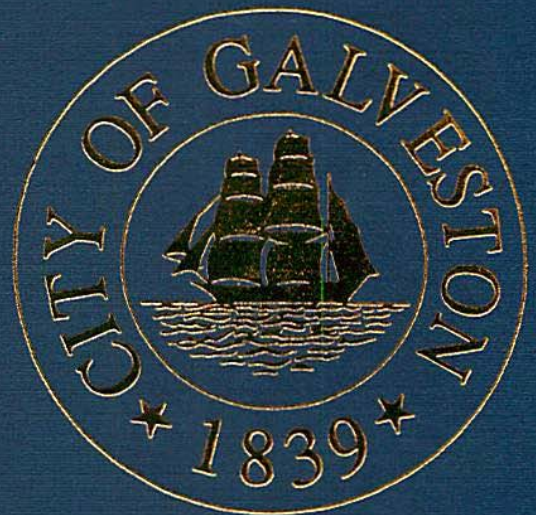


COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For The Fiscal Year Ended
September 30, 2014*



CITY OF GALVESTON, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
SEPTEMBER 30, 2014**

Prepared by:

Finance Department

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INTRODUCTORY SECTION

City of Galveston



P. O. Box 779 / Galveston, Texas 77553

Comprehensive Annual Financial Report for Fiscal Year Ending September 30, 2014 Letter of Transmittal

March 26, 2015

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 (CAFR) of the City of Galveston, Texas (the City) for the fiscal year ended September 30, 2014.

This report consists of management's representations concerning the finances of the City. 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 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's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City'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's financial statements have been audited by Weaver and Tidwell, LLP, 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 for the fiscal year ended September 30, 2014, 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 unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2014 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 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 and state awards. These reports are available in the City's separately issued Single Audit Report. GAAP requires 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'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 city manager, attorney, secretary, internal auditor, and municipal judge. The city manager is responsible for developing and proposing the annual city budget for consideration by city council, for carrying out the policies and ordinances of the city 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 Park Board which provides improvements and maintenance to City waterfront parks and beaches;
- The Galveston Redevelopment Authority, which provides funds from four tax reinvestment zones and three public improvement districts for development and improvement projects within specific geographic areas of the City;
- The Galveston Housing Finance Corporation which provides home mortgages and loans to lending institutions for the purpose of making home mortgages.;
- The City of Galveston Property Finance Authority, Inc. which was created by State Statute for the purpose of acquiring, owning, holding, leasing, and selling real or personal property to or for the benefit of the City for the furtherance of its public purposes;
- The Board of Trustees of the Galveston Wharves which manages, controls, and maintains the port of Galveston;
- The Industrial Development Corporation which provides funding for public works, beach re-nourishment, parks and economic development projects; and
- The City of Galveston Employees' Retirement Plan for City employees, the Galveston Firefighters' Pension Fund, and the City of Galveston Employees' Retirement Plan for Police.

The annual budget serves as the foundation for the City's financial planning and control. All

departments of the City are required to submit requests for appropriation to the City’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 city 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 calendar 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). The city manager may make transfers of appropriations within a department without prior approval by city council. Transfers of appropriations between departments, however, require the prior approval of the city council. At the close of each fiscal year any unencumbered balance of an appropriation shall revert to the fund from which appropriated and may be re-appropriated by the 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, this comparison is presented on page 89 of the Basic Financial Statements. For governmental funds, other than the General 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

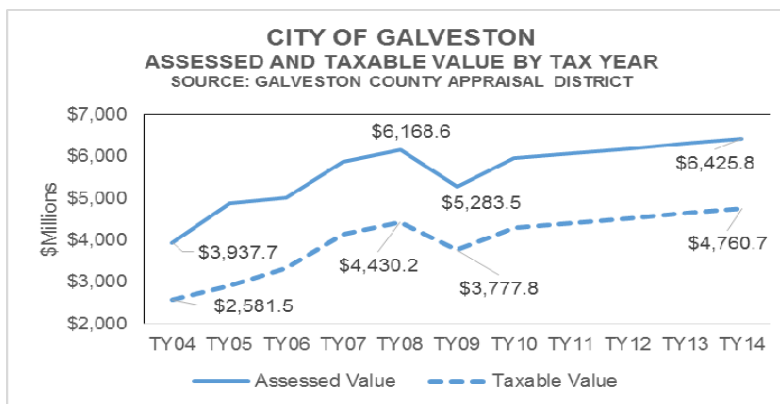
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Economic Climate

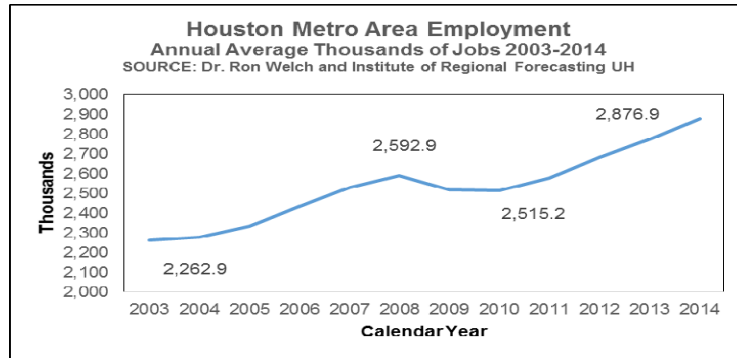
Galveston Island Economic Climate Overview:

Galveston’s economy is healthy and growing because of its location and climate. Galveston is located on the Gulf of Mexico at the mouth of Galveston Bay. The Gulf Coast of Texas experiences mild winters and temperate summers making the City a tourist destination. Furthermore, it is part of the nation’s most vibrant state economy and one of the top metropolitan economies which provides Galveston economic vibrancy that goes beyond the City’s borders.

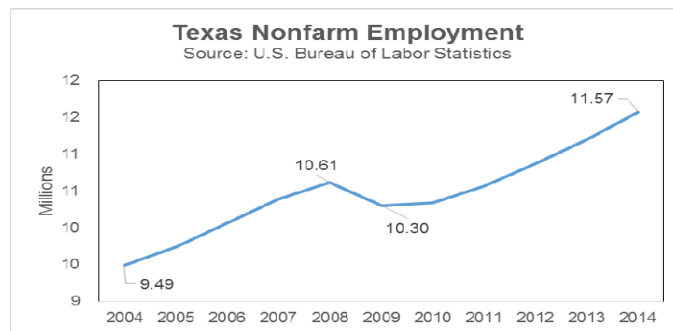
In the five years immediately prior to Hurricane Ike making landfall on September 13, 2008, the City’s economy expanded with total assessed value of all properties growing from \$3.9 billion in 2004 to \$6.1 billion in 2008, a 57 percent increase. After a one year adjustment due to the impact of Ike that dropped assessed values to \$5.3 billion, the city’s recovery efforts took over, bringing assessed values to \$6.4 billion in 2014 (Source: Galveston County Appraisal District), a 22 percent increase.



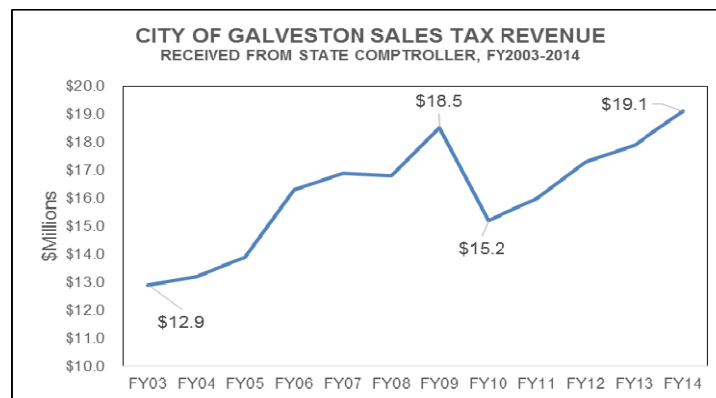
In the same period, 2003-2014, the Houston metropolitan area economy showed similar dramatic growth, with the strongest recovery from the Great Recession of any metropolitan area in the U.S. Total employment went from 2.3 million in 2003 to 2.6 million in 2008 before the Great Recession. Then after dropping back to 2.5 million jobs in 2010, the area rebounded strongly to 2.9 million jobs for 2014.



Since the Great Recession of 2008-2009, Texas’ nonfarm employment has grown by 1.27 million jobs. A healthy and growing metropolitan and state economy leads to a healthy local economy and increasing revenues for the City of Galveston.

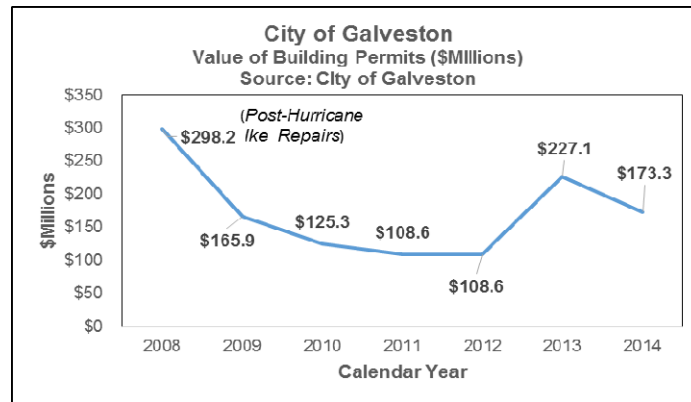


Galveston is the top recreation center for the region as evidenced by its sales tax revenue performance since FY 2003. Receipts reported by the State Comptroller’s office and paid to the City grew from \$12.9 million in FY2003 to \$18.5 million in FY2008. As the combined result of Hurricane Ike and the Great Recession, sales tax revenue dropped to \$15.2 million in FY2010, but then rebounded strongly to \$19.1 million in FY2014. Based on seasonal variations in receipts for the warm months or tourist season, April through September, this strong rebound is attributed largely to the City’s vibrant tourism sector.

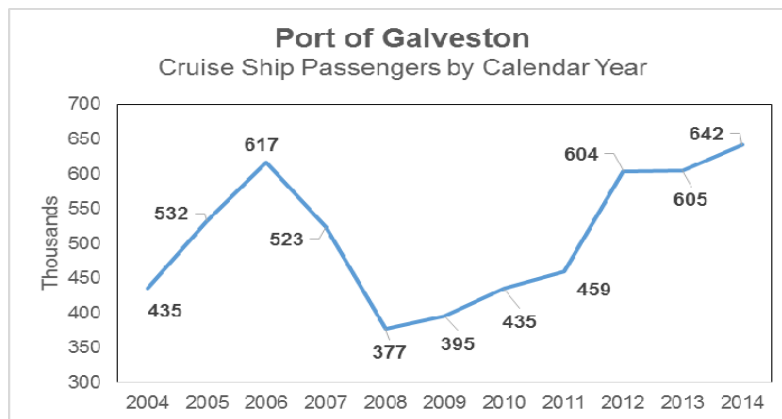


Galveston continues to have a lower cost of living than the national average in spite of its growing economy. According to the U.S. Department of Labor Statistics, the Consumer Price Index-Urban (CPI-U) for the U.S. as a whole was 234.8 in December 2014. The CPI-U For the metropolitan area including Galveston was 212.2 for December 2014. By this measure, Galveston’s cost of living is 9.6 percent less than the nation as a whole.

Construction activity in Galveston is continuing at a steady pace after the value of building permits in the immediate aftermath of Hurricane Ike peaked in 2008 at \$298.2 million. The last two calendar years including 2013 (\$227.1 million) and 2014 (\$173.3 million) witnessed strong performance in the value of building permits issued. Commercial and residential building have contributed to the recent trend in new and remodeling construction projects.

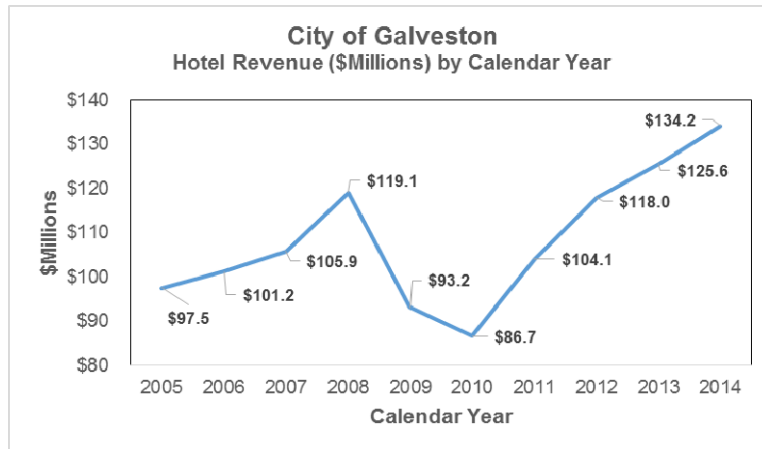


The Port of Galveston is an important contributor to both the Galveston and Texas economies. In calendar year 2013, the Port of Galveston ranked 49th of all U.S. ports in total cargo volume, 38th in domestic cargo volume, and 33rd in export cargo volume. Total cargo through the Port of Galveston increased 10.9 percent in 2014 over 2013 while cruise ship passengers through the Port reached an all-time high in 2014. After cruise ship traffic was interrupted by Hurricane Ike, cruise passengers through the Port of Galveston totaled 642,000 in 2014, a 70 percent improvement over 2008.



The City is a popular destination for tourists, including its ample beaches and other attractions. The City’s downtown area features The Strand which is the home of some of Galveston’s most historic commercial buildings, and the centerpiece for the City’s active year-round calendar of community and seasonal events. Nearby is the East End Historical District which is on the National Historic Register and the site of many of the City’s historic structures. Galveston was named the second favorite place to visit on USA Today’s 2014 top ten list of spring break destinations. Like other local and regional indicators,

Galveston hotel occupancy and revenue was set back by Hurricane Ike (see below) but has come back to beat previous highs for hotel revenue in the last two calendar years.



Long-term financial planning

In FY 2015, the City Council approved a five year Capital Improvement Plan as a part of the Annual Budget. During FY 2015, a new emphasis will be placed on long-term financial planning with the completion of a more detailed Capital Improvement Plan, and a five year operating budget forecast for the City's major operating funds. A renewed emphasis is being placed on trend analysis that considers periods of more than five years as shown in the previous section. The long-term financial planning efforts will be used to support decision makers in formulating a fiscally responsible annual budget.

Relevant financial policies

The City Council has established a 90-day target balance for General Fund unrestricted cash and cash equivalents. The General Fund ended the year with an unassigned operating balance of \$13.7 million, representing approximately 111 days of maintenance and operation. The City is working to secure the renewal of its \$20 million emergency bridge loan in the event of a major catastrophic emergency. The loan will be available to support cash flow for any large emergency and not just a tropical storm or hurricane.

The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investments. With a positive economic outlook, conservative budgeting and substantial reserves for debt service, the City received a rating upgrade of "AA" from an A+ from Standard & Poor with a stable outlook for the City's overall bond rating. This is the second highest rating a city can receive.

Major initiatives

A renewed emphasis on infrastructure improvements will drive resource allocation and staff efforts over the next three to five years. During FY 2015 and 2016, the City will conclude its Hurricane Ike recovery projects. The major area of emphasis is improving the City's infrastructure including major thoroughfares and neighborhood streets and related infrastructure. Protection of neighborhoods through stricter codes and clearer rules is also a high priority with major revisions underway to the City's land development rules and zoning requirements. A citywide study of compensation is underway, including developing accurate and comprehensive job descriptions, comparisons with comparable cities of salaries and benefits. A renewed emphasis is being placed on more complete utilization of the City's existing financial system in order to improve operational efficiency, management reporting and internal controls.

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, 2013. 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 CAFR, 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 the current CAFR will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The preparation of this report is a joint effort of various departments and offices of the City. The City's Finance Department coordinates the compilation and prepares the final report along with the City's independent auditor, Weaver and Tidwell, LLP. The successful and timely preparation of this report depends on the cooperation of all these groups and upon the diligence and dedication of the entire staff of the Finance Department. We would like to express our appreciation to all the City's Finance Department staff who assisted and contributed to the preparation of this report. Other City departments and offices make a significant contribution to the preparation of this report as well. 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,



Brian Maxwell
City Manager



Michael W. Loftin
Director of Finance.

City of Galveston, Texas

Incorporated March 1939
Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council

Mayor	James. D. Yarbrough
Mayor Pro Tem	Terrilyn Tarlton
Council Member	Tarris Woods
Council Member	Craig Brown
Council Member	Norman Pappous
Council Member	Terrilyn Tarlton
Council Member	Ralph McMorris
Council Member	Carolyn Sunseri

City Council Appointees

City Manager	Brian Maxwell
City Secretary	Janelle Williams
City Attorney	Dorothy Palumbo
Court Judge	Jim Schweitzer
City Auditor	Glenn Bulgherini

Departmental Directors (City Manager Appointees)

Airport	Hud N. Hopkins
Deputy City Manager	Dan Buckley
Director of Public Works	Ross Blackketter
Emergency Management	Charlie Kelly
Finance	Michael W. Loftin
Fire	Mike Wisko
Grants	Sterling W. Patrick
Island Transit	Michael Worthy
Municipal Court	Anita Brown
Municipal Garage	David A. Smith
Parks and Recreation	Barbara E. Sanderson
Planning and Housing	Richard Vasquez
Police	Henry Porretto
Public Information Officer	Kala Rhoades
Public Works	Angelo Grasso
Sanitation	Cindy DeWitt
Technology	Ryan Young
Utilities	David VanRiper



