 160,281</u>	<u>\$ 163,100</u>

CITY OF GALVESTON, TEXAS

CHANGES IN NET ASSETS

*Last Six 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>	<u>2008</u>
Expenses						
Governmental activities:						
General government	\$ 3,961,298	\$ 3,625,563	\$ 4,662,321	\$ 4,924,411	\$ 5,165,959	\$ 5,306,876
Public safety	20,711,789	20,638,059	24,110,503	24,875,593	27,040,001	32,144,849
Public works	7,113,207	4,997,292	4,331,625	5,112,987	5,990,398	12,735,486
Culture and recreation	3,800,062	1,419,056	5,210,558	7,025,024	8,258,261	9,020,072
Planning and community dev.	4,202,456	4,224,986	2,374,787	4,202,068	4,482,945	4,935,967
Transportation system	6,052,419	6,579,590	4,031,799	4,268,665	5,552,047	4,547,592
Interest on long-term debt	3,236,332	3,208,444	2,866,391	3,649,351	3,095,929	2,839,483
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>59,585,540</u>	<u>71,530,325</u>
Business-type activities:						
Waterworks	9,653,918	10,012,254	10,956,372	11,849,441	12,999,319	13,350,252
Sewer system	7,444,842	7,248,583	7,920,787	9,228,575	11,535,584	10,806,375
Sanitation	2,987,519	3,076,830	3,375,991	3,541,264	3,780,655	3,807,958
Drainage	760,870	637,251	1,085,200	1,342,450	1,312,293	1,651,102
Airport	843,172	934,268	932,435	1,128,028	1,200,526	1,184,394
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>	<u>30,800,081</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>\$ 90,747,211</u>	<u>\$ 102,330,406</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	\$ 1,552,315
Public safety	2,548,336	3,033,772	2,451,449	2,738,636	3,132,870	3,338,383
Public works	44,297	39,393	25,752	19,358	20,943	36,731
Culture and recreation	5,326	82,883	39,822	6,082	406,900	166,048
Planning and community dev.	1,147,082	2,207,421	2,272,918	2,231,132	1,619,504	1,119,334
Transportation system	629,998	643,129	521,983	698,016	939,256	696,975
Operating grants and contributions:						
Public safety	588,715	408,163	1,090,530	955,858	487,504	311,697
Culture and recreation	38,318	18,883	95,268	83,220	767,432	935,975
Planning and community dev.	2,983,749	2,086,032	1,558,601	2,199,293	2,020,696	2,244,025
Transportation system	2,683,668	2,484,876	2,294,933	2,396,257	2,455,249	3,135,773
Capital grants and contributions:						
Public safety						5,085,985
Public works						10,752,112
Culture and recreation			115,571		9,557,051	8,655,843
Transportation system	1,928,318	3,426,381	2,440,149	1,574,613	1,734,900	1,501,005
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>	<u>39,532,201</u>
Business-type activities:						
Charges for services:						
Waterworks	9,692,615	10,104,912	11,229,501	14,173,108	14,308,921	14,640,143
Sewer system	7,446,747	8,017,907	9,409,161	11,394,543	12,798,735	12,258,821
Sanitation	3,552,205	3,606,316	3,932,120	4,239,729	4,587,219	4,359,763
Drainage	748,821	779,724	1,816,049	2,710,533	2,799,923	2,690,774
Airport	831,666	853,315	874,962	937,411	1,071,006	960,329
Golf course	946,211	927,859	912,291	826,823	189,396	
Capital grants and contributions						
	1,361,755	5,481,578	1,177,667	2,680,324	6,064,616	1,924,926
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>	<u>36,834,756</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>	<u>\$ 76,366,957</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>	<u>2008</u>
Net (Expense)/Revenue						
Governmental activities	\$ (35,225,318)	\$(29,206,057)	\$(33,427,325)	\$(39,833,467)	\$(35,043,327)	\$ (31,998,124)
Business-type activities	<u>1,759,280</u>	<u>6,770,482</u>	<u>4,070,549</u>	<u>8,844,689</u>	<u>10,658,145</u>	<u>6,034,675</u>
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>\$ (24,385,182)</u>	<u>\$ (25,963,449)</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	\$ 18,640,341
Sales and use taxes	13,339,761	13,689,462	14,424,663	16,849,450	17,497,613	17,746,607
Hotel occupancy taxes	4,979,530	2,965,811	3,418,086	4,122,104	4,618,671	4,958,206
Franchise taxes	4,824,484	4,841,443	4,879,699	5,148,416	5,374,681	5,450,345
Payments in lieu of taxes	1,155,303	567,848	596,461	655,190	736,824	125,880
Net loss on sale of asset		(72,188)				
Unrestricted investment earnings	732,648		753,269	1,649,987	2,438,997	1,482,876
Miscellaneous	1,196,276	420,135	641,345	669,107	844,348	224,295
Capital contributions		549,675				
Loss of assets due to Hurricane Ike						(2,022,064)
Impairment of capital assets due to Hurricane Ike						(1,867,629)
Transfers	(150,000)	600,000	500,000	500,000	1,690,340	600,000
Total governmental activities	<u>38,139,240</u>	<u>36,777,266</u>	<u>39,051,672</u>	<u>45,074,657</u>	<u>49,534,553</u>	<u>45,338,857</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	2,453,941	1,805,267
Miscellaneous	(56,921)	1,797		169,722	52,871	136,431
Impairment of capital assets due to Hurricane Ike						(17,897,323)
Transfers	150,000	(600,000)	(500,000)	(500,000)	(1,690,340)	(600,000)
Total business-type activities	<u>443,313</u>	<u>(543,523)</u>	<u>(33,052)</u>	<u>1,153,978</u>	<u>816,472</u>	<u>(16,555,625)</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>\$ 50,351,025</u>	<u>\$ 28,783,232</u>
Change in Net Assets						
Governmental activities	\$ 2,913,922	\$ 3,349,941	\$ (781,795)	\$ 10,026,981	\$ 14,491,226	\$ 13,340,733
Business-type activities	<u>2,202,593</u>	<u>3,527,026</u>	<u>8,811,637</u>	<u>11,812,123</u>	<u>11,474,617</u>	<u>(10,520,950)</u>
Total primary government	<u>\$ 5,116,515</u>	<u>\$ 6,876,967</u>	<u>\$ 8,029,842</u>	<u>\$ 21,839,104</u>	<u>\$ 25,965,843</u>	<u>\$ 2,819,783</u>