Government Finance Officers Association

**Certificate of
Achievement for
Excellence in
Financial
Reporting**

Presented to

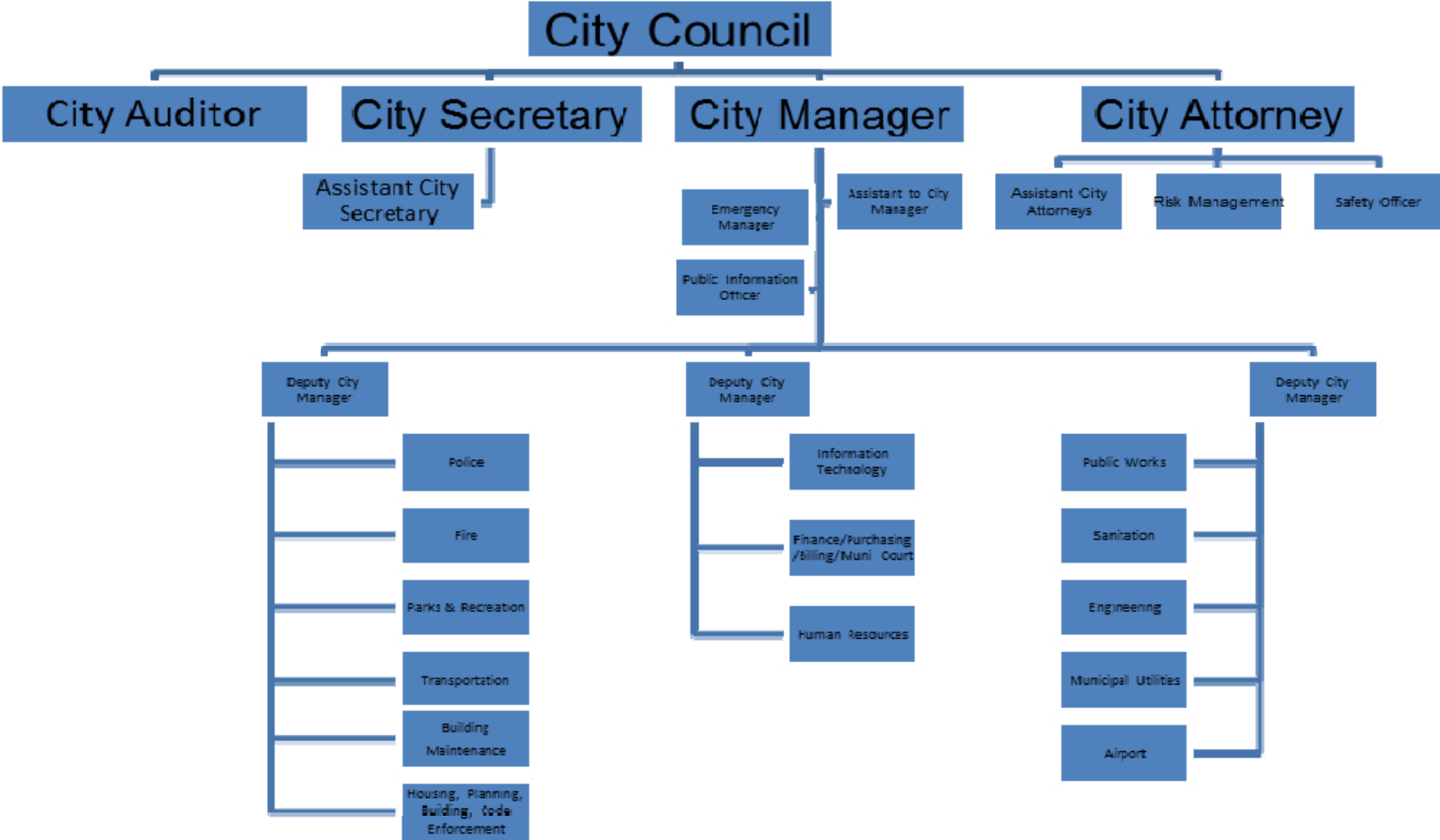
**City of Galveston
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2013

Executive Director/CEO

City of Galveston Organizational Chart 2013-2014



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 the City of Galveston, Texas (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Park Board of Trustees of the City of Galveston, Texas, the Galveston Island Redevelopment Authority, and the Board of Trustees of the Galveston Wharves, which represents approximately 100% of total assets, net position or fund balances, as applicable, and total revenues of the discretely presented component units. We also did not audit the City of Galveston Employees' Retirement Plan for Police, the City of Galveston Employees' Retirement Plan for City Employees and the Galveston Firefighters' Pension Fund which represents 100% of total assets, net position and total revenues of the pension trust funds. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those discretely presented component units and pension trust funds, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Galveston Island Redevelopment Authority, the City of Galveston Employees' Retirement Plan for Police, the City of Galveston Employees' Retirement Plan for City Employees and the Galveston Firefighters' Pension Fund were not audited in accordance with *Government Auditing Standards*.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 17), and Schedule of Funding Progress for Participation in Pension Plans (pages 87 through 88) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, 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 and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual nonmajor fund financial statements and budgetary comparison schedules are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 26, 2015

Management's Discussion and Analysis (Unaudited)

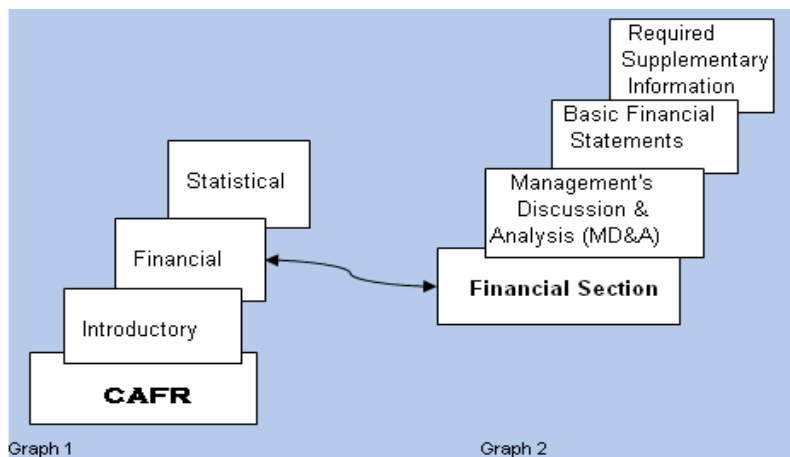
As management of the City of Galveston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2013. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$387.7 million (net position). Of these assets, capital assets increased \$25.4 million, or 6.7%, from the prior year.
- The ratio of total assets and deferred outflows of resources to total liabilities and deferred inflows of resources for governmental activities was 2.4 times; for business type activities the ratio was 3.7 times.
- General Fund cash and equivalents increased \$2.2 million from the prior year.
- The fund balance of the General Fund increased from \$18.7 million to \$19.9 million, a 6.4% increase. The ending balance represents \$1.2 million saving in expenditures.
- Business-type assets increased \$17.0 million over the last fiscal year. Of these, capital assets increased \$24.8 million, an increase of 10.8% and restricted cash and investments decreased \$4.3 million, a decrease of 15.4% from the prior year.

Overview of the Financial Statements

This discussion and analysis is 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. As shown in Graph 1, the Comprehensive Annual Financial Report (CAFR) is organized into three main sections. The Financial Section is the main section of the CAFR and is organized into three sub-sections, as outlined in Graph 2.



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 position presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 city's net position changed during the most recent fiscal year. All changes in net position 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 (sewer) collection and treatment, solid waste management, drainage management and improvement and an airport facility.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Park Board, two Public Improvement Districts, three pension funds, a legally separate Industrial Development Corporation, Galveston Island Redevelopment Authority, 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 18 – 20 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-four 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, Hurricane Ike Fund, and the CDBG Disaster Fund Non-Housing grant, which are considered to be major funds or of significant interest to the governing body. Data from the other twenty-one governmental funds groups 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 and Proprietary funds. 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 21 – 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 (sewer) collection and treatment, solid waste management (sanitation), drainage management and improvement, and airport operations.

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, separation pay 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 26 - 29 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 30 – 31 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 32 – 86 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 87 – 88. 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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, government-wide assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$387.7 million at the close of the most recent fiscal year.

A significant portion of the City's net position (75.2%) reflects its net 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.

Table
A-1

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$129,275	\$126,172	\$48,678	\$57,041	\$177,953	\$183,213
Capital assets	152,091	151,463	253,751	228,958	405,842	380,421
Total assets	281,366	277,635	302,429	285,999	583,795	563,634
Total deferred outflows of resources	390	-	-	-	390	-
Current Liabilities	34,477	34,037	5,969	8,274	40,446	42,311
Long-term liabilities	80,801	84,365	75,258	81,840	156,059	166,205
Total liabilities	115,278	118,402	81,227	90,114	196,505	208,516
Net position						
Net investment in capital assets	110,071	102,988	181,656	152,955	291,727	255,943
Restricted	26,170	22,387	21,326	25,630	47,496	48,017
Unrestricted	30,237	33,858	18,220	17,299	48,457	51,157
Total net position	\$166,478	\$159,233	\$221,202	\$195,884	\$387,680	\$355,117

An additional portion of the City's net position (12.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to citizens and creditors.

While the City is still in a recovery mode as a consequence of damage incurred from Hurricane Ike, property tax values have increased resulting in higher ad valorem tax and sales tax revenue has also increased. In the current fiscal year, the general fund increased fund balance by \$1.2 million, the result of savings in budgeted expenditures. The general fund has exceeded the 90 day targeted operating cash reserve benchmark and has adequate cash outlays for the next fiscal year as well as the financial capacity to meet its long-term obligations, without a reduction in fund balance.

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 \$264.4 million, comprising 87.8% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net position were \$70.1 million and \$114.0 million, respectively, which is 84.0% of total net position compared to 82.3% for 2013. The combined unrestricted business-type net position of the Waterworks system and the Sewer system comprise 66.8% of the total business-type unrestricted net position.

Governmental Activities. As shown in Table A-2, revenues were divided between governmental activities and business-type activities 71.1% and 28.9% respectively. Expenses were divided between governmental activities and business-type activities 66.1% and 33.9% respectively. Net position increased \$8.3 million, or 5.2% from the prior period for governmental activities and increased \$29.2 million or 15.2% for business-type activities. Overall, net position increased 10.7%.

CITY OF GALVESTON, TEXAS

Table A-2

Changes in Net Position (in thousands)

For the fiscal year ended September 30, 2014

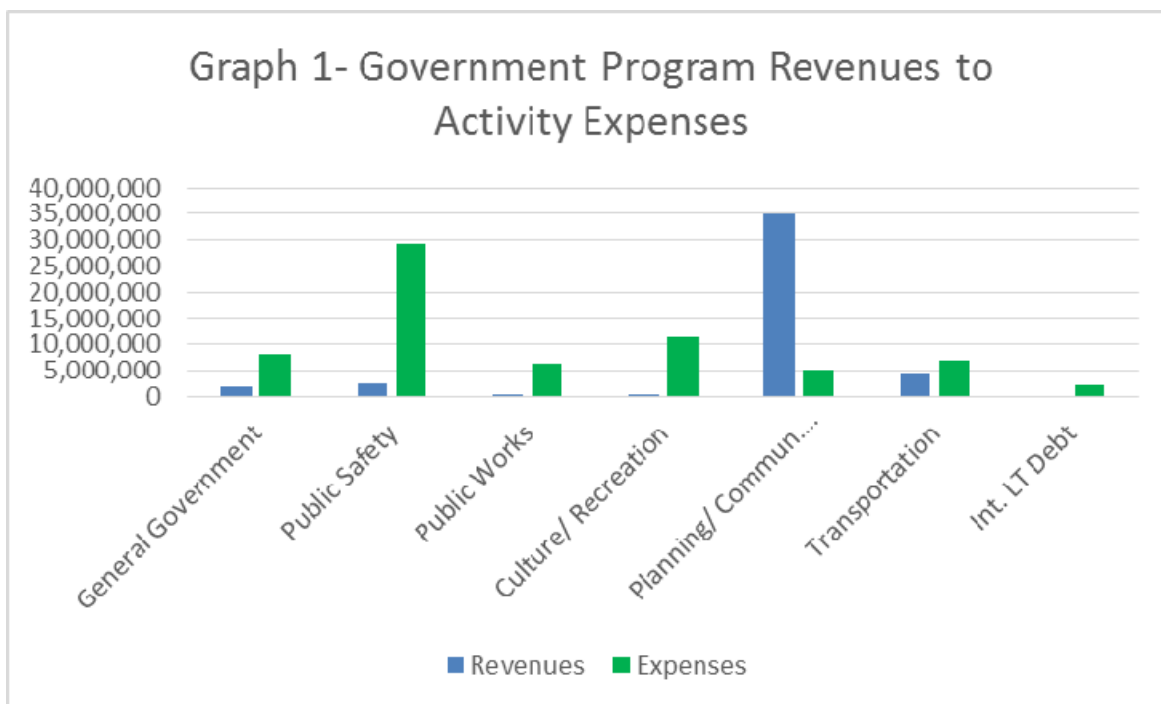
With comparative totals for fiscal year ended September 30, 2013

	Governmental activities		Business - type activities		Total	
	Governmental activities		Business - type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for services	\$7,838	\$7,280	\$39,955	\$39,337	\$47,793	\$46,617
Operating grants & contributions	13,060	14,296	-	-	13,060	14,296
Capital grants and contributions	24,924	31,242	1,000	26	25,924	31,268
General revenues:						
Property taxes	22,920	21,988	-	-	22,920	21,988
Sales taxes	19,978	18,638	-	-	19,978	18,638
Hotel occupancy taxes	6,092	5,500	-	-	6,092	5,500
Franchise fees	5,267	5,043	-	-	5,267	5,043
Payments in lieu of taxes	165	124	-	-	165	124
Other	1,047	2,714	219	4,229	1,266	6,993
Total revenues	101,291	106,825	41,174	43,592	142,465	150,417
Expenses:						
General government	7,864	6,874	-	-	7,864	6,874
Public safety	29,542	28,075	-	-	29,542	28,075
Public works	6,504	6,847	-	-	6,504	6,847
Culture and recreation	11,300	9,082	-	-	11,300	9,082
Planning /community development	5,246	11,972	-	-	5,246	11,972
Transportation system	6,804	8,164	-	-	6,804	8,164
Interest on long-term debt	2,160	1,716	-	-	2,160	1,716
Waterworks system	-	-	15,402	13,990	15,402	13,990
Sewer system	-	-	11,505	11,669	11,505	11,669
Sanitation services	-	-	4,781	4,382	4,781	4,382
Drainage utility	-	-	2,356	1,873	2,356	1,873
Airport	-	-	1,579	1,499	1,579	1,499
Total Expenses	69,420	72,730	35,623	33,413	105,043	106,143
Increase (decrease) in net position before transfers	31,871	34,095	5,551	10,179	37,422	44,274
Transfer in (out)	(23,601)	(23,124)	23,601	23,124	-	-
Changes in net position	8,270	10,971	29,152	33,303	37,422	44,274
Net position at beginning of year, as restated	158,208	148,262	192,050	162,581	350,258	310,843
Net position at end of year	\$166,478	\$159,233	\$221,202	\$195,884	\$387,680	\$355,117

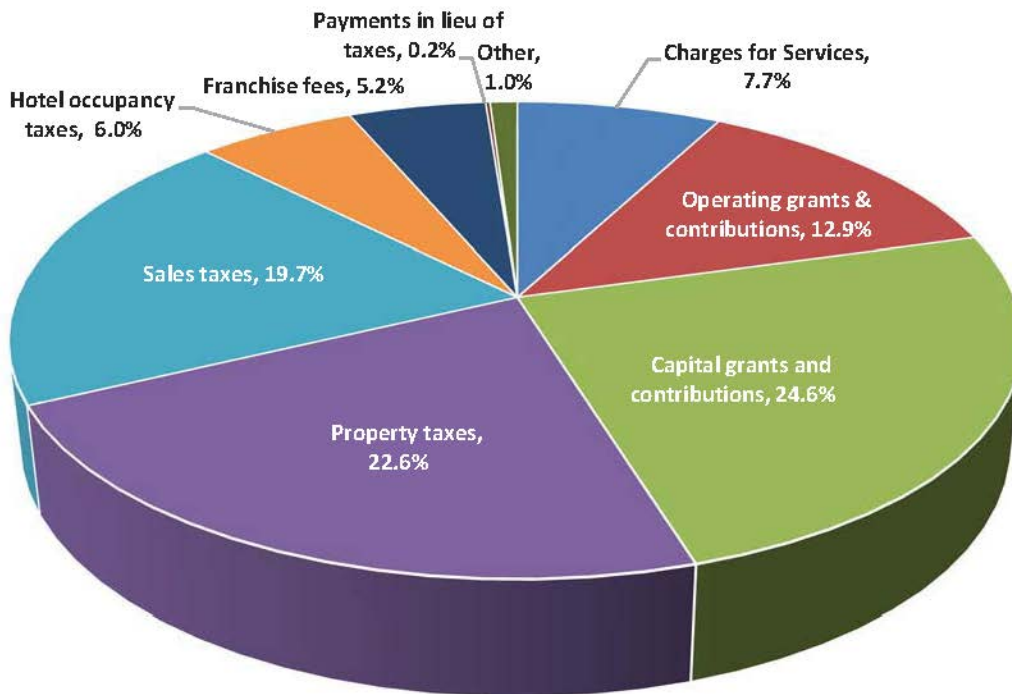
Table A-2 above reflects that:

- Spending for governmental activities for the fiscal year was \$69.4 million, a decrease of \$3.3 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 42.6% of governmental activities expenses compared to 38.6% in 2013. Public safety operating expenses increased \$1.5 million or 5.2% compared to the prior year.
- The single largest source of revenue is from capital grants and contributions, representing 24.6% of the \$101.3 million governmental activity revenue stream.
- Operating grants and contributions represented another 12.9% of governmental revenues.
- Local property taxes provided approximately 22.6% of governmental activity revenue. City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes were \$54.4 million, an increase of \$3.2 million from the previous year. Taxes and franchise fees contributed to 53.6% of governmental activities revenue compared to 48.2% in fiscal year 2013.
- Charges for services account for 7.7% of governmental activities, and increased \$559,000 in fiscal 2014 to \$7.8 million.

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 \$69.4 million. Program revenues provided \$45.8 million, for a net expense of \$23.6 million for the fiscal year 2013-2014.



Graph 2 below presents the sources of revenue for governmental activities. Federal assistance, most notably from the FEMA and CDBG recovery assistance program provided 24.6% of the 2014 year funding. A combination of sales taxes (19.7%), hotel taxes (6.0%), franchise fees (5.2%), and payments in lieu of taxes received from business-type activities (0.20%) comprise total revenues. The City's property taxes contributed an additional 22.6% of total revenues, charges for services contributed 7.7% and other revenue 1.0%.



Graph 2- Revenues by Source - Governmental Activities

Business-type Activities. Business-type activities increased the City's net position by \$29.2 million, or 15.2%. Business-type net position accounted for 57.1% of the City's total net position. Revenues derived from charges for services account for 97.0% of business-type program revenues.

CITY OF GALVESTON, TEXAS

Table A-3

*Expenses, Program Revenues and Net Revenue (cost)
of Services- Business Type Activities (in thousands)
For the fiscal year ended September 20, 2014
With comparative totals for fiscal year ended September 30, 2013*

Program	Program Expenses	Revenues	2013 Net Revenue (Cost) of Service	2013 Net Revenue (Cost) of Service
Waterworks system	\$15,402	\$17,510	\$2,108	\$3,492
Sewer system	11,505	13,015	\$1,510	1,299
Sanitation services	4,781	5,616	\$835	\$706
Drainage utility	2,356	2,584	\$228	\$691
Airport	1,579	2,230	\$651	\$239
Totals	\$35,623	\$40,955	\$5,332	\$6,427

As indicated in Table A-3, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$34.0 million, or 95.6% of all the expenses of business-type activities.

Related revenues of those funds totaled \$38.7 million, or 94.6% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$38.1 million and expenses were \$31.9 million. The Island population and customer service base is still down as a result of Hurricane Ike.

The net excess of program revenues over expenses for the four public utility related funds was \$4.7 million compared to \$6.2 million in 2013. In total, business type activity excess revenues over expenses were \$5.3 million in 2014 compared to \$6.4 million in 2013.

Table A-4 shows business-type activities revenues by source. Charges for services provided 97.0% of the total and other revenues provided 3%.

CITY OF GALVESTON, TEXAS

Table
A-4

Revenues by Source-Business Type Activities

(in thousands)

For the fiscal year ended September 20, 2014

With comparative totals for fiscal year ended September 30, 2013

	2014	2014	2013	2013
	Dollars	Percent	Dollars	Percent
Charges for Services	\$39,955	96.81%	\$39,337	90.20%
Capital grants and contributions	999	2.42%	26	0.10%
Other	219	0.77%	4,229	9.70%
Totals	\$41,173	100.00%	\$43,592	100.00%

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, unassigned 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 increased from \$23.5 million in fiscal 2013 to \$24.8 million in fiscal year 2014. Cash and temporary investments amount to \$18.0 million or 72.6% of total assets and net receivables are reported at \$6.7 million, or 26.9% of the total.
- General Fund liabilities decreased by \$1.8 million. Liabilities were \$3.0 million in 2014. Unavailable revenue from property taxes amounted to 50% of General Fund deferred inflows of resources.
- General Fund actual revenues were less than budget by \$591,409. Expenditures were favorable to budget by \$1.2 million. Actual revenues exceeded expenditures by \$618,231 as a result of organizational efficiencies.

- The General fund's fund balance increased \$1.2 million in 2014 to \$19.9 million.
- Other governmental non-major funds (21 separate fund groups) have cash and investments totaling \$39.9 million, comprising 38.1% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$0.36 million to \$4.4 million at the end of 2014.
- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$68.9 million. Of this amount, \$13.6 million constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted amounts for capital projects amounted to \$23.2 million. Committed amounts are reported for operations, \$3.6 million and capital construction \$1.6 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 \$264.4 million, which comprises 87.9% of the total assets of all proprietary funds. Unrestricted net position of those two funds are \$5.7 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 2014, general government expenditures were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2014 set General Fund revenue \$45.9 million and expenditures at \$46.2 million (including other financing sources), which amounted to a \$0.4 million decrease in fund balance over the prior year. The property tax rate remained the same as the prior year, at \$0.554 mills. While the 2014 budget contemplated a \$0.4 million decrease in fund balance, the actual balance increased by \$1.1 million of revenues over expenditures. Sales tax revenue exceeded budgeted amounts by \$0.9 million. Property taxes realized were favorable to budget by \$126,000.

General Fund budgeted expenditures were \$45.8 million. Total expenditures for the General Fund were under budget by \$1.2 million.

Capital Asset and Debt Administration

CITY OF
GALVESTON,
TEXAS

Table A-5

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

September 30, 2014

With comparative totals for
September 30, 2013

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$20,013	\$20,013	\$2,489	\$2,489	\$22,502	\$22,502
Infrastructure	60,613	62,215	94,309	84,087	60,613	146,302
Buildings	38,282	39,560	44,113	45,600	176,704	85,160
Equipment and furniture	14,020	15,435	7,044	7,289	21,064	22,724
Contractual water rights	-	-	15,840	17,904	15,840	17,904
Construction in progress	19,162	14,240	89,954	71,590	109,116	85,830
	<u>\$152,090</u>	<u>\$151,463</u>	<u>\$253,749</u>	<u>\$228,959</u>	<u>\$405,839</u>	<u>\$380,422</u>

As shown in Table A-5, at the end of 2014, the City's investment in capital assets has a carrying value of \$405.8 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 have invested \$152.1 million in capital assets, while business-type activities have invested in \$253.7 million of capital assets.

Governmental capital assets subject to depreciation decreased \$4.3 million. Construction in progress increased \$4.9 million. Depreciation expense accounted for a decrease in carrying value of \$8.5 million. In governmental capital assets, work is continuing to be done with Island Transit maintenance facility and downtown terminal as well as restoration of the historical Garten Verein public park facility.

Business type capital assets subject to depreciation increased \$6.4 million. Construction in progress increased \$18.4 million. Depreciation expense accounted for a decrease in carrying value of \$8.6 million. Construction of the Main Wastewater treatment plant increased by \$22.5 million, this is an \$87.2 million project.

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 \$133.2 million. Of this amount, \$16.9 million was comprised of debt backed by the full faith and credit of the government, and \$26.0 million was comprised of special assessment debt for which the government is liable in the event of a deficiency in the amount of hotel tax revenue collected. The remainder of the City's debt (\$90.3 million) primarily represents bonds secured solely by specified revenue sources, \$57.7 million and certificates of obligation, \$32.6 million.

CITY OF GALVESTON, TEXAS

Outstanding Debt (in thousands)

September 30, 2014

With comparative totals for September 30, 2013

Table A-6

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$16,917	\$20,358	\$ -	\$ -	\$16,917	\$20,358
Special obligation bonds	25,960	26,690	-	-	25,960	26,690
Contracts payable	-	-	24,209	26,902	24,209	26,902
Revenue bonds	-	-	33,525	35,755	33,525	35,755
Certificates of obligation	18,933	19,572	13,673	14,116	32,606	33,688
Notes payable	937	1,291	1,923	3,039	2,860	4,330
Capital lease obligation	882	1,033	-	-	882	1,033
	<u>\$63,629</u>	<u>\$68,944</u>	<u>\$73,330</u>	<u>\$79,812</u>	<u>\$136,959</u>	<u>\$148,756</u>

The City's total debt overall decreased \$11.8 million during the current fiscal year. The City has very strong budgetary flexibility. It had reserves of \$13.7 million, 30.6% of general fund expenditures in fiscal 2014. The report mentions the advantages and disadvantages of the City's tax cap. The city's tax rate of \$0.554 per \$100 of assessed value is well below the state's cap. It was further stated that this rating was reflected by the City's moderate overall debt burden as well as diverse economy and very strong wealth levels. Additional information on the City's long-term debt can be found in Note 8 to the financial statements.

Economic Factors

The City's continued strong growth and recovery from Hurricane Ike and the recession in the regional and state economy is reflected in increased employment, sales and property tax.

The U.S. Gross Domestic Product was to 2.4% and unemployment showed signs of recovery. The federal unemployment rate was 5.6% while Texas' unemployment rate was at 4.6%. Current economic growth in the U.S. continues to show uncertainty with the political unrest throughout the world.

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, P. O. Box 779, Galveston, TX 77553, or physically located at 823 Rosenberg, Suite 300, Galveston, TX 77550.

BASIC FINANCIAL STATEMENTS

**CITY OF GALVESTON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
ASSETS					
Cash and investments	\$ 81,483,323	\$ 13,470,864	\$ 94,954,187	\$ 12,603,457	\$ 9,812,120
Investments	-	-	-	3,013,031	-
Receivables, net of allowance for uncollectibles	6,342,875	9,757,013	16,099,888	2,832,021	13,538,704
Internal balances	(1,700,788)	1,700,788	-	-	-
Due from other governments	25,959,120	-	25,959,120	31,930	-
Note receivable from component units	15,930,553	-	15,930,553	-	-
Restricted assets	275,491	23,606,936	23,882,427	-	21,444,652
Net pension asset	112,972	-	112,972	-	-
Inventories	458,440	142,008	600,448	11,923	-
Prepaid items	413,365	547	413,912	259,272	774,902
Other assets	-	-	-	-	199,146
Net investments in direct financing lease	-	-	-	-	2,456,136
Capital assets not being depreciated	39,175,083	92,443,826	131,618,909	1,576,547	38,041,114
Capital assets net of depreciation	112,915,491	161,306,988	274,222,479	337,626,830	100,443,741
Total assets	281,365,925	302,428,970	583,794,895	357,955,011	186,710,515
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	389,806	-	389,806	-	-
Total deferred outflows of resources	389,806	-	389,806	-	-
LIABILITIES					
Accounts payable and accrued expenses	18,102,504	1,956,371	20,058,875	5,550,360	3,611,376
Accrued interest	617,101	829,749	1,446,850	10,686	786,776
Due to other governments	201,496	419,318	620,814	-	-
Due to primary government	-	-	-	-	187,302
Unearned revenue	15,555,510	482,364	16,037,874	-	-
Customer deposits	-	2,281,284	2,281,284	-	-
Long-term liabilities					
Due within one year	6,537,901	6,807,672	13,345,573	1,246,357	5,867,863
Due in more than one year	74,263,378	68,450,001	142,713,379	22,009,812	46,411,219
Total liabilities	115,277,890	81,226,759	196,504,649	28,817,215	56,864,536
DEFERRED INFLOWS OF RESOURCES					
Deferred gain on refunding	-	-	-	-	188,841
Total deferred inflows of resources	-	-	-	-	188,841
NET POSITION					
Net investment in capital assets	110,070,770	181,656,032	291,726,802	336,059,232	103,644,735
Restricted for:					
Capital projects	-	13,476,847	13,476,847	-	-
Grants	10,143,558	-	10,143,558	-	-
Beach preservation	3,228,192	-	3,228,192	-	-
Debt service	6,161,238	7,848,805	14,010,043	1,485,371	6,202,683
Tourism, convention and hotel industry					
Convention center operator	3,821,514	-	3,821,514	-	-
City of Galveston	2,815,873	-	2,815,873	-	-
Unrestricted	30,236,696	18,220,527	48,457,223	(8,406,807)	19,809,720
Total net position	\$ 166,477,841	\$ 221,202,211	\$ 387,680,052	\$ 329,137,796	\$ 129,657,138

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

<u>Program Activities</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>
Primary government				
Governmental activities				
General government	\$ 7,863,906	\$ 1,872,522	\$ -	\$ -
Public safety	29,542,246	2,246,126	254,161	-
Public works	6,504,414	-	-	13,440
Culture and recreation	11,300,294	158	180,434	-
Planning and community development	5,245,589	1,844,588	9,066,737	24,111,643
Transportation system	6,803,811	1,874,882	3,559,106	798,772
Interest on long-term debt	2,160,183	-	-	-
Total governmental activities	<u>69,420,443</u>	<u>7,838,276</u>	<u>13,060,438</u>	<u>24,923,855</u>
Business-type activities				
Waterworks	15,402,422	17,509,581	-	-
Sewer system	11,504,929	13,015,022	-	-
Sanitation	4,781,263	5,616,509	-	-
Drainage	2,355,771	2,583,757	-	-
Airport	1,578,556	1,230,457	-	999,303
Total business-type activities	<u>35,622,941</u>	<u>39,955,326</u>	<u>-</u>	<u>999,303</u>
Total primary government	<u>\$ 105,043,384</u>	<u>\$ 47,793,602</u>	<u>\$ 13,060,438</u>	<u>\$ 25,923,158</u>
Component unit				
Governmental activities	38,570,345	4,568,039	-	2,570,887
Business-type activities	27,561,493	24,775,856	-	15,958,039
Total component units	<u>\$ 66,131,838</u>	<u>\$ 29,343,895</u>	<u>\$ -</u>	<u>\$ 18,528,926</u>

GENERAL REVENUES

Taxes:

Property taxes
Sales and use taxes
Hotel occupancy taxes
Franchise fees
Payments in lieu of taxes
Unrestricted investment earnings
Miscellaneous
Capital asset contributions, net
Transfers

Total general revenues, extraordinary items and transfers

Change in net position

NET POSITION, beginning of year - as restated

NET POSITION, end of year

**Net (Expense) Revenue and
Changes in Net Position**

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
\$ (5,991,384)	\$ -	\$ (5,991,384)	\$ -	\$ -
(27,041,959)	-	(27,041,959)	-	-
(6,490,974)	-	(6,490,974)	-	-
(11,119,702)	-	(11,119,702)	-	-
29,777,379	-	29,777,379	-	-
(571,051)	-	(571,051)	-	-
(2,160,183)	-	(2,160,183)	-	-
<u>(23,597,874)</u>	<u>-</u>	<u>(23,597,874)</u>	<u>-</u>	<u>-</u>
-	2,107,159	2,107,159	-	-
-	1,510,093	1,510,093	-	-
-	835,246	835,246	-	-
-	227,986	227,986	-	-
-	651,204	651,204	-	-
-	5,331,688	5,331,688	-	-
<u>(23,597,874)</u>	<u>5,331,688</u>	<u>(18,266,186)</u>	<u>-</u>	<u>-</u>
-	-	-	(31,431,419)	-
-	-	-	-	13,172,402
-	-	-	<u>(31,431,419)</u>	<u>13,172,402</u>
22,919,567	-	22,919,567	3,647,076	-
19,978,419	-	19,978,419	-	-
6,092,375	-	6,092,375	8,826,339	-
5,267,085	-	5,267,085	-	-
164,678	-	164,678	-	-
120,176	54,082	174,258	29,715	201,729
927,063	165,406	1,092,469	-	58,010
-	-	-	16,092,355	-
<u>(23,601,351)</u>	<u>23,601,351</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>31,868,012</u>	<u>23,820,839</u>	<u>55,688,851</u>	<u>28,595,485</u>	<u>259,739</u>
8,270,138	29,152,527	37,422,665	(2,835,934)	13,432,141
<u>158,207,703</u>	<u>192,049,684</u>	<u>350,257,387</u>	<u>331,973,730</u>	<u>116,224,997</u>
<u>\$ 166,477,841</u>	<u>\$ 221,202,211</u>	<u>\$ 387,680,052</u>	<u>\$ 329,137,796</u>	<u>\$ 129,657,138</u>

CITY OF GALVESTON, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Hurricane Ike	CDBG Disaster Fund Non-housing	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 18,040,207	\$ 13,826,844	\$ -	\$ 39,907,804	\$ 71,774,855
Receivables, net of allowance for uncollectibles	3,812,581	-	-	2,329,639	6,142,220
Due from other governments	2,861,510	8,294,421	7,711,479	7,091,710	25,959,120
Due from other funds	-	552,758	-	-	552,758
Inventories	-	-	-	259,579	259,579
Prepaid items	85,379	-	-	-	85,379
Total assets	\$ 24,799,677	\$ 22,674,023	\$ 7,711,479	\$ 49,588,732	\$ 104,773,911
LIABILITIES					
Accounts payable	\$ 1,165,114	\$ 1,458,810	\$ 7,084,384	\$ 4,728,816	\$ 14,437,124
Accrued liabilities	849,263	655	261	2,471,550	3,321,729
Due to other funds	132,234	-	-	110,880	243,114
Payable to other governments	201,496	-	-	-	201,496
Unearned revenue	658,407	11,636,619	61,215	3,199,269	15,555,510
Total liabilities	3,006,514	13,096,084	7,145,860	10,510,515	33,758,973
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	951,240	-	-	158,868	1,110,108
Unavailable revenue - court fines	955,631	-	-	-	955,631
Total deferred inflows of resources	1,906,871	-	-	158,868	2,065,739
FUND BALANCES					
Nonspendable					
Inventories	-	-	-	259,579	259,579
Prepaid items	85,379	-	-	-	85,379
Restricted for					
Debt service	-	-	-	6,634,959	6,634,959
Beach preservation	-	-	-	3,228,192	3,228,192
Capital projects	2,519,528	-	-	20,634,660	23,154,188
Grants	-	9,577,939	565,619	-	10,143,558
Tourism, convention and hotel industry					
Convention center operator	-	-	-	3,821,514	3,821,514
City of Galveston	-	-	-	2,815,873	2,815,873
Committed					
Emergency reserves	3,575,226	-	-	-	3,575,226
Governmental projects	-	-	-	1,633,932	1,633,932
Unassigned	13,706,159	-	-	(109,360)	13,596,799
Total fund balances	19,886,292	9,577,939	565,619	38,919,349	68,949,199
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 24,799,677	\$ 22,674,023	\$ 7,711,479	\$ 49,588,732	\$ 104,773,911

The Notes to the Basic Financial Statements
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Total fund balances - governmental funds \$ 68,949,199

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the statement of net position. The balance of capital assets, net of accumulated depreciation of \$107,719,945 was: 146,538,330

Certain other assets are not available to pay current period expenditures and therefore deferred in the fund financial statements, but are reported in the governmental activities of the statement of net position.

Property taxes receivable	1,110,108
Adjudicated municipal court fines	955,631
Long-term receivable from component unit	15,930,553

The assets and liabilities of certain internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position. 5,097,451

Some liabilities and deferred outflows of resources, (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 position.

Bonds payable	(58,824,238)
Capital lease obligation	(882,178)
Compensated absences	(7,724,658)
Accrued interest	(555,060)
Net pension asset	112,972
Net pension obligation	(2,842,578)
Loss on refunding of debt	389,806
Deferred bond issuance premium / discount	<u>(1,777,497)</u>

Net position of governmental activities \$ 166,477,841

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Hurricane Ike	CDBG Disaster Fund Non-housing	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 18,978,854	\$ -	\$ -	\$ 4,084,346	\$ 23,063,200
Sales and use taxes	15,169,565	-	-	11,308,192	26,477,757
Franchise fees	5,267,085	-	-	-	5,267,085
Licenses and permits	1,226,220	-	-	-	1,226,220
Fines and forfeitures	1,870,688	-	-	120,357	1,991,045
Charges for services	1,788,263	-	-	2,030,590	3,818,853
Investment earnings	49,082	-	-	52,771	101,853
Intergovernmental	164,678	6,888,599	23,396,511	10,300,634	40,750,422
Other	790,835	-	-	372,842	1,163,677
Total revenues	45,305,270	6,888,599	23,396,511	28,269,732	103,860,112
EXPENDITURES					
Current					
General government	5,838,537	819,198	-	223,983	6,881,718
Public safety	27,148,643	159,949	-	213,496	27,522,088
Highways and roads	3,121,134	586,504	-	-	3,707,638
Culture and recreation	2,049,038	9,825	-	7,042,347	9,101,210
Planning and community development	2,055,629	145,743	832,182	2,053,373	5,086,927
Transportation	850,000	143,480	-	4,569,440	5,562,920
Debt service					
Principal	1,443,680	-	-	4,586,829	6,030,509
Interest and fiscal charges	96,051	-	-	2,465,684	2,561,735
Capital outlay	2,084,327	5,738,396	22,759,912	4,395,064	34,977,699
Total expenditures	44,687,039	7,603,095	23,592,094	25,550,216	101,432,444
Excess (deficiency) of revenues over expenditures	618,231	(714,496)	(195,583)	2,719,516	2,427,668
OTHER FINANCING SOURCES (USES)					
Issuance of debt	1,071,675	-	-	-	1,071,675
Sales of assets	49,650	-	-	-	49,650
Transfers in	640,000	1,517,119	761,202	6,680,688	9,599,009
Transfers (out)	(1,230,159)	-	-	(6,772,122)	(8,002,281)
Total other financing sources (uses)	531,166	1,517,119	761,202	(91,434)	2,718,053
Net change in fund balances	1,149,397	802,623	565,619	2,628,082	5,145,721
FUND BALANCES, beginning of year	18,736,895	8,775,316	-	36,291,267	63,803,478
FUND BALANCES, end of year	\$ 19,886,292	\$ 9,577,939	\$ 565,619	\$ 38,919,349	\$ 68,949,199

The Notes to the Basic Financial Statements
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Net change in fund balances - total governmental funds	\$ 5,145,721
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	
<p>This is the amount by which capital outlay (\$9,034,373) exceeds depreciation (\$8,162,987) in the current period.</p>	871,386
<p>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 position differs from the change in fund balance by the cost of the asset sold.</p>	(15,715)
<p>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 repayments exceeded proceeds.</p>	
<p>Proceeds from capital lease</p>	(1,071,675)
<p>Repayment of bonds</p>	4,586,829
<p>Accretion on capital appreciation bonds, net</p>	126,474
<p>Amortization of bond premiums</p>	218,193
<p>Amortization of loss on refunding</p>	(38,248)
<p>Repayment on capital leases</p>	1,480,934
<p>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:</p>	
<p>Accrued interest on long-term debt</p>	9,282
<p>Compensated absences</p>	(73,029)
<p>Net pension obligation</p>	(1,141,621)
<p>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.</p>	607,976
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	<u>(2,436,369)</u>
<p>Change in net position of governmental activities</p>	<u><u>\$ 8,270,138</u></u>