*The City of Galveston, Texas implemented GASB Statement No. 34 in 2003, therefore only six years of information is available.

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General fund				
Reserved	\$ 1,006,407	\$ 1,129,742	\$ 1,129,542	\$ 1,234,722
Unreserved	1,665,366	2,188,846	2,188,846	4,683,830
Total general fund	<u>\$ 2,671,773</u>	<u>\$ 3,318,588</u>	<u>\$ 3,318,388</u>	<u>\$ 5,918,552</u>
 All other governmental funds				
Reserved	\$ 98,734,119	\$102,049,307	\$102,052,636	\$ 94,337,975
Unreserved	3,303,283	4,278,228	4,278,228	47,988,259
Unreserved, report in:				
Capital project funds				
Special revenue funds	1,098,282	269,991	266,862	2,197,340
Total other governmental funds	<u>\$103,135,684</u>	<u>\$106,597,526</u>	<u>\$106,597,726</u>	<u>\$144,523,574</u>

Exhibit III

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 592,523	\$ 480,561	\$ 593,765	\$ 334,920	\$ 2,623,562	\$ 2,711,914
6,064,743	7,293,827	8,777,795	11,765,355	11,227,881	11,421,882
<u>\$ 6,657,266</u>	<u>\$ 7,774,388</u>	<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>	<u>\$ 13,851,443</u>	<u>\$ 14,133,796</u>
\$ 34,970,343	\$ 7,463,893	\$ 13,577,627	\$ 20,391,385	\$ 25,381,835	\$ 23,115,229
194,337	5,875,754		142,402		
			1,416		
<u>2,337,869</u>	<u>2,347,900</u>	<u>1,812,875</u>	<u>3,401,893</u>	<u>106,120</u>	<u>(143,555)</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>	<u>\$ 22,971,674</u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenues				
Taxes:				
Property taxes	\$ 9,313,827	\$ 9,863,934	\$ 10,636,480	\$ 11,660,813
Sales and use taxes	8,592,803	9,205,783	12,802,191	12,757,466
Franchise taxes	4,361,024	4,518,987	5,472,040	4,680,348
Hotel occupancy				
Fines and forfeitures	1,682,468	1,757,325	1,665,389	1,919,173
Licenses and permits	398,011	462,939	461,130	970,459
Intergovernmental	7,031,295	5,051,429	6,456,727	6,700,295
Charges for services	1,628,048	1,797,276	2,920,992	2,615,041
Investment earnings	547,181	478,547	835,654	654,674
Miscellaneous	4,271,553	3,982,953	1,442,479	1,696,143
Payments in lieu of taxes				
Total Revenues	<u>37,826,210</u>	<u>37,119,173</u>	<u>42,693,082</u>	<u>43,654,412</u>
Expenditures				
General government	3,164,359	3,162,068	4,499,673	4,116,076
Public safety	14,155,264	16,130,990	19,856,393	20,249,092
Public works	2,571,315	2,547,881	2,822,852	2,725,219
Culture and recreation	1,144,718	1,099,511	2,244,369	2,498,976
Planning and community development	2,920,335	1,572,758	2,376,734	4,259,306
Transportation	3,458,723	2,585,280	4,181,645	3,780,732
Other	8,691,395	6,131,419	781,368	776,488
Capital outlay	1,384,794	2,140,833	2,461,694	4,457,737
Debt service:				
Principal	1,434,424	1,322,151	1,150,332	1,415,252
Interest and other charges	1,214,677	1,290,517	1,223,679	1,158,490
Total Expenditures	<u>40,140,004</u>	<u>37,983,408</u>	<u>41,598,739</u>	<u>45,437,368</u>
Excess of revenues over (under) expenditures	(2,313,794)	(864,235)	1,094,343	(1,782,956)
Other Financing Sources (Uses)				
Transfers in	1,371,402	2,363,194	1,961,125	5,043,951
Transfers out	(1,371,402)	(2,450,407)	(1,961,125)	(5,043,951)
Bonds issued			14,915,677	42,340,085
Payments to refunded bond escrow agent			(1,098,590)	(9,610,618)
Capital leases	1,572,343	231,455		
Sale of capital assets				
Total Other Financing Sources (Uses)	<u>1,572,343</u>	<u>144,242</u>	<u>13,817,087</u>	<u>32,729,467</u>
Net change in fund balances	<u>\$ (741,451)</u>	<u>\$ (719,993)</u>	<u>\$ 14,911,430</u>	<u>\$ 30,946,511</u>
Debt service as a percentage of non-capital expenditures	7.3%	7.9%	6.5%	6.7%