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
REVENUES						
Property taxes	\$ 18,852,928	\$ 18,852,928	\$ 18,978,854	\$ -	\$ 18,978,854	\$ 125,926
Sales and use taxes	14,314,929	14,314,929	15,169,565	-	15,169,565	854,636
Franchise taxes	5,321,579	5,321,579	5,267,085	-	5,267,085	(54,494)
Licenses and permits	1,161,182	1,161,182	1,226,220	-	1,226,220	65,038
Intergovernmental	1,122,195	1,122,195	164,678	-	164,678	(957,517)
Charge for services	1,777,064	1,777,064	1,788,263	-	1,788,263	11,199
Fines and forfeitures	2,468,550	2,468,550	1,870,688	-	1,870,688	(597,862)
Investment earnings	78,552	78,552	49,082	(2)	49,080	(29,472)
Other	799,698	799,698	790,835	-	790,835	(8,863)
Total revenues	45,896,677	45,896,677	45,305,270	(2)	45,305,268	(591,409)
EXPENDITURES						
Current						
General government	6,037,113	5,838,537	5,838,537	-	5,838,537	-
Public safety	27,454,549	27,148,643	27,148,643	-	27,148,643	-
Public works	3,485,459	3,121,135	3,121,134	-	3,121,134	1
Culture and recreation	2,271,578	2,049,038	2,049,038	-	2,049,038	-
Planning and community development	2,198,731	2,055,629	2,055,629	-	2,055,629	-
Transportation	850,000	850,000	850,000	-	850,000	-
Vehicle capital outlay	1,450,001	3,241,837	2,084,327	-	2,084,327	1,157,510
Debt service	375,438	1,539,731	1,539,731	-	1,539,731	-
Total expenditures	44,122,869	45,844,550	44,687,039	-	44,687,039	1,157,511
Excess (deficiency) of revenues over expenditures	1,773,808	52,127	618,231	(2)	618,229	566,102
OTHER FINANCING SOURCES						
Issuance of debt	-	-	1,071,675	(1,071,675)	-	-
Sale of assets	230,740	230,740	49,650	-	49,650	(181,090)
Transfers in (out), net	(2,374,307)	(652,626)	(590,159)	-	(590,159)	62,467
Total other financing sources	(2,143,567)	(421,886)	531,166	(1,071,675)	(540,509)	(118,623)
Net change in fund balances	(369,759)	(369,759)	1,149,397	(1,071,677)	77,720	447,479
FUND BALANCE, beginning of year	18,736,895	18,736,895	18,736,895	(161,099)	18,575,796	(161,099)
FUND BALANCE, end of year	\$ 18,367,136	\$ 18,367,136	\$ 19,886,292	\$ (1,232,776)	\$ 18,653,516	\$ 286,380

The Notes to the Basic Financial Statements
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014**

	Business Type Activities - Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
ASSETS					
CURRENT ASSETS					
Cash and temporary investments	\$ 5,745,326	\$ 4,937,701	\$ 2,787,837	\$ 13,470,864	\$ 9,708,468
Accounts receivable, net of allowance for doubtful accounts	2,923,447	3,161,903	3,671,663	9,757,013	200,655
Due from other funds	-	29,250	91,499	120,749	-
Inventories	71,004	71,004	-	142,008	198,861
Prepaid expenses	-	-	547	547	327,986
Restricted assets					
Cash and investments	8,379,978	13,245,399	1,981,559	23,606,936	275,491
Total current assets	17,119,755	21,445,257	8,533,105	47,098,117	10,711,461
NON-CURRENT ASSETS					
Capital assets not being depreciated	5,910,969	77,481,263	9,051,594	92,443,826	-
Capital assets (net of depreciation)	97,415,136	44,992,290	18,899,562	161,306,988	5,552,244
Total non-current assets	103,326,105	122,473,553	27,951,156	253,750,814	5,552,244
Total assets	120,445,860	143,918,810	36,484,261	300,848,931	16,263,705
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	1,014,496	633,768	308,107	1,956,371	343,651
Accrued interest payable	393,521	436,228	-	829,749	62,041
Due to other governments	152,036	-	267,282	419,318	-
Due to other funds	41,298	205,358	183,498	430,154	238
Customer deposits	1,140,642	1,140,642	-	2,281,284	-
Unearned revenue	290,447	5,000	186,917	482,364	-
Long-term debt, current portion					
Compensated absences	22,000	40,000	52,000	114,000	-
Claims and judgments	-	-	-	-	184,108
Contracts payable	2,055,674	-	-	2,055,674	-
Notes payable	574,854	574,844	-	1,149,698	100,951
Bonds and certificates of obligation payable	1,836,224	1,652,076	-	3,488,300	101,700
Total current liabilities	7,521,192	4,687,916	997,804	13,206,912	792,689
NON-CURRENT LIABILITIES					
Long-term debt, noncurrent portion:					
Compensated absences	197,897	465,390	462,115	1,125,402	489,485
Claims and judgments	-	-	-	-	1,073,766
Contracts payable	22,423,895	-	-	22,423,895	3,080,617
Notes payable	386,895	386,895	-	773,790	835,582
Bonds and other long-term debt payable	19,764,194	24,362,720	-	44,126,914	2,883,921
Total non-current liabilities	42,772,881	25,215,005	462,115	68,450,001	8,363,371
Total liabilities	50,294,073	29,902,921	1,459,919	81,656,913	9,156,060
NET POSITION					
Net investment in capital assets	57,246,119	96,458,757	27,951,156	181,656,032	2,566,617
Restricted for debt service	3,271,301	4,577,346	158	7,848,805	275,491
Restricted for capital improvements	3,968,035	7,527,411	1,981,401	13,476,847	-
Unrestricted	5,666,332	5,452,375	5,091,627	16,210,334	4,265,537
Total net position	\$ 70,151,787	\$ 114,015,889	\$ 35,024,342	219,192,018	\$ 7,107,645

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 position.

	2,010,193
Total net position per government-wide financial statements	\$ 221,202,211

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Business Type Activities - Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES					
Charges for services	\$ 17,479,081	\$ 13,015,022	\$ 9,430,723	\$ 39,924,826	\$ 16,131,342
Miscellaneous	93,719	1,714	68,964	164,397	10,757
Total operating revenues	17,572,800	13,016,736	9,499,687	40,089,223	16,142,099
OPERATING EXPENSES					
Personnel services	1,794,870	3,772,818	3,933,464	9,501,152	3,203,337
Contractual services	1,148,350	1,613,872	2,163,306	4,925,528	1,087,165
Supplies and materials	872,690	1,425,040	204,446	2,502,176	3,310,969
Surface water contract	5,147,230	-	-	5,147,230	-
Insurance claims and premiums	-	-	-	-	7,787,339
Other expenses	449,823	487,538	514,062	1,451,423	819,956
Administration charge	637,138	388,869	300,342	1,326,349	-
Depreciation	4,536,320	2,622,255	1,421,824	8,580,399	348,538
Total operating expenses	14,586,421	10,310,392	8,537,444	33,434,257	16,557,304
Operating income	2,986,379	2,706,344	962,243	6,654,966	(415,205)
NON-OPERATING REVENUES (EXPENSES)					
Intergovernmental revenue	-	-	12,898	12,898	-
Interest and investment revenue	19,067	24,907	10,108	54,082	18,323
Insurance proceeds	-	-	-	-	58,398
Gain on disposal of capital assets	2,451	1,861	27,198	31,510	2,006
Interest expense	(871,985)	(1,117,663)	-	(1,989,648)	(193,870)
Other income	-	-	-	-	(25)
Total non-operating revenues (expenses)	(850,467)	(1,090,895)	50,204	(1,891,158)	(115,168)
Income before contributions and transfers	2,135,912	1,615,449	1,012,447	4,763,808	(530,373)
Capital contributions	890,732	25,157,951	1,075,114	27,123,797	-
Transfers in	-	-	-	-	941,533
Transfers out	(470,114)	(1,703,935)	(363,974)	(2,538,023)	(238)
Change in net position	2,556,530	25,069,465	1,723,587	29,349,582	410,922
NET POSITION, beginning of year - as restated	67,595,257	88,946,424	33,300,755	189,842,436	6,696,723
NET POSITION, end of year	<u>\$ 70,151,787</u>	<u>\$ 114,015,889</u>	<u>\$ 35,024,342</u>	<u>219,192,018</u>	<u>\$ 7,107,645</u>

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.

(197,055)

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

\$ 29,152,527

**CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Enterprise Fund			Governmental Activities	
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service
OPERATING ACTIVITIES					
Receipts from customers and users	\$ 16,926,108	\$ 13,347,269	\$ 8,875,538	\$ 39,148,915	\$ 16,215,990
Disbursed for personnel services	(1,750,596)	(3,758,594)	(3,917,481)	(9,426,671)	(3,175,261)
Disbursed for goods and services	(8,399,630)	(3,766,235)	(3,166,922)	(15,332,787)	(12,775,623)
Administrative service charge	(637,138)	(388,869)	(300,342)	(1,326,349)	-
Other operating revenues	93,719	1,714	-	95,433	-
Net cash provided by operating activities	6,232,463	5,435,285	1,490,793	13,158,541	265,106
NONCAPITAL FINANCING ACTIVITIES					
Interfund transfers in	-	-	-	-	941,533
Interfund transfers out	(470,114)	(1,703,935)	(344,045)	(2,518,094)	-
Insurance proceeds	-	-	-	-	58,398
Net cash (used in) noncapital financing activities	(470,114)	(1,703,935)	(344,045)	(2,518,094)	999,931
CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments for capital acquisitions (net of sales)	(2,232,818)	(3,866,485)	(1,154,783)	(7,254,086)	(119,967)
Proceeds from sale of capital assets	2,451	1,861	-	4,312	2,005
Principal payments on debt - bonds	(1,064,761)	(1,593,039)	-	(2,657,800)	(96,060)
Principal payments on debt - long term contracts	(2,770,674)	-	-	(2,770,674)	-
Principal payments on debt - capital leases	(557,918)	(557,917)	-	(1,115,835)	(96,890)
Interest paid on revenue bonds and long term contracts	(883,090)	(1,060,167)	-	(1,943,257)	(151,308)
Interest paid on capital leases and notes payable	-	(39,352)	-	(39,352)	(42,864)
Contributed capital	890,732	-	-	890,732	-
Net cash (used in) capital and related financing activities	(6,616,078)	(7,115,099)	(1,154,783)	(14,885,960)	(505,084)
INVESTING ACTIVITIES					
Interest on investments	19,067	24,907	10,108	54,082	18,323
Net cash provided by investing activities	19,067	24,907	10,108	54,082	18,323
Net increase (decrease) in cash and cash equivalents	(834,662)	(3,358,842)	2,073	(4,191,431)	778,276
CASH AND CASH EQUIVALENTS, beginning of year	14,959,966	21,541,942	4,767,323	41,269,231	9,205,683
CASH AND CASH EQUIVALENTS, end of year	\$ 14,125,304	\$ 18,183,100	\$ 4,769,396	\$ 37,077,800	\$ 9,983,959

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

	Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 2,986,379	\$ 2,706,344	\$ 962,243	\$ 6,654,966	\$ (415,205)
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	4,536,320	2,622,255	1,421,824	8,580,399	348,538
(Increase) decrease in accounts receivable	251,729	(143,963)	(642,935)	(535,169)	73,891
(Increase) decrease in due from other funds	-	239,023	163,569	402,592	-
(Increase) decrease in inventory and prepaid expenses	(10,670)	(10,670)	62	(21,278)	(32,872)
(Increase) decrease in deferred charges	(834,017)	-	-	(834,017)	-
Increase (decrease) in unearned revenue	-	2,510	18,786	21,296	-
Increase (decrease) in accounts payable	(770,867)	(229,115)	(448,739)	(1,448,721)	262,678
Increase (decrease) in due to other funds	-	205,358	-	205,358	-
Increase (decrease) in salaries payable	15,857	1,512	18,574	35,943	-
Increase (decrease) in customer deposits	29,315	29,316	-	58,631	-
Increase (decrease) in compensated absences payable	28,417	12,715	(2,591)	38,541	28,076
Net cash provided by operating activities	\$ 6,232,463	\$ 5,435,285	\$ 1,490,793	\$ 13,158,541	\$ 265,106
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Contributed capital	\$ -	\$ 25,157,951	\$ 336,266	\$ 25,494,217	\$ -
Net noncash transactions	\$ -	\$ 25,157,951	\$ 336,266	\$ 25,494,217	\$ -
Reconciliation of cash to statement of net position					
Unrestricted cash and equivalents	\$ 5,745,326	\$ 4,937,701	\$ 2,787,837	\$ 13,470,864	\$ 9,708,468
Restricted cash and equivalents	8,379,978	13,245,399	1,981,559	23,606,936	275,491
CASH AND CASH EQUIVALENTS	\$ 14,125,304	\$ 18,183,100	\$ 4,769,396	\$ 37,077,800	\$ 9,983,959

The Notes to the Basic Financial Statements
are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2014**

	Pension Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 1,646,319	\$ 1,361,907
Receivables		
Interest and dividends	139,007	-
Loans to participants	172,988	-
	311,995	-
Total receivables		
Investments		
Money market funds	923,075	-
U.S. government securities	1,201,114	-
Bonds	3,008,181	-
Common stock	44,297,210	-
Mutual funds (equity funds)	20,959,416	-
Bond mutual funds	31,349,315	-
Alternative investments	3,932,982	-
	105,671,293	-
Total investments		
Prepaid benefits	-	-
	-	-
TOTAL ASSETS	\$ 107,629,607	\$ 1,361,907
LIABILITIES		
Accounts payable	\$ 50,288	\$ 5,060
Refunds payable and others	-	1,356,847
	50,288	1,361,907
TOTAL LIABILITIES	50,288	\$ 1,361,907
NET POSITION		
Held in trust for benefits and other purposes	\$ 107,579,319	

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Pension Trust Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 3,643,427
Plan members	<u>3,243,915</u>
Total contributions	6,887,342
Investment earnings	
Net increase in fair value of investments	13,059,628
Interest	867,613
Dividends	1,534,780
Investment activity expense	<u>(515,951)</u>
Total net investment earnings	14,946,070
Other Additions	
Miscellaneous	<u>1,830</u>
Total additions - investments and contributions	21,835,242
DEDUCTIONS	
Benefits	10,619,867
Employee contribution refunds	310,852
Administrative	<u>340,948</u>
Total deductions	<u>11,271,667</u>
Change in net position	10,563,575
NET POSITION, beginning of year	<u>97,015,744</u>
NET POSITION, end of year	<u><u>\$ 107,579,319</u></u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC 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. Financial Reporting Entity

As required by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, 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. The aggregate governmental and business-type discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are 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 the 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Blended Component Units Reported with the Primary Government – Continued

Pension Funds

The City of Galveston Employee's Retirement Plan for City Employees, Galveston Firefighters' Pension 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, 2013.

Discretely Presented Component Units

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

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

The Park Board of Trustees of the City of Galveston, Texas

The Park Board of Trustees of the City of Galveston, Texas, (the Park Board), was created by 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, Texas
601 Tremont, Suite 200
Galveston, Texas 77550

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Discretely Presented Component Units – Continued

Galveston Island Redevelopment Authority

Galveston Island Redevelopment Authority (GIRA) 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 GIRA 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 GIRA) and separate audited reports are available. Complete financial statements for the GIRA may be obtained at the following address:

Galveston Island Redevelopment Authority
1011 Tremont Street
Galveston, Texas 77550

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 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Discretely Presented Component Units – Continued

Public Improvement District – Beachside Village

Beachside Village Public Improvement District was established by the City on February 11, 2010 to provide funds for street drainage and utility public improvement projects, specifically in Beachside Village Public Improvement District. The GIRA has an agreement with Kahala Development, Limited Partnership, which details the responsibilities between all parties, including the City. Each year, following the levy and collection of assessments levied against property within the district, the City shall transfer the amount to GIRA. These funds are used by GIRA to pay the administrative costs and to reimburse Kahala Development for the costs of constructing 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

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Financial Reporting Entity – Continued

Discretely Presented Component Units – Continued

The Board of Trustees of the Galveston Wharves

The Board of Trustees of the Galveston Wharves (Galveston Wharves) was created by the City Charter on October 17, 1940 to manage, control, and maintain the 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 wharves. The Galveston Wharves financial records are the board's responsibility.

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

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

Related Organizations and Jointly Governed Organizations

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

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. Non-major funds are aggregated and presented in a single column in the appropriate governmental fund and proprietary fund statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This statement provides guidance on accounting and financial reporting for business-type and enterprise fund activities. In accordance with GASB 62, the City applies post November 30, 1989 Financial Accounting Standards Board (FASB) pronouncements that do not conflict with other GASB pronouncements.

C. Measurement Focus/Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus/Basis of Accounting – Continued

The government reports the following major governmental funds:

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

The **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.

CDBG Disaster Recovery Non-housing are made available from 2008 Supplemental Community Development Block Grant funding associated with the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, (Public Law 110-329) appropriated by Congress through the United States Department of Housing and Urban Development. Projects included in the funding are for waste water treatment plant, sewer lift station, water systems, historic building front preservation, economic development loans, fire station #4 and fire apparatus.

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus/Basis of Accounting – Continued

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These include the following:

The **Pension Trust Funds** account for the activities of the City Employees Retirement Plan, the Galveston Firefighters' Pension 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. This fund is custodial in nature and does not involve measurement of results of operations. Agency funds include fibercrete maintenance funds, cemetery trust funds, confiscated monies pending disposition, etc.

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.

D. Cash and Investments

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

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Cash and Investments – Continued

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.

E. 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 46.0% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 24.0% 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.

F. 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, 2014, are recorded as prepaid items.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. 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 are 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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, Equipment or Intangible Type</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 75 years
Improvements	5 - 50 years
Equipment	2 - 40 years
Sewer plants	50 - 75 years
Sewer lines	40 - 75 years
Water plants, wells and hydrants	50 - 75 years
Water tanks and valves	50 years
Water meters	10 years
Infrastructure	5 - 75 years
Contractual water rights	10 - 30 years

H. 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.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Long-Term Obligations

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

The government-wide financial statements and proprietary fund type fund financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. 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.

J. Fund Balances and Net Position

The governmental fund financial statements of the City will present fund balances based on classifications including a hierarchy that is based primarily on the extent to which the City is bound to honor restrictions on the specific purposes for which amounts in a particular governmental fund can be spent. The five classifications used in the governmental fund financial statements will be as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. These amounts would include inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. These guidelines are used for restricted net position.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. Fund Balances and Net Position – Continued

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal resolution of the City Council, which has the highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The action must be taken by close of the reporting period. The amount of the commitment can be determined and approved by the City Council at a later date.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or by the City Council's designee, pursuant to the City's fund balance policy. At September 30, 2014, the City had no assigned fund balance amounts.