Exhibit IV

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 12,147,194	\$ 13,186,960	\$ 13,883,642	\$ 15,570,356	\$ 16,200,093	\$ 18,647,994
13,339,761	13,689,462	14,424,663	16,849,450	22,116,284	22,704,813
4,824,484	4,841,443	4,879,699	5,148,416	5,374,681	5,450,345
			4,122,104		
1,835,900	1,764,861	2,330,349	1,828,036	2,466,285	2,601,586
882,048	1,179,514	1,313,886	1,577,415	1,334,749	1,000,361
8,212,693	8,421,167	7,295,013	7,185,304	6,893,575	16,654,859
2,692,018	2,841,201	3,432,738	3,533,981	3,686,864	2,838,980
716,787	395,202	682,679	1,523,724	2,234,647	1,378,287
7,433,637	4,841,764	4,737,887	791,144	1,407,875	1,567,770
			655,190	736,824	125,880
<u>52,084,522</u>	<u>51,161,574</u>	<u>52,980,556</u>	<u>58,785,120</u>	<u>62,451,877</u>	<u>72,970,875</u>
3,988,181	4,213,164	4,624,844	5,005,095	5,044,120	5,482,693
19,784,935	20,297,811	22,197,995	23,518,717	25,262,076	31,028,485
2,807,218	2,777,669	2,732,340	3,152,531	3,356,179	9,479,789
3,102,454	3,363,044	3,566,928	6,071,320	6,826,276	7,816,000
4,353,386	4,394,758	3,766,931	3,762,075	4,330,446	3,531,916
3,870,762	3,703,654	4,102,026	4,355,966	4,892,519	5,022,723
21,006,276	28,812,375	6,489,761	3,473,537	5,437,402	8,027,872
2,334,328	2,403,386	2,336,783	2,638,390	2,376,618	1,976,368
3,234,649	3,145,796	2,977,186	3,321,250	3,225,640	3,501,027
<u>64,482,189</u>	<u>73,111,657</u>	<u>52,794,794</u>	<u>55,298,881</u>	<u>60,751,276</u>	<u>75,866,873</u>
(12,397,667)	(21,950,083)	185,762	3,486,239	1,700,601	(2,895,998)
	533,036	600,000	4,023,293	4,490,769	4,264,684
(150,000)		(100,000)	(3,523,293)	(3,914,885)	(3,663,853)
			9,840,254		
			(2,669,235)		
195,785	95,720	349,786		767,043	
	623,447	264,629	118,052	258,495	61,239
<u>45,785</u>	<u>1,252,203</u>	<u>1,114,415</u>	<u>7,789,071</u>	<u>1,601,422</u>	<u>662,070</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>	<u>\$ (2,233,928)</u>
14.7%	14.3%	13.0%	13.0%	11.3%	8.8%

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
		Residential Property	Commercial Property		
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
2005	2004	1,417,277,656	2,170,011,241	350,374,967	1,356,161,582
2006	2005	1,672,452,438	2,820,883,699	377,360,369	1,962,444,790
2007	2006	1,683,926,873	3,003,749,029	314,300,569	1,673,747,884
2008	2007	2,017,563,012	3,434,393,698	414,272,322	1,726,137,187

* 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

<u>Total Taxable Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
*	*	*	*
*	*	*	*
*	*	*	*
*	*	*	*
*	*	*	*
\$2,436,295,044	0.54170	\$3,724,887,715	65.41%
2,581,502,282	0.54170	3,937,872,354	65.56%
2,908,251,716	0.54170	4,870,900,236	59.71%
3,328,228,587	0.49400	5,001,976,471	66.54%
4,140,091,845	0.49400	6,138,802,150	67.44%

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

City of Galveston					
Fiscal Year	Tax Year	General Fund (1)	Library Fund	Debt Service Fund	Total
1999	1998	\$ 0.42550	\$ 0.05000	\$ 0.07390	\$ 0.54940
2000	1999	0.42710	0.05000	0.07280	0.54990
2001	2000	0.43140	0.05000	0.06720	0.54860
2002	2001	0.44210	0.05000	0.06380	0.55590
2003	2002	0.44210	0.05000	0.06280	0.55490
2004	2003	0.44240	0.05000	0.04930	0.54170
2005	2004	0.43580	0.05000	0.05590	0.54170
2006	2005	0.42280	0.05000	0.06890	0.54170
2007	2006	0.38340	0.05000	0.06060	0.49400
2008	2007	0.38980	0.05000	0.05420	0.49400

Source: Galveston Central Appraisal District, 2007 Taxing Entities and Tax Rates

Exhibit VI

<u>Galveston I.S.D.</u>	<u>Junior College</u>	<u>Navigation District 1</u>	<u>Galveston County</u>	<u>Total Millage</u>
\$ 1.52000	\$ 0.18780	\$ 0.04000	\$ 0.52000	\$ 2.81720
1.52000	0.19780	0.04000	0.54500	2.85270
1.52000	0.19780	0.04060	0.54500	2.85200
1.52000	0.19520	0.04060	0.56540	2.87710
1.57000	0.19520	0.04200	0.59390	2.95600
1.56000	0.19520	0.04200	0.62760	2.96650
1.71000	0.19520	0.04090	0.62795	3.11575
1.71000	0.19180	0.03800	0.64000	3.12150
1.52500	0.17000	0.03370	0.58740	2.81000
1.17500	0.17000	0.03300	0.56860	2.44060

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CITY OF GALVESTON, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

Exhibit VII

Taxpayer	2008			1999		
	Taxable Assessed Value	Rank	% of Total Assessed Valuation	Taxable Assessed Value	Rank	% of Total Assessed Valuation
Centerpoint Energy Inc.	\$ 39,945,820	1	11.29%	\$		
Centex Homes	39,124,959	2	11.06%			
Club Lodgings LTD Partnership	36,394,215	3	10.29%			
Fertitta Hospitality, Incorporated	28,512,220	4	8.06%	17,531,080	3	11.59%
Galveston Island Water Park LP	26,790,220	5	7.57%			
American National Insurance Company	18,585,390	6	5.25%	11,468,960	6	7.58%
Southwestern Bell Telephone Co.	16,261,670	7	4.60%	25,237,150	2	
Evia Partners Ltd	14,594,540	8	4.13%			
Halliburton Energy Services, Inc.	13,277,700	9	3.75%			
Harbor Properties	13,197,230	10	3.73%			
Walmart Realty Co #604	12,457,510	11	3.52%	10,043,873	8	6.64%
Island Hospitality INC	12,211,110	12	3.45%			0.00%
TFT Galveston Portfolio Ltd	12,169,530	13	3.44%			0.00%
MBP Corp	11,718,980	14	3.3%	11,630,670	5	7.69%
Silverleaf Resorts Inc	10,693,160	15	3.0%			
Eighteen Seventy Strand Corp	10,379,450	16	2.9%			
Escapes Inc	10,311,090	17	2.9%			
East Beach Partners, Ltd	9,312,400	18	2.6%			
Prida Construction Ltd	8,937,320	19	2.5%			
Emerald Tower Ltd	8,859,860	20	2.5%			
Houston Lighting & Power				34,039,180	1	22.50%
Sealy & Smith Foundation				13,761,670	4	9.10%
Dawn on the Seawall				10,186,890	7	6.73%
NewPark Shipbuilding				9,366,500	9	6.19%
Meridan Galveston				8,038,320	10	5.31%
Total Assessed Valuation	\$ 353,734,374		100.00%	\$ 151,304,293		83.32%

Source: Galveston County Tax Office.

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

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
				Amount	Percentage of Levy	Amount
1999	1998	0.54940	\$ 9,583,462	\$ 9,169,794	95.7%	\$ 376,972
2000	1999	0.54990	9,652,260	9,450,127	97.9%	159,154
2001	2000	0.54860	10,627,198	10,233,447	96.3%	344,237
2002	2001	0.55590	11,798,824	11,214,542	95.0%	520,060
2003	2002	0.55490	12,227,748	11,707,895	95.7%	435,003
2004	2003	0.54170	13,168,877	12,608,244	95.7%	447,609
2005	2004	0.54170	13,908,839	13,142,435	94.5%	547,588
2006	2005	0.54170	15,753,999	15,296,589	97.1%	460,883
2007	2006	0.49400	16,373,557	15,524,973	94.8%	392,080
2008	2007	0.49400	18,845,581	17,848,399	94.7%	482,864

Source: Tax department records of the City.