Unassigned: This classification includes the residual fund balance for the General Fund. The general fund should be the only fund that reports a positive unassigned fund balance.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications are available.

K. 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. 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 September 30, 2014:

	<u>Business Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Waterworks System</u>	<u>Sewer System</u>	<u>Other Enterprise Funds</u>	
Restricted for:				
Debt service	\$ 3,271,301	\$ 4,577,346	\$ 158	\$ 7,848,805
Capital projects	3,968,035	7,527,411	1,981,401	13,476,847
Meter deposits	1,140,642	1,140,642	-	2,281,284
	<u>\$ 8,379,978</u>	<u>\$ 13,245,399</u>	<u>\$ 1,981,559</u>	<u>\$ 23,606,936</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

L. 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.

M. 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, Rosenberg Library and Parks and Recreation Improvement 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 funds 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 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 no budget amendments during FY 2014. Total appropriations did not increase. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Legal Compliance – Budgets – Continued

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 City Council approval, to transfer appropriation balances from one expenditure account to another, inclusive within a single office, department or agency of the City.

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

N. 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	Unbudgeted Funds	Sub-Funds	Budgeted Transfer to Reserves	
Revenues	\$ 45,305,268	\$ -	\$ 2	\$ -	\$ 45,305,270
Expenditures	44,687,039	-	-	-	44,687,039
Revenues over expenditures	618,229	-	2	-	618,231
Other financing sources	(540,509)	-	1,071,675	-	531,166
Net change in fund balance	77,720	-	1,071,677	-	1,149,397
Fund balance, beginning of year	18,575,796	-	161,099	-	18,736,895
Fund balance, end of year	\$ 18,653,516	\$ -	\$ 1,232,776	\$ -	\$ 19,886,292

O. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

P. Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position and/or the Governmental Funds Balance Sheet will possibly report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that time. The City currently has three items, which arise under the modified and accrual basis of accounting that qualify for reporting in this category. Accordingly, unavailable property taxes and court fines are reported in the Governmental Funds Balance Sheet. The governmental funds will recognize unavailable property taxes and court fines as inflows of resources in the period in which the amounts become available. The City also reports deferred losses on refunding of a discretely presented business-type component unit as a deferred inflow of resources on the Statement of Net Position. This item represents the difference in the carrying value of the refunded debt and its reacquisition price and is deferred and amortized as a component of interest expense over the shorter of the life of the refunded or refunding debt.

Q. Deferred Outflows of Resources

In addition to assets, the Statement of Net Position and/or the Governmental Funds Balance Sheet will possibly report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to a future period and therefore will not be recognized as an outflow of resources (expense/expenditure) until that time. The City currently has one item, which arises only under the accrual basis of accounting that qualifies for reporting in this category. Accordingly, the deferred loss on issuance of refunding bonds is reported only in the Statement of Net Position. This item represents the difference in the carrying value of the refunded debt and its reacquisition price and is deferred and amortized as a component of interest expense over the shorter of the life of the refunded or refunding debt.

R. New Accounting Pronouncements and Restatements

Effective October 1, 2013, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in financial statement presentations. The requirements of GASB 65 caused the City to restate prior year net positions and change in net positions by the amount of unamortized debt issuance costs. GASB 65 requires that such costs be expensed in the period incurred rather than amortized over the life of the debt.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

R. New Accounting Pronouncements and Restatements – Continued

Additionally, subsequent to September 30, 2013, the City determined that beginning net position will be adjusted to correct an error related to improper recognition of insurance proceeds received as a result of Hurricane Ike. The following table provides a fund level reconciliation of net position at September 30, 2013, as previously reported to net position as September 30, 2013 as restated:

	Primary Government		Component
	Governmental Activities	Business-type Activities	Units Business-type Activities
Net position, beginning of period			
- as previously reported	\$ 159,233,156	\$ 195,884,215	\$ 117,036,166
Reduction of unamortized bond issue costs	(840,957)	(1,596,012)	(811,169)
Improper revenue recognition	(184,496)	(2,238,519)	-
Net position, beginning of period			
- as restated	<u>\$ 158,207,703</u>	<u>\$ 192,049,684</u>	<u>\$ 116,224,997</u>

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27* (GASB 68). This statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The City will adopt GASB 68 in the fiscal year ending September 30, 2015 and is currently evaluating the impact of this standard on its financial statements.

The GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* (GASB 71). This statement, among other things, amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows or resourced related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this statement are required to be applied simultaneously with the provisions of GASB 68. The City will adopt GASB 71 in fiscal year ending September 30, 2015 and is currently evaluating the impact of this standard on its financial statements.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

Credit Risk. The primary stated objective of the City of Galveston's adopted Investment Policy (the 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 U.S. Securities and Exchange Commission (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 U.S. Government, its agencies or instrumentalities. State law and the Investment Policy restricts both time and demand deposits, including certificates of deposit, to those banks doing business in the State of Texas and further requires full insurance and/or collateral from these depositories.

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 U.S. Government, its agencies or instrumentalities and municipal obligations rated no less than AA or equivalent by two nationally recognized rating agencies. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are monitored and priced at market on a daily basis as a contractual responsibility of the bank.

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

The 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.

The City invests in TexPool, which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of the State Comptroller and other members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

The City also invests in Texas Daily and Texas Term Certificate of Deposit Purchase Program which are individual investment portfolios established by the TexTerm Advisory Board pursuant to the TexTerm Common Investment Contract that established the Pool. Texas Daily and Texas Term Certificate of Deposit Purchase Program are local government investment portfolios that allow governments to pool their funds for investment under the provisions of the Inter Local Cooperation Act, Chapter 791 of the Texas Government Code, the PFIA and other similar cooperative statutes and under the statutes governing investment of funds by those local governments. TexTerm is directed by an advisory board of experienced local government officials, finance directors and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. The City’s investment in these pools are the same as the value of the pool shares, which are valued based on quoted market rates.

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, 2014,

- Investments in AAA-rated local government investment pools represented 68.4% of the total portfolio, and
- Holdings in a rated money market mutual fund represented 9.0% of the total portfolio.
- Holdings in US Government securities rated AAA represented 22.6% of the total portfolio.

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:

U.S. Treasury Obligations	100%
U.S. Agency / Instrumentality Obligations	80%
SEC Registered Money Market Funds	50%
Repurchase Agreements	100%
Flex Repurchase (Bond Funds)	100%
Municipal Securities	20%
Local Government Investment Pools	100%
Participation per pool	10% of pool
Commercial Paper	35%
Limit per issuer	10%
Collateralized or FDIC Insured Certificates of Deposit	50%
NOW Accounts	100%

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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'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 investment 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 below.

Investment Type	Investment Maturities in Years	Investment Maturities in Years
	Less than 1 year	1 - 5 years
U.S. Treasury Notes and Bills	\$ -	\$ 19,999,456
U.S. Agency Securities:		
Federal Home Loan Bank	-	3,133,861
2A-7 like Local Government Pools	51,751,915	18,217,000
SEC Registered Money Market Fund	9,248,948	-
Total	\$ 61,000,863	\$ 41,350,317

As of September 30, 2014, the portfolio contained:

- No holding in the portfolio had a stated maturity date beyond 30 months, and
- the dollar weighted average of the total combined portfolios was 271 days.

As of September 30, 2014, the portfolio contained U.S. Treasury and Agency securities as shown below.

Security	Par	Purchase Date	Maturity Date	Cusip	Market Value
Discretely callable securities:					
U.S. Treasury N/B	\$ 2,000,000	6/11/2014	3/31/2016	912828C40	\$ 2,005,188
U.S. Treasury N/B	1,000,000	5/22/2014	4/30/2016	912828C81	1,003,025
U.S. Treasury N/B	2,000,000	5/22/2014	4/30/2016	912828C81	2,006,049
U.S. Treasury N/B	5,300,000	6/11/2014	10/31/2015	912828PE4	5,388,463
U.S. Treasury N/B	2,000,000	6/11/2014	12/31/2015	912828PM6	2,061,968
U.S. Treasury N/B	2,000,000	6/11/2014	12/31/2016	912828RX0	2,014,194
U.S. Treasury N/B	1,000,000	5/22/2014	5/15/2017	912828WH9	1,005,139
U.S. Treasury N/B	2,000,000	5/22/2014	5/15/2017	912828WH9	2,010,278
U.S. Treasury N/B	1,500,000	6/11/2014	5/15/2017	912828WH9	1,503,656
U.S. Treasury N/B	1,000,000	6/11/2014	5/31/2016	912828WM8	1,001,496
FHLMC Notes	2,000,000	5/22/2014	5/27/2016	3137EACT4	2,089,241
FHLMC Notes	1,000,000	5/22/2014	5/27/2016	3137EACT4	1,044,620
	\$ 22,800,000				\$ 23,133,317

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Custodial Credit Risk. To control custody and safekeeping risk, the City's investment policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held in the City's name by an independent party. 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 (U.S. Financial Institutions Reform, Recovery and Enforcement Act of 1989). The counter-party of each type of transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

Portfolio disclosure as of September 30, 2014:

- 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 7.0% 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, 2014, was \$0.55400. The tax rate to finance general governmental services was set at \$0.5051 and the tax rate for all other purposes, including debt service, was set at \$0.0489 per \$100 of assessed valuation.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. SALES TAX

The City's sales tax rate is 2.0% for the year ended September 30, 2014. 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 by an amount equal to 25.0% of the 2.0% sales tax collected in the prior year. This 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 \$4.8 million in fiscal year 2014. The total maximum allowable tax rate of \$0.70 was thus limited to \$0.59 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 sales tax collections, 75.0% is allocated to the General Fund and 25.0% to the IDC fund. On November 4, 2008, the voters extended the offset amount for the IDC fund for 20 years, to expire on April 1, 2029. Effective through March 31, 2029, the IDC fund collections are allocated as follows: 25.0% for beach re-nourishment, 25.0% for streets, sewer and drainage improvement projects, 25.0% for economic development, and 25.0% delegated to park improvements.

NOTE 5. ACCOUNTS RECEIVABLE

Receivables, as of September 30, 2014, for the City's individual major and non-major funds and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds				Total
	General	Hurricane Ike	CDBG Disaster Fund Non-Housing	Non-major Governmental Funds	
Receivables:					
Property taxes	\$ 1,769,022	\$ -	\$ -	\$ 258,678	\$ 2,027,700
Sales taxes	2,670,961	-	-	890,320	3,561,281
Franchise taxes	711,871	-	-	-	711,871
Hotel taxes	-	-	-	2,036,232	2,036,232
Court fines	3,889,954	-	-	-	3,889,954
Customer accounts	394,084	-	-	1,202,064	1,596,148
Intergovernmental	190,549	8,294,421	7,711,479	4,870,466	21,066,915
Other	588,398	-	-	263,398	851,796
Gross receivables	10,214,839	8,294,421	7,711,479	9,521,158	35,741,897
Less: allowance for uncollectibles	(3,540,748)	-	-	(99,809)	(3,640,557)
Net total receivables	<u>\$ 6,674,091</u>	<u>\$ 8,294,421</u>	<u>\$ 7,711,479</u>	<u>\$ 9,421,349</u>	<u>\$ 32,101,340</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. ACCOUNTS RECEIVABLE – CONTINUED

	Business Type Activities - Enterprise Funds					Total All Funds
	Water	Sewer	Non-major Enterprise Funds	Internal Service Funds	Total	
Receivables:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,027,700
Sales taxes	-	-	-	-	-	3,561,281
Franchise taxes	-	-	-	-	-	711,871
Hotel taxes	-	-	-	-	-	2,036,232
Court fines	-	-	-	-	-	3,889,954
Customer accounts	3,415,476	4,747,116	4,608,294	-	12,770,886	14,367,034
Intergovernmental	-	-	-	-	-	21,066,915
Other	-	-	-	200,655	200,655	1,052,451
Gross receivables	3,415,476	4,747,116	4,608,294	200,655	12,971,541	48,713,438
Less: allowance for uncollectibles	(492,029)	(1,585,213)	(936,631)	-	(3,013,873)	(6,654,430)
Net total receivables	<u>\$ 2,923,447</u>	<u>\$ 3,161,903</u>	<u>\$ 3,671,663</u>	<u>\$ 200,655</u>	<u>\$ 9,957,668</u>	<u>\$ 42,059,008</u>

NOTE 6. INTERFUND BALANCES AND ACTIVITIES

Interfund transfers for the primary government are as follows for the year ended September 30, 2014:

Transfer Out Fund	Transfer In Fund					Totals
	General Fund	Hurricane Ike Fund	CDBG Disaster Fund Non-housing	Non-Major Governmental Funds	Internal Service Funds	
General fund	\$ -	\$ 332,234	\$ -	\$ 170,000	\$ 727,925	\$ 1,230,159
Non-major governmental funds	40,000	610,880	-	6,121,242	-	6,772,122
Waterworks system	200,000	13,855	-	194,723	61,536	470,114
Sewer system	200,000	469,719	761,202	194,723	78,291	1,703,935
Non-major enterprise funds	200,000	90,193	-	-	73,781	363,974
Internal service funds	-	238	-	-	-	238
Totals	<u>\$ 640,000</u>	<u>\$ 1,517,119</u>	<u>\$ 761,202</u>	<u>\$ 6,680,688</u>	<u>\$ 941,533</u>	<u>\$ 10,540,542</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. INTERFUND BALANCES AND ACTIVITIES – CONTINUED

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	Non-major Governmental Funds	To transfer for neighborhood improvement projects
General Fund	Hurricane Ike	To transfer for local project share
General Fund	Internal Service Fund	To transfer for cost of separation pay
Non-major Governmental Funds	General Fund	To transfer for hotel tax
Non-major Governmental Funds	Hurricane Ike	To transfer for local project share
Non-major Governmental Funds	Non-major Governmental Funds	To transfer for hotel tax
Waterworks system	General Fund	To transfer payment in lieu of taxes
Waterworks system	Hurricane Ike	To transfer for local project share
Waterworks system	Non-major Governmental Funds	To transfer for debt service payments
Waterworks system	Internal service funds	To transfer for cost of separation pay
Sewer system	General Fund	To transfer payment in lieu of taxes
Sewer system	Hurricane Ike	To transfer for local project share
Sewer system	CDBG Disaster Fund Non-housing	To transfer for local project share
Sewer system	Non-major Governmental Funds	To transfer for debt service payments
Sewer system	Internal Service Fund	To transfer for cost of separation pay
Non-major Enterprise Fund	Hurricane Ike	To transfer for local project share
Non-major Enterprise Fund	Internal Service Fund	To transfer for cost of separation pay

The following is a detail of inter-fund receivables / payables for the primary government as of September 30, 2014:

Payable Funds: Due to	Receivable Funds: Due From			Totals
	Hurricane Ike Fund	Sewer Fund	Non-Major Enterprise Funds	
Governmentals:				
General fund	\$ 132,234	\$ -	\$ -	\$ 132,234
Non-major governmental funds	110,880	-	-	110,880
Water fund	13,855	27,443	-	41,298
Sewer fund	205,358	-	-	205,358
Non-major enterprise funds	90,193	1,807	91,499	183,499
Internal service funds	238	-	-	238
	<u>\$ 552,758</u>	<u>\$ 29,250</u>	<u>\$ 91,499</u>	<u>\$ 673,507</u>

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. INTERFUND BALANCES AND ACTIVITIES – CONTINUED

The following is a detail of inter-fund receivables / payables:

Due to	Due from	Purpose
General Fund	Hurricane Ike Fund	To adjust local share overpayment
Non-major Governmental Funds	Hurricane Ike Fund	To adjust local share overpayment
Non-major Governmental Funds	General Fund	Reclassification of deficit cash
Non-major Governmental Funds	Waterworks Fund	To fund land swap
Waterworks Fund	Hurricane Ike Fund	To adjust local share overpayment
Waterworks Fund	Sewer Fund	To fund capital projects
Sewer Fund	Hurricane Ike Fund	To adjust local share overpayment
Non-major Enterprise Fund	Hurricane Ike Fund	To adjust local share overpayment
Non-major Enterprise Fund	Sewer Fund	To fund capital projects
Non-major Enterprise Fund	Non-major Enterprise Fund	To fund capital projects
Internal Service Fund	Hurricane Ike Fund	To adjust local share overpayment

NOTE 7. CAPITAL ASSETS

The following is a detail of capital asset activity for the year ended September 30, 2014:

	Beginning Balance	Increases	Decreases / Transfers	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 20,013,022	\$ -	\$ -	\$ 20,013,022
Construction in progress	14,241,082	5,865,194	(944,215)	19,162,061
Total capital assets not being depreciated	<u>34,254,104</u>	<u>5,865,194</u>	<u>(944,215)</u>	<u>39,175,083</u>
Capital assets being depreciated				
Buildings and improvements	48,908,788	14,539	-	48,923,327
Improvements other than buildings	6,144,858	-	13,918	6,158,776
Machinery and equipment	14,910,588	198,867	(69,891)	15,039,564
Licensed vehicles	18,989,645	1,909,484	(560,797)	20,338,332
Infrastructure	131,161,709	1,166,256	930,297	133,258,262
Total capital assets being depreciated	<u>220,115,588</u>	<u>3,289,146</u>	<u>313,527</u>	<u>223,718,261</u>
Less accumulated depreciation				
Buildings and improvements	(11,139,972)	(1,091,120)	-	(12,231,092)
Improvements other than buildings	(4,354,282)	(214,927)	-	(4,569,209)
Machinery and equipment	(9,282,409)	(1,298,358)	67,673	(10,513,094)
Licensed vehicles	(9,182,354)	(2,209,767)	547,300	(10,844,821)
Infrastructure	(68,947,201)	(3,697,353)	-	(72,644,554)
Total accumulated depreciation	<u>(102,906,218)</u>	<u>(8,511,525)</u>	<u>614,973</u>	<u>(110,802,770)</u>
Total capital assets being depreciated, net	<u>117,209,370</u>	<u>(5,222,379)</u>	<u>928,500</u>	<u>112,915,491</u>
Governmental activities capital assets, net	<u>\$ 151,463,474</u>	<u>\$ 642,815</u>	<u>\$ (15,715)</u>	<u>\$ 152,090,574</u>

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Decreases / Transfers	Ending Balance
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 2,489,331	\$ -	\$ -	\$ 2,489,331
Construction in progress	71,590,945	32,488,470	(14,124,920)	89,954,495
Total capital assets not being depreciated	74,080,276	32,488,470	(14,124,920)	92,443,826
Capital assets being depreciated				
Buildings and system	66,756,694	-	19,687	66,776,381
Improvements other than buildings	136,546,394	137,356	13,830,314	150,514,064
Machinery and equipment	21,271,240	861,561	(63,539)	22,069,262
Contractual water rights	32,531,140	-	(94,839)	32,436,301
Total capital assets being depreciated	257,105,468	998,917	13,691,623	271,796,008
Less accumulated depreciation:				
Buildings and system	(21,157,426)	(1,506,114)	-	(22,663,540)
Improvements other than buildings	(52,460,053)	(3,744,597)	-	(56,204,650)
Machinery and equipment	(13,982,562)	(1,360,732)	318,612	(15,024,682)
Contractual water rights	(14,627,192)	(1,968,956)	-	(16,596,148)
Total accumulated depreciation	(102,227,233)	(8,580,399)	318,612	(110,489,020)
Total capital assets being depreciated, net	154,878,235	(7,581,482)	14,010,235	161,306,988
Business-type activities capital assets, net	<u>\$ 228,958,511</u>	<u>\$ 24,906,988</u>	<u>\$ (114,685)</u>	<u>\$ 253,750,814</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. CAPITAL ASSETS – CONTINUED

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

Governmental activities		
General government	\$	116,211
Public safety		1,683,717
Public works		2,728,066
Community and recreation		2,143,345
Planning and community development		161,041
Transportation system		1,330,606
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		348,539
Total depreciation expense - governmental activities	<u>\$</u>	<u>8,511,525</u>
Business-type activities		
Waterworks	\$	4,536,320
Sewer system		2,622,255
Sanitation		351,461
Drainage		415,739
Airport		654,624
Total depreciation expense - business-type activities	<u>\$</u>	<u>8,580,399</u>

Construction in progress and remaining commitment, as of September 30, 2014, were as follows:

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to Date</u>	<u>Remaining Commitment</u>
Island Transit Maintenance Facility - Design	\$ 12,136,362	\$ 5,303,180	\$ 6,833,182
Various Other Projects	9,407,646	4,990,852	4,416,794
Garten Verein Project	1,403,559	1,403,559	-
IDC Projects	1,036,143	983,847	52,296
Infrastructure Projects	878,161	878,161	-
Island Transit Downtown Terminal	7,477,600	1,179,146	6,298,454
Fire Station #4	3,823,556	2,890,843	932,713
Seawall Beautification	2,164,010	534,655	1,629,355
New Freedom Grant Project	1,192,285	327,888	864,397
Trolley	776,549	617,362	159,187
Garten Verein HVAC	67,290	52,568	14,722
	<u>\$ 40,363,161</u>	<u>\$ 19,162,061</u>	<u>\$ 21,201,100</u>

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. CAPITAL ASSETS – CONTINUED

Business-Type Activities	9/30/2014 Project Authorization	9/30/2014 Project Cost to Date	9/30/2014 Remaining Commitment
Construction in Progress			
Waterworks System Fund Projects			
Fire Hydrant Replacement Program	\$ 1,679,748	\$ 1,440,928	\$ 238,820
Water Well Rehab #9,11,12	473,425	473,425	-
Water Well Rehab #6a,10,13	720,934	20,934	700,000
HMPG-59th Street Pump Station	1,978,960	1,200,934	778,026
UTMB Elevated Storage Tank	167,232	155,098	12,134
Various Water Projects	1,933,619	1,933,619	-
Sewer System Fund Projects			
Construction of Main Waste Water Treatment Plant	87,177,057	61,682,990	25,494,067
Sanitation Sewer Lift Station I	2,581,133	2,514,263	66,870
Design of Near West End Unserved Areas	700,411	649,598	50,813
Design of Far West End Unserved Areas	612,149	612,119	30
Repair of Various Lift Stations	7,805,544	6,771,067	1,034,477
Design of Upgrade and Expansion of Main Wastewater Treatment Plant	655,682	655,679	3
Sanitation Rehab @ S. Broadway	1,194,725	706,911	487,814
Inflow & Infiltration Line Repairs	2,025,597	990,114	1,035,483
Harborside Dr. 77th / I-45 @ Rail Track	385,069	80,532	304,537
Various Sewer Projects	2,498,071	2,245,453	252,618
Sanitation Fund Projects			
Repair of Sanitation Barn	39,832	39,832	-
Drainage Fund Projects			
Engineering Report for the Area from English Bayou to 34th Street Drainage Master Plan	847,020	756,386	90,634
Harborside Drive Outfall	303,458	15,072	288,386
Drainage, milling & paving of 51st St.	402,172	367,009	35,163
Various Drainage Projects	1,722,103	1,575,479	146,624
Airport Fund Projects			
Design of North and South Hangar Access Taxiways	778,669	751,769	26,900
Construction for Drainage Phase II Near Taxiway Storm Lines	2,906,734	2,865,416	41,318
Reconstruction of Tarmac 1212GVSTN	1,320,351	1,100,626	219,725
Various Airport Projects	356,876	349,242	7,634
Totals	\$ 121,266,571	\$ 89,954,495	\$ 31,312,076

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT

Governmental Activities

Long-term liability activity for the year ended September 30, 2014, is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
Primary Government					
General obligation bonds	\$ 17,753,755	\$ -	\$ (1,281,829)	\$ 16,471,926	\$ 1,276,926
Accretion on capital interest bonds	2,604,235	-	(126,474)	2,477,761	-
Special obligation bonds	26,690,000	-	(730,000)	25,960,000	760,000
Certificates of obligation	19,572,372	-	(2,672,200)	16,900,172	2,746,700
Capital leases	1,291,437	1,071,675	(1,480,934)	882,178	232,502
Notes payable	1,033,423	-	(96,890)	936,533	100,951
Accrued compensated absences	8,113,038	728,932	(627,827)	8,214,143	347,056
Claims payable-workers comp	819,369	509,388	(557,721)	771,036	586,928
Claims payable-health insurance	380,796	3,627,457	(3,521,415)	486,838	486,838
Deferred bond issuance discount/premium	1,995,690	-	(218,193)	1,777,497	-
Other post employment benefit liability	2,607,195	473,422	-	3,080,617	-
Net pension obligation	1,932,406	3,669,176	(2,759,004)	2,842,578	-
Total primary government	84,793,716	10,080,050	(14,072,487)	80,801,279	6,537,901
Discretely presented component units					
Special obligation bonds	465,000	-	(105,000)	360,000	115,000
Capital leases	298,319	551,030	(335,325)	514,024	330,389
Notes payable	7,474,904	-	(878,929)	6,595,975	800,968
Accrued interest	9,102	9,777	(8,193)	10,686	10,686
Accrued compensated absences	178,281	15,434	(21,716)	171,999	-
Due to developer	10,022,051	5,592,120	-	15,614,171	-
Total discretely presented component units	18,447,657	6,168,361	(1,349,163)	23,266,855	1,257,043
Total reporting entity	\$ 103,241,373	\$ 16,248,411	\$ (15,421,650)	\$ 104,068,134	\$ 7,794,944

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

The City sponsors three (3) single-employer defined benefit pension plans: the Employees Retirement Plan for Police, the Retirement Plan for City Employees and the Firefighters' Pension Plan. The City recognizes annual pension cost equal to the annual required contribution, net of employee contributions.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

If actual City funding is less than (or greater than) the annual pension cost, the City recognizes a liability (or asset) on its balance sheet referred to as the net pension obligation. The liability is calculated as the sum of three components:

- Cumulative difference between net employer annual pension cost and actual contributions.
- Interest on the net pension obligation at the rate assumed for the actuarial valuation.
- Adjustment for amortization of any funding shortfall already included in the annual required contribution.

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

Primary Government:

General Obligation Bonds

<p>\$13,275,102 - Series 2001 Obligation and Refunding bonds, due in annual installments of \$503,351 to \$441,927 May 2013 through May 2015; interest at 5.2% to 5.4%. A portion of the bonds were capital appreciation bonds. The original principal amount on the bonds are \$2,506,109. Accreted interest of \$445,041 is included in the long-term debt.</p>	<p>\$ 886,967</p>
<p>\$9,462,818 - Series 2005 Obligation and Refunding bonds, due in annual installments of \$485,000 to \$1,235,000 May 2013 through May 2023; interest at 3.8% to 4.1%.</p>	<p>6,210,000</p>
<p>\$3,050,000 - Series 2005 Unlimited Tax and Water and Sewer bonds, formerly issued by Municipal Utility District 29, abolished by the City, due in annual installments of \$215,000 to \$280,000 March 2013 to March 2024; interest at 3.8% to 4.3%</p>	<p>1,625,000</p>
<p>\$1,160,000 - Series 2007 Unlimited Tax and Water and Sewer bonds, formerly issued by Municipal Utility District 29, abolished by the City, due in annual installments of \$55,000 to \$105,000 March 2013 to March 2024; interest at 4.0% to 4.5%</p>	<p>805,000</p>
<p>\$7,520,000 - Series 2011 obligation refunding bonds, due in annual installments of \$20,000 to \$1,175,000 May 2013 through May 2023; interest at 2.0% to 4.0%.</p>	<p><u>7,390,000</u></p>
<p>Total general obligation bonds</p>	<p><u><u>\$ 16,916,967</u></u></p>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

Primary Government – Continued:

Special Obligation Bonds

\$14,350,000 - Series 2012A Hotel Occupancy Tax Refunding bonds, due in annual installments of \$350,000 to \$1,040,000 September 2013 through September 2034; interest at 3.0 % to 5.0%	\$ 13,575,000
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\$13,215,000 - Series 2012B Hotel Occupancy Tax Refunding bonds, due in annual installments of \$320,000 to \$1,030,000 September 2013 through September 2032; interest at 3.0% to 5.0%.	12,385,000
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Total special obligations bonds	<u>\$ 25,960,000</u>
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Certificates of Obligation Bonds

\$11,420,000 - Series 2013A Combination and Tax Revenue Refunding bonds, in annual installments of \$660,000 to \$2,820,000 February 2014 through February 2018; interest at 2% to 4%.	\$ 8,845,000
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\$2,180,000 - Series 2013B Combination Tax and Revenue Refunding bonds, due in one lump sum payment of \$2,180,000 in February 2018; interest at 3%.	2,180,000
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\$19,323,672 - Series 2004 Wharves and Terminal Revenue bonds, due in annual installments of \$1,390,621 to \$2,425,000 February 2013 through February 2020; interest at 4.3% to 5.2%. A portion of the bonds are capital appreciation bonds. The original principal on the bonds is \$2,873,672. Accreted interest of \$2,032,720 is included in the long-term debt.	4,906,392
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\$3,581,000 - Series 2008 Combination Tax and Revenue Certificates of Obligation bonds, due in annual installments of \$93,600 to \$237,600 May 2013 through May 2033; interest at 4.3% to 5.30%.	3,001,500
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Total certificates of obligation	<u>\$ 18,932,892</u>
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**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

Primary Government – Continued:

Capital Leases

\$150,000 - 2011 Capital lease purchase due in monthly installments of \$3,147 through March 2015, interest at 4.0%.	\$ 18,662
\$1,071,675 - 2014 Capital lease purchase due in annual payments of \$213,839 to \$220,412 through November 2018; interest at 2.0%.	<u>863,516</u>
Total capital leases	<u><u>\$ 882,178</u></u>

Notes Payable

\$1,531,488 - 2007 note payable due in semi-annual installments of \$69,380 through July 2022; interest 4.1%.	<u>\$ 936,533</u>
Total notes payable	<u><u>\$ 936,533</u></u>

Discretely Presented Component Units:

Special Obligation Bonds

Galveston Island Redevelopment Authority - \$1,000,000 tax exempt bank loan with Frost National Bank, secured by Tax Increment from TIRZ 12; principal due in annual installments; interest due in semi-annual installments through 2017; variable interest rate of 4.7% 30-day LIBOR plus 1.3%.	<u><u>\$ 360,000</u></u>
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Due to Developer

Galveston Island Redevelopment Authority - Construction of capital assets is financed through prefunding agreements with the Authority's developers. The liability is recognized at such time as the developer costs have been submitted for reimbursement and verified. Total costs incurred and recognized as of September 30, 2012 are related to TIRZ 13.	<u><u>\$ 15,614,171</u></u>
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**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

Discretely Presented Component Units – Continued:

Notes Payable

Park Board of Trustees - \$540,000 line of credit with Moody National Bank, secured by a certificate of deposit, interest due monthly at 4.3%, principle due on demand or on November 30, 2014.	\$ 88,753
Park Board of Trustees - \$800,000 construction loan with Moody National Bank, secured by real estate; principal and interest due monthly at \$6,178; remaining principal due on maturity date of February 2023.	661,627
Park Board of Trustees - \$2,232,041 equipment lease-purchase agreement with All American Investment, secured by real estate; principal and interest due quarterly at \$54,761; remaining principal due on maturity date of December 15, 2024.	1,715,595
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 4.7%; matures October 1, 2022.	<u>4,130,000</u>
Total notes payable	<u><u>\$ 6,595,975</u></u>

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	
	Principal	Interest	Principal	Interest
2015	\$ 1,276,926	\$ 1,084,617	\$ 760,000	\$ 957,812
2016	1,790,000	579,521	810,000	935,012
2017	1,850,000	518,268	865,000	902,612
2018	1,915,000	454,805	920,000	868,012
2019	2,005,000	378,965	980,000	831,212
2020-2024	7,635,000	788,720	5,960,000	3,482,688
2025-2029	-	-	7,885,000	2,215,900
2030-2034	-	-	7,780,000	769,056
Total	<u><u>\$ 16,471,926</u></u>	<u><u>\$ 3,804,896</u></u>	<u><u>\$ 25,960,000</u></u>	<u><u>\$ 10,962,304</u></u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 2,746,700	\$ 474,773	\$ 100,951	\$ 37,810
2016	2,826,200	389,976	105,181	33,579
2017	2,930,700	288,262	109,589	29,171
2018	2,955,200	181,257	114,182	24,578
2019	1,602,751	1,807,410	118,968	19,793
2020-2024	2,080,921	2,331,404	387,662	28,621
2025-2029	876,600	374,238	-	-
2030-2034	881,100	119,775	-	-
Total	<u>\$ 16,900,172</u>	<u>\$ 5,967,095</u>	<u>\$ 936,533</u>	<u>\$ 173,552</u>

The future minimum lease obligations and the net present value of minimum lease payments on capital leases, as of September 30, 2014, are as follows:

Fiscal Year Ending September 30,	Governmental Activities
2015	\$ 243,019
2016	224,358
2017	224,358
2018	224,358
Total minimum payments	916,093
Less: interest	(33,915)
Present value of minimum lease payments	882,178
Less: current portion	232,502
Long-term portion	<u>\$ 649,676</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities

Long-term liability activity for the year ended September 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
Primary Government					
Contracts (Gulf Coast West Authority)	\$ 26,902,218	\$ -	\$ (2,692,886)	\$ 24,209,332	\$ 2,770,703
Revenue Bonds-Water Fund	15,156,584	-	(858,361)	14,298,223	889,574
Revenue Bonds-Sewer Fund	20,598,416	-	(1,371,639)	19,226,777	1,420,426
Certificates of obligation	14,116,300	-	(442,800)	13,673,500	463,280
Notes payable	3,039,332	-	(1,115,835)	1,923,497	1,149,689
Accrued compensated absences	1,200,864	38,531	-	1,239,395	114,000
Deferred bond issuance discount/premium	825,840	-	(138,891)	686,949	-
Total primary government	81,839,554	38,531	(6,620,412)	75,257,673	6,807,672
Discretely presented component units					
Revenue bonds	25,925,000	-	(1,355,000)	24,570,000	1,410,000
Notes payable	3,739,399	-	(2,400,105)	1,339,294	1,339,294
Contracts payable	19,323,672	13,600,000	(16,450,000)	16,473,672	2,575,000
Accreted Interest on CAB	1,653,517	235,404	-	1,888,921	-
Capital lease	3,087,814	-	(237,877)	2,849,937	247,569
Accrued compensated absences	929,773	483,406	(427,899)	985,280	296,000
Unearned revenues and rents	3,149,585	-	(304,771)	2,844,814	-
Deferred bond issuance premium	865,125	826,001	(363,962)	1,327,164	-
Total discretely presented component units	58,673,885	15,144,811	(21,539,614)	52,279,082	5,867,863
Total reporting entity	\$ 140,513,439	\$ 15,183,342	\$ (28,160,026)	\$ 127,536,755	\$ 12,675,535

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Primary Government

Contracts (Gulf Coast Water Authority)

\$6,970,000 - Series 2006 Gulf Coast Water Authority Chocolate Bayou Contract Note Payable, due in annual installments of \$847,724 to \$1,015,175 December 2012 through December 2017; interest at 4.0%. \$ 1,291,486

\$4,320,000 - Series 2011E Gulf Coast Water Authority Water System Contract Revenue Refunding bonds, due in annual installments of \$680,000 to \$795,000 August 2013 through August 2017; interest at 2.5% to 5.0%. 2,275,000

\$17,730,000 - Series 2011A Gulf Coast Water Authority Contract Refunding Revenue bonds, due in annual installments of \$870,000 to \$2,370,000 August 2013 through August 2022; interest at 3.0% to 5.0% (Liability represents the City's 98.2% share of the remaining balance). 14,437,846

\$7,645,000 - Series 2012 Gulf Coast Water Authority Contract Refunding Revenue bonds, due in annual installments of \$700,000 to \$835,000 February 2013 through August 2022; interest at 2.3%. 6,205,000

Total contracts payable \$ 24,209,332

Revenue bonds

\$38,310,000 - Series 2006 Waterworks and Sewer System Revenue and Refunding bonds, due in annual installments of \$1,325,000 to \$2,075,000 May 2013 through May 2030; interest at 3.6% to 4.7%. \$ 27,485,000

\$6,180,000 - Series 2012 Waterworks and Sewer System Revenue and Refunding bonds, due in annual installments of \$45,000 to \$760,000 May 2013 through May 2023; interest at 2.0% to 3.0%. 6,040,000

Total revenue bonds \$ 33,525,000

Certificates of obligation

\$16,313,900 - Series 2008 Combination Tax and Revenue Certificates of Obligation bonds, due in annual installments of \$426,400 to \$1,082,400 May 2013 through May 2033; interest at 4.3% to 5.3%. \$ 13,673,500

Total certificate of obligation \$ 13,673,500

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Notes payable

\$9,962,462 - Line of credit extended to Waterworks and Sewer Funds, due in annual installments for 10 years, interest at 3.0%; due in quarterly installments of \$185,930 to \$298,028 through May 2016.	<u>\$ 1,923,497</u>
Total notes payable	<u><u>\$ 1,923,497</u></u>

Long-Term Contracts – Waterworks System

On November 16, 2006, the City entered into a contract with Gulf Coast Water Authority (GCWA) whereby GCWA issued \$6,970,000 of Gulf Coast Water Authority Contract Note Payable with Bank of America to be used to obtain water rights from the Brazos River and execute a purchase agreement with Chocolate Bayou Water Company. The note is for 10 years and will be repaid with revenues from the City's Waterworks Fund.

On July 15, 2011, the City entered into a contract with GCWA whereby GCWA issued \$4,320,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011E to be used to repay all of its GCWA Contract Revenue Bonds Series 1997 and to pay costs of issuance of the Bonds. The Series 1997 Bonds were used 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. The Bonds will be repaid with pledged revenues from the City's Waterworks funds.

On June 1, 2011, the City entered into a contract with GCWA whereby GCWA issued \$17,730,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2011A with the City's percentage share of 98.15% and League City's share being the remainder 1.85%. This will repay its outstanding Series 1998B and to pay the cost of issuance of the bonds. These Bonds allowed Galveston to receive treated water from the Texas City plant upon completion of its expansion. The Bonds will be repaid with pledged revenues from the City's Waterworks funds.