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

Exhibit VIII

Total Collections to Date

Amount	Percentage of Levy
\$ 9,546,766	99.6%
9,609,281	99.6%
10,577,684	99.5%
11,734,602	99.5%
12,142,898	99.3%
13,055,853	99.1%
13,690,023	98.4%
15,565,215	98.8%
15,917,053	97.2%
18,331,263	97.3%

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**
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
2008	21,967	35,535	748	22,905	20,978	56,780	2,892	16,849	64,493

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.

Discretely Presented Component Units are included in this schedule.

Exhibit IX

Total Primary Government	Percentage of Actual Taxable value of Property¹	Per Capita *
\$ 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	1.44%	255
243,146	1.37%	243

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 Revenues</u>	<u>Total</u>	<u>Percentage of Estimated Actual Taxable Value of Property</u>	<u>Per Capita</u>
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
2008	21,966,543	3,954,839	18,011,704	0.29%	304

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, 2008

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 \$ 76,810,000	62.61%	\$ 48,090,741
Galveston County	2 203,838,000	18.95%	38,627,301
Galveston County MUD No. 29	3 4,820,000	100.00%	4,820,000
Total Net Overlapping Debt			<u>91,538,042</u>
Total Direct Debt			<u>21,966,543</u>
Total Direct and Overlapping Net Debt			<u><u>\$ 113,504,585</u></u>
Ratio of total direct and overlapping net debt to 2007 assessed valuation			<u><u>2.74%</u></u>
Direct and overlapping net debt per capita			<u><u>\$ 1,918</u></u>

(1) Per GISD audited financial statements as of 8/31/08.

(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 ¹	Per Capita Personal Income ¹	Median Age ¹	Education Level in Years of Formal Schooling ²	School Enrollment ²	Unemployment Rate ³
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%
2008	59,186	1,051,676,034	17,769	35.5	12.0	6,876	5.6%

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 - 2008 City population data projection from Texas State Data Center

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

Exhibit XIII

PRINCIPAL EMPLOYERS

Current Year and Two Years Ago

Employer	2008		2006	
	Employees	Rank	Employees	Rank
University of Texas Medical Branch	9,000	1	12,318	1
American National Insurance Company	1,600	2	1,509	2
Galveston Independent School District	1,361	3	1,286	3
Landry's Restaurants	1,300	4	1,245	4
Moody Gardens	922	5	1,077	5
City of Galveston	780	6	845	7
Fertitta Hospitality	566	7	687	8
Galveston College	543	8	543	9
County of Galveston (Island only)	460	9	901	6
U.S. Army Corps of Engineers	400	10	390	11
Texas A&M University at Galveston	397	11	400	10
Total	17,329		21,201	

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	1999	2000	2001	2002
General Government				
City Secretary	3	3	3	3
Municipal Court	13	14	13	13
City Manager	3	5	5	4
City Auditor	1	1	1	
Finance	19	16	16	17
Legal	4	4	4	3
Human Resources	3	4	3	3
Police	197	201	207	208
Fire	103	103	103	103
Emergency Management	1	2	1	1
Streets & Traffic	37	37	32	31
Parks	27	27	28	29
Planning & Community Development	28	31	21	19
Total General Government	438	447	437	433
Pensions				
Waterworks	66	73	71	69
Sewer System	74	76	75	76
Drainage Utility				13
Municipal Golf Course	18	18	17	18
Sanitation	44	44	44	44
Municipal Airport	9	9	9	9
Central Service	5	7	13	13
Central Garage	26	26	26	24
Municipal Insurance	2	2	2	3
Construction Management				
Island Transit			64	65
Total Other Funds	244	254	321	332
Total Full Time Equivalent Personnel	682	700	758	765