On October 30, 2013, the City entered into a contract with GCWA whereby GCWA issued \$7,645,000 of Gulf Coast Water Authority Contract Revenue Refunding Bonds, Series 2012. This will repay its outstanding Series 2002 and to pay the cost of issuance of the bonds. These Bonds are 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Discretely Presented Component Units

Revenue Bonds

Board of Trustees of the Galveston Wharves - \$25,925,000 Series 2011 Wharves and Terminal Revenue Refunding bonds, due in annual installments of \$1,355,000 to \$2,485,000 February 2013 through February 2026; interest at 4.0% to 5.0%. \$ 24,570,000

Capital lease

Board of Trustees of the Galveston Wharves - \$3,500,000 - 2011 capital lease purchase, due in 83 monthly installments of \$29,755, with a final payment of \$1,779,634 due in January 2018; adjustable interest rate initially at 4.0%. \$ 2,849,937

Contracts payable

Board of Trustees of the Galveston Wharves - Payable to the City of Galveston to service principal and interest on Series 2004 Wharves and Terminal Revenue bonds, due in annual installments of \$1,390,621 to \$2,425,000 February 2013 through February 2020; interest at 4.3% to 5.2%. Accreted interest of \$1,888,921 is included in the long-term debt. \$ 4,762,593

\$11,420,000 - Series 2013A Combination and Tax Revenue Refunding bonds, due in annual installments of \$660,000 to \$2,820,000 February 2014 through February 2018; interest at 2% to 4%. 11,420,000

\$2,180,000 - Series 2013B Combination Tax and Revenue Refunding bonds, due in one lump sum payment of \$2,180,000 in February 2018; interest at 3%. 2,180,000

Total contracts payable \$ 18,362,593

Notes payable

Board of Trustees of the Galveston Wharves - \$3,700,000 - Loan agreement with the Federal Emergency Management Agency of the U.S. Department of Homeland Security to provide operating funds for community disaster assistance. Interest is accrued monthly at 2.5% and principal and interest due at maturity in 2014. 1,339,294

Total notes payable \$ 1,339,294

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Discretely Presented Component Units – Continued

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

Primary Government

Fiscal Year Ending September 30,	Revenue Bonds		Contracts	
	Principal	Interest	Principal	Interest
2015	\$ 2,310,000	\$ 1,313,086	\$ 2,770,703	\$ 873,887
2016	2,400,000	1,236,106	2,873,243	775,800
2017	2,480,000	1,155,176	3,920,837	685,183
2018	2,565,000	1,068,676	2,718,278	586,267
2019	2,665,000	977,056	2,806,890	490,857
2020-2024	10,595,000	3,524,244	9,119,381	771,746
2025-2029	8,560,000	1,626,144	-	-
2030-2034	1,950,000	87,749	-	-
Total	\$ 33,525,000	\$ 10,988,237	\$ 24,209,332	\$ 4,183,740

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2015	\$ 463,300	\$ 678,312	\$ 1,149,689	\$ 44,850
2016	483,800	658,622	773,808	10,806
2017	504,300	638,061	-	-
2018	524,800	616,628	-	-
2019	545,300	594,324	-	-
2020-2024	3,144,700	2,560,338	-	-
2025-2029	3,993,400	1,704,863	-	-
2030-2034	4,013,900	545,640	-	-
Total	\$ 13,673,500	\$ 7,996,788	\$ 1,923,497	\$ 55,656

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Discretely Presented Component Units – Continued

Discretely Presented Component Units
The Board of Trustees of The Galveston Wharves

Year Ending December 31,	Revenue Bonds		Contracts Payable	
	Principal	Interest	Principal	Interest
2015	\$ 1,410,000	\$ 1,136,994	\$ 2,575,000	\$ 391,300
2016	1,470,000	1,079,394	2,645,000	325,875
2017	1,530,000	1,019,394	2,720,000	245,400
2018	1,600,000	948,794	2,820,000	148,200
2019	1,680,000	866,794	2,840,000	45,900
2020-2024	9,775,000	2,955,970	2,873,672	3,446,328
2025-2029	7,105,000	540,144	-	-
Total	\$ 24,570,000	\$ 8,547,484	\$ 16,473,672	\$ 4,603,003

The future minimum lease obligations and the net present value of minimum lease payments on business-type component unit activities for the Galveston Wharves as of December 31, 2013 are as follows:

Year Ending December 31,	Future Minimum Lease Payments
2015	\$ 357,060
2016	357,060
2017	357,060
2018	357,060
2019	1,809,389
	<u>3,237,629</u>
Less interest portion	(387,692)
Capital lease payable	<u>\$ 2,849,937</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Waterworks and Sewer System Unlimited Tax Bonds

On January 12, 2012, City Council took action to abolish Galveston County Municipal Utility District No. 29. As of such date, the City assumed all assets and outstanding obligations. The assumed obligations are:

- Galveston County Municipal Utility District No. 29 Waterworks and Sewer Unlimited Tax Bonds (Series 1998), dated December 1, 1998, in the original amount of \$1,000,000. The Bonds were callable at the time of abolishment; therefore, the City redeemed all outstanding principal plus the accrued interest.
- Galveston County Municipal Utility District No. 29 Waterworks and Sewer System Unlimited Tax Bonds (series 2005), dated October 1, 2005, in the original amount of \$3,050,000. The Bonds are payable from the surplus of net revenues of the City's combined Waterworks and Sewer System. In case of default, the Bonds will be paid from the proceeds of continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable properties within the City.
- Galveston County Municipal Utility District No. 29 Waterworks and Sewer System Unlimited Tax Bonds (series 2007), dated June 1, 2007, in the original amount of \$1,160,000. The Bonds are payable from the surplus of net revenues of the City's combined Waterworks and Sewer System. In case of default, the Bonds will be paid from the proceeds of continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable properties within the City.

The assumed obligations are recorded as general obligation bonds and long-term debt of the City's governmental activities.

Refunding of Debt

In previous years, the City defeased certain outstanding bonds issued by placing the proceeds of new bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2014 is \$81,449,799.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. FUND EQUITY

Deficit Fund Balance

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

	<u>Deficit Balance</u>
Non-major governmental funds:	
Special revenue funds:	
Rosenburg Library	\$ (11,078)
Grants and government contracts	(16,925)

Deficit fund balances reported for Government Contracts and Grants and Rosenberg Library are the result of timing differences between the cognizant agency annual federal appropriation and local grantee qualifying outlays. Deficits in both of these funds are considered temporary and expected to be relieved during the next fiscal year.

NOTE 10. COMMITMENTS AND CONTINGENCIES

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. In management's estimation, insurance coverage is adequate to provide for potential losses. While insurance coverage will be adequate to provide for some potential losses, it is possible some litigation will not fall under insurance coverage. It is the opinion of City management that the outcome of any other pending litigation will not have a material effect on the City's financial position or operation.

Environmental Liability

The City is aware of various sites contaminated by hazardous materials. There are no significant liabilities related to these sites of which the City is aware. The City also participates in the Texas Natural Resources Underground Storage Tank registration program and has each site insured for pollution liability.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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, including law enforcement and public official policies, have deductibles of \$5,000 per occurrence.

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.

Workers Compensation

The City is self-insured for workers compensation. The third party administrator for the City is TML, with a per coverage retention of \$500,000. TML also provides the stop loss reinsurance for excess claims with an annual aggregate retention of \$1,000,000 and aggregate limit of liability of \$1,000,000.

All funds of the City participate in the program and make payments to the Workers Compensation Internal Service Fund based on estimates of the amounts needed to pay prior and current year claims. The claims liability is reported in the fund at September 30, 2014, and is based on requirements of GASB 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 position. 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>
2013	\$ 1,276,219	\$ 306,986	\$ (763,836)	\$ 819,369
2014	\$ 819,369	\$ 509,388	\$ (557,721)	\$ 771,036

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 11. RISK MANAGEMENT – CONTINUED

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 \$170,000 per individual and \$4,879,000 in aggregate claims on an annual basis from American National Insurance Co.

Incurred but not reported (IBNR) claims as of year-end are estimated by the third party administrator based on prior claims experience. Changes in the City's IBNR health claims liability, 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>
2013	\$ 386,583	\$ 2,820,603	\$ (2,826,390)	\$ 380,796
2014	\$ 380,796	\$ 3,627,457	\$ (3,521,415)	\$ 486,838

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 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED

Discretely Presented Component Units

Board of Trustees of the Galveston Wharves

The Galveston Wharves' has commitments with entities to lease land for parking lots. Future minimum rental commitments for these operating leases as of December 31, 2013 are as follows:

Year Ended December 31,	Minimum Payments
2014	\$ 118,125
	\$ 118,125

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, 2010, was \$8,500,000. The Galveston Wharves have no obligation for the special revenue bonds beyond the resources provided by the direct financing lease. The special revenue bonds were retired in December 2011.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED

Discretely Presented Component Units – Continued

Board of Trustees of the Galveston Wharves – Continued

Direct Financing Lease – Dockside Elevator – Continued

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2013:

Minimum lease rental payments receivable	
Due within one year	\$ 489,106
Due after one year	6,032,314
	6,521,420
Unearned income, direct financing lease	
Due within one year	289,960
Due after one year	3,576,178
	3,866,138
	\$ 2,655,282

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

Combination Lease – Sales-Type/Operating Railroad Facilities

Railroad Facilities

Following the favorable settlement in 2006 of a lawsuit filed by the Galveston Wharves over the interpretation of certain language in the lease covering rail facilities owned by the Galveston Wharves, they 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 equally between the Galveston 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, the lessee spends less than the annual \$240,000 accrual, the balance remaining is to be split equally between the lessee and the Galveston Wharves.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 12. MAJOR CONTRACTS AND COMMITMENTS – CONTINUED

Discretely Presented Component Units – Continued

Board of Trustees of the Galveston Wharves – Continued

Combination Lease – Sales-Type/Operating Railroad Facilities – Continued

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, 2013, the amount deferred to future years was approximately \$3.5 million. This amount is included in long-term liabilities due in more than one year on the face of the financial statements.

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

Year Ending December 31,	Future Minimum Lease Payments
2014	\$ 489,106
2015	489,106
2016	489,106
2017	489,106
2018	489,106
Thereafter	4,075,890
Total	\$ 6,521,420

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2013, minimum lease payments under these operating leases that have non-cancelable lease terms in excess of one year are as follows:

Year Ending December 31,	Future Lease Payments
2014	\$ 3,093,998
2015	3,140,408
2016	3,203,216
2017	3,267,281
Total	\$ 12,704,903

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City provides certain post-employment retirement benefits for its qualifying employees and spouses/dependents through a single-employer defined benefit health care plan. Eligible participants, as defined by the City, may continue coverage during retirement by paying the total active contributions, including the City portion and the retiree portion. In the case of deferred retirement or death in service, the health care benefit is not available. However, in the case of disability retirement benefits, coverage is available if the employee is eligible for disability benefits through the City. Coverage under the health care plan ceases upon reaching Medicare eligibility. A separate, audited GAAP-basis postemployment benefit plan report is not available.

Funding Policy and Annual OPEB Cost

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost obligation as of September 30, for the current and two preceding years are as follows:

	2014	2013	2012
Annual required contribution	\$ 434,668	\$ 434,668	\$ 466,109
Interest on OPEB obligation	116,679	95,649	73,059
Adjustment to ARC	<u>(77,925)</u>	<u>(48,651)</u>	<u>(37,161)</u>
Annual OPEB cost (expense) – end of year	473,422	481,666	502,007
Net estimated employer contributions	-	-	-
Change in OPEB obligation	473,422	481,666	502,007
Net OPEB obligation - as of beginning of the year, as originally reported	-	-	422,039
Prior period adjustment	-	-	1,201,483
Net OPEB obligation – as of beginning of the year	<u>2,607,195</u>	<u>2,125,529</u>	<u>1,623,522</u>
Net OPEB obligation – as of end of year	<u>\$ 3,080,617</u>	<u>\$ 2,607,195</u>	<u>\$ 2,125,529</u>
Percentage of Annual OPEB Cost Contributed	<u>0%</u>	<u>0%</u>	<u>0%</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Funding Status and Funding Progress

The funded status of the City’s retiree health care plan, under GASB Statement No. 45 as of the most recent valuation date and the two preceding valuation dates are as follows:

City of Galveston Retiree Health Plan				
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (%) (a/b)
12/31/2008	\$ -	\$ 5,709,319	\$ 5,709,319	0.0%
12/31/2010	\$ -	\$ 4,573,093	\$ 4,573,093	0.0%
12/31/2012	\$ -	\$ 4,199,878	\$ 4,199,878	0.0%

Under the reporting parameters, the City’s retiree health care plan is 0% funded with an estimated actuarial liability exceeding actuarial assets by \$4,199,878 at December 31, 2012. Plan funding Data for 2014 is not available until May 2015.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City’s employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Health care cost trends	4.5% to 8.5%
Actuarial cost method	Projected unit credit cost method
Amortization method	Level as a percentage of payroll
Amortization period	Open period of 30 years
Investment rate of return	4.5%, net of expenses
Projected salary increase	3.0% per annum
Inflation rate	3.0% per annum

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 13. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Actuarial Methods and Assumptions – Continued

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

Plan Descriptions

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 944 employees and retirees, Galveston Firefighters' Pension Fund (GFPF) covers 188 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 282 employees and retirees. The CERF and the PERF 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.

Each 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 has 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 GFPF 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 are provided at the discretion of the board of trustees for each plan respectively.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Plan Descriptions – Continued

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 may be obtained at the following administrative offices:

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

Galveston Firefighters' Pension 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 required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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

<u>Retirement Plan</u>	<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Actual Contributions Made</u>	<u>Contributed</u>	<u>Net Pension Obligation (Asset)</u>
Primary Government					
Employees' Retirement Plan for City Employees	2012	\$ 1,824,400	\$ 1,473,316	81%	\$ 586,733
	2013	\$ 1,824,400	\$ 1,705,676	93%	\$ 705,457
	2014	\$ 2,073,187	\$ 1,644,878	79%	\$ 1,133,766
Galveston Firefighters' Pension Fund	2012	\$ 927,388	\$ 972,131	105%	\$ (625,698)
	2013	\$ 1,072,814	\$ 791,537	74%	\$ (344,421)
	2014	\$ 1,191,763	\$ 960,314	81%	\$ (112,972)
Employees' Retirement Plan for City Police	2012	\$ 1,216,145	\$ 1,160,763	95%	\$ 862,360
	2013	\$ 1,352,597	\$ 988,008	73%	\$ 1,226,949
	2014	\$ 1,595,989	\$ 1,114,126	70%	\$ 1,708,812

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Funding Policy and Annual Pension Cost – Continued

	Employee's Retirement Plan 1/1/2014	Firefighters' Pension Fund 1/1/2014	Police Retirement Plan 1/1/2014
Actuarial valuation date	1/1/2014	1/1/2014	1/1/2014
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent of pay contribution	Level percent of projected payroll, open	Level percent of pay contribution
Contribution rates:			
City	9.00%	14.00%	12.00%
Plan members	6.00%	16.00%	12.00%
Amortization Period	closed period	closed period	closed period
Amortization Period	30 years	30 years	30 years
Asset valuation method	5-year Smoothed Market Value	Smoothed Market Value	5-year Smoothed Market Value
Actuarial assumptions:			
Investment rate of return	8.00%	8.00%	7.50%
Projected salary increases	5.25% per year compounded annually	4.50%	4.0% to 10.24%, graded by service
Inflation	3.00%	3.00%	4.00%

Retirement Plan for Employees - Net Pension Obligation Components

Annual Required Contribution (ARC)	\$ 2,074,505
Interest on Net Pension Obligation	46,939
Adjustment to the (ARC)	(48,257)
Annual Pension Cost (APC)	2,073,187
Contributions made	(1,644,878)
Change in net pension obligation	428,309
Net Pension Obligation, beginning of year	705,457
Net Pension Obligation, end of year	<u>\$ 1,133,766</u>

Retirement Plan for Police - Net Pension Obligation Components

Annual Required Contribution (ARC)	\$ 1,569,376
Interest on Net Pension Obligation	92,657
Adjustment to the (ARC)	(66,044)
Annual Pension Cost (APC)	1,595,989
Actual contributions made	(1,114,126)
Change in net pension obligation	481,863
Net Pension Obligation, beginning of year	1,226,949
Net Pension Obligation, end of year	<u>\$ 1,708,812</u>

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Funding Policy and Annual Pension Cost – Continued

Firefighters' Pension Fund - Net Pension Asset Components	
Annual Required Contribution (ARC)	\$ 1,183,411
Interest on Net Pension Asset	27,554
Adjustment to the (ARC)	(19,202)
Annual Pension Cost (APC)	1,191,763
Actual contributions made	(960,314)
Change in net pension asset	231,449
Net Pension Asset, beginning of year	(344,421)
 Net Pension Asset, end of year	 \$ (112,972)

Funding Status and Funding Progress

The funded status of the City's pension plans, under GASB Statement No. 27 as of the most recent valuation date, is as follows:

City of Galveston Pension Plans					
Pension Plan	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (%) (a/b)
Employees	1/1/2014	\$ 43,289,975	\$ 53,181,429	\$ 9,891,454	81.4%
Police	1/1/2014	\$ 22,028,282	\$ 49,685,735	\$ 27,657,453	44.3%
Firefighters	1/1/2014	\$ 39,591,204	\$ 56,839,842	\$ 17,248,638	69.7%

Under the reporting parameters, the City's Employees', Police and Firefighters pension plans are 77.5%, 43.0% and 68.9% funded, respectively, with an estimated actuarial liability exceeding actuarial assets by \$11,702,736, \$28,426,840 and \$16,858,357 at December 31, 2013 and 2012, respectively.

Discretely Presented Component Unit Benefit Plans

Galveston Wharves – Plan Description

The Galveston Wharves Pension Plan (the GWPP) is a single-employer defined benefit pension plan administered by a committee appointed by the Galveston Wharves. The GWPP 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 GWPP and any plan amendments is vested in the Galveston Wharves by Article 12 of the Charter of the City. The GWPP 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.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discretely Presented Component Unit Benefit Plans – Continued

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

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

Actuarial valuation date	<u>1/1/2013</u>	<u>1/1/2012</u>	<u>1/1/2011</u>
Actuarial value of plan assets	\$ 9,982,457	\$ 8,982,457	\$ 9,312,959
Actuarial accrued liability	<u>13,746,070</u>	<u>13,404,790</u>	<u>12,824,151</u>
Total funding excess (deficit)	<u>\$ (3,763,613)</u>	<u>\$ (4,422,333)</u>	<u>\$ (3,511,192)</u>
Annual covered payroll	<u>\$ 3,627,781</u>	<u>\$ 3,921,729</u>	<u>\$ 3,889,073</u>
Ratio-over (under) funded to covered payroll	<u>-104%</u>	<u>-113%</u>	<u>-90%</u>

The annual contribution was determined through an actuarial valuation performed as of January 1, 2013.