Source: City Payroll Office

Full-time Equivalent Employees as of September 30,					
2003	2004	2005	2006	2007	2008
3	3	3	3	3	3
12	12	12	13	13	13
4	4	4	4	4	4
					1
16	17	17	16	17	16
4	4	5	6	5	5
3	4	4	4	3	4
211	218	216	219	220	205
106	113	123	127	131	131
1	1	2	2	1	1
40	49	50	50	50	51
30	34	36	51	34	38
22	25	25	33	23	35
<u>452</u>	<u>484</u>	<u>497</u>	<u>528</u>	<u>504</u>	<u>507</u>
49	45	43	39	38	34
84	86	80	73	74	69
22	25	25	23	22	16
18	18	12	12	12	
37	46	57	55	55	43
9	9	9	9	9	9
12	11	11	11	10	12
23	22	22	22	23	22
3	3	2	2	2	2
		6	6	6	7
56	52	64	65	65	59
<u>313</u>	<u>317</u>	<u>331</u>	<u>317</u>	<u>316</u>	<u>273</u>
<u>765</u>	<u>801</u>	<u>828</u>	<u>845</u>	<u>820</u>	<u>780</u>

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

Function	1999	2000	2001	2002
Police				
Physical arrests	8,716	8,716	8,542	10,316
Parking violations	57,659	57,659	64,428	60,600
Traffic violations	49,554	49,554	42,733	42,930
Fire				
Number of calls	6,071	6,073	7,219	7,034
Number of inspections	1,265	883	651	614
Water				
Number of service connections	20,698	22,000	22,000	22,000
Daily average consumption (gallons)	17,231,172	15,000,000	15,520,101	17,192,000
Sewer				
Average daily flow (gallons)	8,749,300	10,000,000	10,000,000	10,000,000
Max. daily capacity of plants (gallons)	14,155,000	14,500,000	14,500,000	14,500,000

Source: Various City departments.

Fiscal Year					
2003	2004	2005	2006	2007	2008
9,069	9,094	9,094	17,845	14,245	10,889
57,431	47,116	47,116	38,822	38,822	18,600
45,450	43,435	43,435	21,084	21,084	32,804
7,276	7,657	7,657	7,299	7,751	7,852
531	1,154	1,154	1,654	2,276	2,099
22,000	22,000	22,000	22,000	25,747	22,688
17,192,000	13,648,765	13,648,765	13,648,765	16,696,885	16,458,298
10,000,000	10,215,000	10,215,000	10,215,000	10,877,000	8,161,875
14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,580,000

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

Function	1999	2000	2001	2002
Public safety				
Police				
Stations	4	4	3	3
Patrol units	37	37	77	61
Police Officers	161	161	162	164
Fire				
Fire stations	6	6	6	6
Firefighters	99	101	103	103
Highways and streets				
Streets (miles)	288	288	288	288
Street lights	n/a	3,812	3,812	3,812
Culture and recreation				
Parks acreage	250	250	250	277
Parks	15	15	15	16
Tennis courts	20	20	15	15
Community centers	2	2	2	2
Cemeteries	6	6	7	7
Athletic fields	16	16	16	28
Municipal Golf Course	1	1	1	1
Water				
Water mains (miles)	240	240	240	240
Fire hydrants	1,800	1,800	1,800	1,800
Maximum daily capacity (thousands of gallons)	17,231,172	15,000,000	33,000,000	33,000,000
Sewer				
Treatment Plants	5	4	4	4
Sanitary sewers (miles)	140	220	220	220
Storm sewers (miles)	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,155,000	14,500,000	14,500,000	14,500,000

Source: Various City departments and Centerpoint Energy

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

Fiscal Year					
2003	2004	2005	2006	2007	2008
3	3	3	2	3	1
63	58	58	58	63	60
164	170	170	154	162	158
6	6	6	6	6	6
105	109	109	117	131	120
288	288	288	288	321	321
3,812	3,812	3,812	3,812	4,199	4,212
277	277	277	277	277	128
16	16	16	16	16	10
15	15	15	15	15	19
2	1	1	1	1	2
7	7	7	7	7	6
28	28	28	28	28	20
1	1	1	1	1	
240	317	317	317	333	380
1,800	1,931	1,931	1,931	2,350	2,368
33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
4	4	4	4	4	5
220	182	182	220	182	238
75	75	75	75	75	75
14,500,000	14,500,000	14,500,000	14,500,000	14,500,000	14,580,000