The actuarial assumptions used are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period in years	30 - closed
Asset valuation method	Market value
Investment rate of return	7.5%
Projected salary increases	4.6%
Interest credit for cash balance	5.0%
Rate of inflation	3.5%

Actuarial required contributions contributed to the GWPP by the Galveston Wharves during 2013 were \$540,004. At December 31, 2013 the GWPP had an unfunded actuarial liability of \$3,763,613.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discretely Presented Component Unit Benefit Plans – Continued

Park Board of Trustees

The 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 Park Board is eligible to participate in the plan upon attaining the age of twenty and one-half years and six months employment. Mandatory employee contributions vest immediately while contributions made by the Park Board vest upon a graduating scale from twenty percent after two years of service to 100% after seven 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 of covered compensation while the Park Board is required to contribute five percent of each eligible employee's covered compensation up to \$30,000 or twenty-five percent of total salary, whichever is less. If in any year, the Park Board makes a contribution that is less than five percent, 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 \$115,204, which was 5.0% of \$2,304,080, its current year covered payroll. Employees' required and actual contributions amounted to \$90,986. Total current year payroll was \$4,175,092.

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

The PBDCP held no securities of the Park Board or other related parties during the year or as of September 30, 2014.

**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discretely Presented Component Unit Benefit Plans – Continued

Deferred Compensation Plan – City of Galveston

The City, 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 investments for the City and Park Board employees are managed by Nationwide Retirement Solutions. The funds held in trusts are not included in these financial statements.

NOTE 15. SUBSEQUENT EVENTS

During October 2014, the City issued General Obligation Refunding Bonds, Series 2014 totaling \$5,900,000. The purpose was for the advance refunding of a portion of the City's existing debt and to pay for issuance costs. The bonds constitute a direct obligation of the City with interest rates ranging from 2% to 5% and are payable at May 1 and November 1 of each year. The refunding produced a net present value savings of \$416,866. In addition, it lowered the debt service payments by \$461,753 over the next 10 years.

During October 2014, the City issued Waterworks and Sewer System Revenue Refunding Bonds, Series 2014 totaling \$19,640,000. The purpose was for the advance refunding of a portion of the City's existing debt and to pay for issuance costs. The bonds constitute a direct obligation of the City with interest rates ranging from 3% to 5% and are payable at May 1 and November 1 of each year. The refunding produced a net present value savings of \$1,781, 125. In addition, it lowered the debt service payments by \$2,285,837 over the next 16 year.

During December 2014, the City issued Special Assessment Revenue Bonds, Series 2014 totaling \$9,600,000. The proceeds of the issuance will be used for property acquisition, capital improvements, and to pay for issuance costs. The bonds constitute a direct obligation of the City with interest rates ranging from 5.63% to 6.13% and are payable at September 1 and March 1 of each year.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GALVESTON, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN PENSION PLANS
SEPTEMBER 30, 2014**

Employees' Retirement Plan for City Employees (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
1/1/2012	\$ 40,151,763	\$ 50,841,331	79.0%	\$ 10,689,568	\$ 18,203,002	58.7%
1/1/2013	\$ 40,313,975	\$ 52,016,611	77.5%	\$ 11,702,636	\$ 17,333,948	67.5%
1/1/2014	\$ 43,289,975	\$ 53,181,429	81.4%	\$ 9,891,454	\$ 18,488,273	53.5%

Galveston Firefighters' Pension Fund (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
1/1/2010	\$ 37,630,993	\$ 51,718,539	72.8%	\$ 14,087,546	\$ 7,941,553	177.4%
1/1/2012	\$ 37,288,602	\$ 54,146,959	68.9%	\$ 16,858,357	\$ 6,778,800	248.7%
1/1/2014	\$ 39,591,204	\$ 56,839,842	69.7%	\$ 17,248,638	\$ 6,542,789	263.6%

Employees' Retirement Plan for Police (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
1/1/2012	\$ 22,695,097	\$ 48,389,593	46.9%	\$ 25,694,496	\$ 8,233,404	312.1%
1/1/2013	\$ 21,472,997	\$ 49,899,837	43.0%	\$ 28,426,840	\$ 9,021,627	315.1%
1/1/2014	\$ 22,028,282	\$ 49,685,735	44.3%	\$ 27,657,453	\$ 9,310,513	297.1%

**CITY OF GALVESTON, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN PENSION PLANS
SEPTEMBER 30, 2014
(CONTINUED)**

City of Galveston Retiree Health Plan (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)
(1)	(2)	(3)	(1) / (2)	(2) - (1)
12/31/2008	\$ -	\$ 5,709,319	0.0%	\$ 5,709,319
12/31/2010	\$ -	\$ 4,573,093	0.0%	\$ 4,573,093
12/31/2012	\$ -	\$ 4,199,878	0.0%	\$ 4,199,878

Board of Trustees of Galveston Wharves Pension Plan (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(1) / (2)	(2) - (1)	(5)	(4) / (5)
1/1/2011	\$ 9,312,959	\$ 12,824,151	72.6%	\$ 3,511,192	\$ 3,889,073	90.3%
1/1/2012	\$ 8,982,457	\$ 13,404,790	67.0%	\$ 4,422,333	\$ 3,921,729	112.8%
1/1/2013	\$ 9,982,457	\$ 13,746,070	72.6%	\$ 3,763,613	\$ 3,627,781	103.7%

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

**CITY OF GALVESTON, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES, BUDGET AND ACTUAL
ON BUDGETARY BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>		<u>Variance With Final Budget Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Reconciling Items</u>		<u>Budgetary Basis</u>
General government						
Legislative	\$ 473,085	\$ 450,418	\$ 450,414	\$ -	\$ 450,414	\$ 4
Judicial	692,728	650,457	650,458	-	650,458	(1)
Executive	1,144,680	1,105,387	1,105,387	-	1,105,387	-
City auditor	251,855	238,851	238,852	-	238,852	(1)
Finance	2,191,824	2,221,717	2,221,718	-	2,221,718	(1)
Legal	727,216	660,201	660,200	-	660,200	1
Personnel	342,567	311,022	311,024	-	311,024	(2)
Taxation	213,158	200,484	200,484	-	200,484	-
Total general government	6,037,113	5,838,537	5,838,537	-	5,838,537	-
Public safety						
Police	16,893,440	16,541,641	16,541,641	-	16,541,641	-
Fire	9,843,605	9,880,434	9,880,435	-	9,880,435	(1)
Emergency management	201,104	210,407	210,406	-	210,406	1
Emergency medical service	516,400	516,161	516,161	-	516,161	-
Total public safety	27,454,549	27,148,643	27,148,643	-	27,148,643	-
Public works and traffic	3,485,459	3,121,135	3,121,134	-	3,121,134	1
Culture and recreation	2,271,578	2,049,038	2,049,038	-	2,049,038	-
Planning and community development	2,198,731	2,055,629	2,055,629	-	2,055,629	-
Transportation system	850,000	850,000	850,000	-	850,000	-
Capital outlay	1,450,001	3,241,837	2,084,327	-	2,084,327	1,157,510
Special projects	375,438	1,539,731	1,539,731	-	1,539,731	-
Total expenditures	\$ 44,122,869	\$ 45,844,550	\$ 44,687,039	\$ -	\$ 44,687,039	\$ 1,157,511

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

Island Transit – To account for the receipt of and expenditure of federal, state, and local revenues designated for transit and other livable community projects.

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.

Arts and Historical – To account for receipts of 1/8 hotel occupancy tax, to be used for advertisement and capital repairs to historical buildings and statues.

Grants and Government Contracts – To account for receipt and expenditure of federal and state revenues designated for special programs.

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.

Mary Moody Northern Endowment – To account for expenditures related to implementation of community policing CAMstat training funded by donation to police department from Mary Moody Northern Endowment.

Convention Center Fund – To account for operating and capital reserves relating to the convention center.

Seawall Parking Fund – To account for receipts of seawall parking revenue and expenditures related to the operation and capital improvement of the seawall and beach.

2007 State Homeland Security Program Grant – To account for receipt and expenditure of federal and state revenues designated for emergency preparedness.

Neighborhood Revitalization Fund - To account for receipt and expenditure of a local grant monies awarded by the Industrial Development Board of the City of Galveston to be used for capital projects.

Neighborhood Stabilization Program (ARRA) – To account for receipt and expenditure of federal revenue designated for the purpose of stabilizing communities that have suffered from foreclosures and abandonment.

CDBG Disaster Fund Housing – To account for receipt and expenditure of federal revenue designated for disaster relief, long-term recovery, and restoration of housing including affordable rental housing in declared federal disaster areas in 2008.

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

Capital projects funds are used 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, drainage and street improvements for improving drains and streets, financed by the IDC.

Sewer Improvements – To account for capital outlay for sewer improvements financed by the IDC.

General Obligation 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.

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

Industrial Development Corporation Capital Improvements – To account for capital outlay for beach re-nourishment, economic development, and improvements to city parks, and street, drainage and sewer systems financed by the IDC.

DEBT SERVICE FUNDS

Debt service funds are used 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.

**CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	<u>Island Transit</u>	<u>Rosenberg Library</u>	<u>Arts and Historical</u>	<u>Grants and Government Contracts</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 459,395	\$ 260,600
Receivables, net of allowance for uncollectibles	376,051	77,529	-	995,220
Due from other governments	1,585,775	-	-	1,083,194
Due from other funds	-	-	-	-
Inventories	259,579	-	-	-
Total assets	<u>\$ 2,221,405</u>	<u>\$ 77,529</u>	<u>\$ 459,395</u>	<u>\$ 2,339,014</u>
LIABILITIES				
Accounts payable	\$ 1,982,233	\$ 11,078	\$ -	\$ 285,481
Other accrued expenses	60,950	-	-	16,145
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	2,054,313
Total liabilities	<u>2,043,183</u>	<u>11,078</u>	<u>-</u>	<u>2,355,939</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property taxes	-	77,529	-	-
Total deferred inflows of resources	<u>-</u>	<u>77,529</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable				
Inventories	259,579	-	-	-
Restricted				
Debt service	-	-	-	-
Beach preservation	-	-	-	-
Capital projects	-	-	459,395	-
Tourism, convention and hotel industry				
Convention center operator	-	-	-	-
City of Galveston	-	-	-	-
Committed				
Governmental projects	-	-	-	-
Unassigned	(81,357)	(11,078)	-	(16,925)
Total fund balances	<u>178,222</u>	<u>(11,078)</u>	<u>459,395</u>	<u>(16,925)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 2,221,405</u>	<u>\$ 77,529</u>	<u>\$ 459,395</u>	<u>\$ 2,339,014</u>

Industrial Development Corporation	Project Specific Programs	Mary Moody Northern Endowment	Convention Center Funds	Seawall Parking Fund	2007 SHSP Grant	Neighborhood Revitalization
\$ 1,850,318	\$ 1,873,833	\$ 2	\$ 6,637,387	\$ 495,587	\$ -	\$ 210,286
-	788,468	-	-	1,927	-	-
890,320	1,339,484	-	-	-	1,511	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 2,740,638</u>	<u>\$ 4,001,785</u>	<u>\$ 2</u>	<u>\$ 6,637,387</u>	<u>\$ 497,514</u>	<u>\$ 1,511</u>	<u>\$ 210,286</u>
\$ 2,550	\$ 2,799	\$ -	\$ -	\$ 6,222	\$ 1,511	\$ -
83	2,362,331	-	-	1,105	-	-
-	-	-	-	-	-	-
-	2,723	2	-	-	-	-
<u>2,633</u>	<u>2,367,853</u>	<u>2</u>	<u>-</u>	<u>7,327</u>	<u>1,511</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,738,005	-	-	-	490,187	-	-
-	-	-	-	-	-	210,286
-	-	-	3,821,514	-	-	-
-	-	-	2,815,873	-	-	-
-	1,633,932	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,738,005</u>	<u>1,633,932</u>	<u>-</u>	<u>6,637,387</u>	<u>490,187</u>	<u>-</u>	<u>210,286</u>
<u>\$ 2,740,638</u>	<u>\$ 4,001,785</u>	<u>\$ 2</u>	<u>\$ 6,637,387</u>	<u>\$ 497,514</u>	<u>\$ 1,511</u>	<u>\$ 210,286</u>

**CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014
(CONTINUED)**

	Neighborhood Stabilization Program (ARRA)	CDBG Disaster Fund Housing	Drainage and Street Improvements	Sewer Improvements
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 1,854,534	\$ 904,816
Receivables, net of allowance for uncollectibles	-	9,104	-	-
Due from other governments	28,198	1,651,761	-	-
Due from other funds	-	-	-	-
Inventories	-	-	-	-
Total assets	\$ 28,198	\$ 1,660,865	\$ 1,854,534	\$ 904,816
LIABILITIES				
Accounts payable	\$ 28,198	\$ 1,660,689	\$ -	\$ -
Other accrued expenses	-	176	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	28,198	1,660,865	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - property taxes	-	-	-	-
Total deferred inflows of resources	-	-	-	-
FUND BALANCES				
Nonspendable				
Inventories	-	-	-	-
Restricted				
Debt service	-	-	-	-
Beach preservation	-	-	-	-
Capital projects	-	-	1,854,534	904,816
Tourism, convention and hotel industry				
Convention center operator	-	-	-	-
City of Galveston	-	-	-	-
Committed				
Governmental projects	-	-	-	-
Unassigned	-	-	-	-
Total fund balances	-	-	1,854,534	904,816
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 28,198	\$ 1,660,865	\$ 1,854,534	\$ 904,816

General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Nonmajor Governmental Funds
\$ 254,645	\$ 563,277	\$ 2,566,133	\$ 14,201,135	\$ 5,543,442	\$ 2,232,414	\$ 39,907,804
-	-	-	-	81,340	-	2,329,639
-	511,467	-	-	-	-	7,091,710
-	-	-	-	-	-	-
-	-	-	-	-	-	259,579
\$ 254,645	\$ 1,074,744	\$ 2,566,133	\$ 14,201,135	\$ 5,624,782	\$ 2,232,414	\$ 49,588,732
\$ 4,056	\$ 504,638	\$ 3,290	\$ 236,071	\$ -	\$ -	\$ 4,728,816
-	28,877	-	1,883	-	-	2,471,550
-	-	-	110,880	-	-	110,880
-	1,333	-	-	1,140,898	-	3,199,269
4,056	534,848	3,290	348,834	1,140,898	-	10,510,515
-	-	-	-	81,339	-	158,868
-	-	-	-	81,339	-	158,868
-	-	-	-	-	-	259,579
-	-	-	-	4,402,545	2,232,414	6,634,959
-	-	-	-	-	-	3,228,192
250,589	539,896	2,562,843	13,852,301	-	-	20,634,660
-	-	-	-	-	-	3,821,514
-	-	-	-	-	-	2,815,873
-	-	-	-	-	-	1,633,932
-	-	-	-	-	-	(109,360)
250,589	539,896	2,562,843	13,852,301	4,402,545	2,232,414	38,919,349
\$ 254,645	\$ 1,074,744	\$ 2,566,133	\$ 14,201,135	\$ 5,624,782	\$ 2,232,414	\$ 49,588,732

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Island Transit</u>	<u>Rosenberg Library</u>	<u>Arts and Historical</u>	<u>Grants and Government Contracts</u>
Revenues				
Property taxes	\$ -	\$ 2,064,500	\$ -	\$ -
Sales and use taxes	-	-	209,023	-
Fines and forfeitures	-	-	-	-
Charge for services	1,451,349	-	-	-
Investment earnings	-	-	-	-
Intergovernmental	2,852,029	-	-	2,237,386
Other	38,552	-	-	19,140
Total revenues	4,341,930	2,064,500	209,023	2,256,526
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	-	9,997
Culture and recreation	-	2,064,500	70,670	-
Planning and community development	-	-	-	1,812,676
Transportation	4,181,549	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	53,069	-	-	414,716
Total expenditures	4,234,618	2,064,500	70,670	2,237,389
Excess (deficiency) of revenues expenditures	107,312	-	138,353	19,137
Other financing sources (uses)				
Transfers in	-	-	197,842	-
Transfers (out)	-	-	(500,000)	-
Total other financing sources (uses)	-	-	(302,158)	-
Net change in fund balances	107,312	-	(163,805)	19,137
Fund balances, beginning of year	70,910	(11,078)	623,200	(36,062)
Fund balances, end of year	\$ 178,222	\$ (11,078)	\$ 459,395	\$ (16,925)

Industrial Development Corporation	Project Specific Programs	Mary Moody Northern Endowment	Convention Center Funds	Seawall Parking Fund	2007 SHSP Grant	Neighborhood Revitalization
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4,808,854	197,940	-	6,092,375	-	-	-
-	120,357	-	-	-	-	-
-	76,603	-	-	502,638	-	-
3,620	2,979	-	97	-	-	417
-	159,599	-	-	-	-	-
-	315,150	-	-	-	-	-
4,812,474	872,628	-	6,092,472	502,638	-	417
-	219,382	-	-	-	-	-
-	203,499	-	-	-	-	-
519,576	5,785	-	4,182,756	42,079	-	-
-	2	-	-	-	-	137
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	35,889	-	-	-	-	5,223
519,576	464,557	-	4,182,756	42,079	-	5,360
4,292,898	408,071	-	1,909,716	460,559	-	(4,943)
-	70,000	-	1,564,651	-	-	100,000
(2,378,890)	(197,842)	-	(3,029,176)	-	-	-
(2,378,890)	(127,842)	-	(1,464,525)	-	-	100,000
1,914,008	280,229	-	445,191	460,559	-	95,057
823,997	1,353,703	-	6,192,196	29,628	-	115,229
\$ 2,738,005	\$ 1,633,932	\$ -	\$ 6,637,387	\$ 490,187	\$ -	\$ 210,286

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

	Neighborhood Stabilization Program (ARRA)	CDBG Disaster Fund Housing	Drainage and Street Improvements	Sewer Improvements
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-
Fines and forfeitures	-	-	-	-
Charge for services	-	-	-	-
Investment earnings	-	-	3,652	1,808
Intergovernmental	104,585	135,973	-	-
Other	-	-	-	-
Total revenues	104,585	135,973	3,652	1,808
Expenditures				
Current:				
General government	-	-	1,462	713
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Planning and community development	104,585	135,973	-	-
Transportation	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	104,585	135,973	1,462	713
Excess (deficiency) of revenues expenditures	-	-	2,190	1,095
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	2,190	1,095
Fund balances, beginning of year	-	-	1,852,344	903,721
Fund balances, end of year	\$ -	\$ -	\$ 1,854,534	\$ 904,816

General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects	General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 2,019,846	\$ -	\$ 4,084,346
-	-	-	-	-	-	11,308,192
-	-	-	-	-	-	120,357
-	-	-	-	-	-	2,030,590
535	1,179	5,218	26,620	6,454	192	52,771
-	1,520,930	-	-	3,290,132	-	10,300,634
-	-	-	-	-	-	372,842
535	1,522,109	5,218	26,620	5,316,432	192	28,269,732
228	-	2,198	-	-	-	223,983
-	-	-	-	-	-	213,496
-	-	-	156,981	-	-	7,042,347
-	-	-	-	-	-	2,053,373
-	387,891	-	-	-	-	4,569,440
-	-	-	-	3,856,829	730,000	4,586,829
-	-	-	-	1,485,971	979,713	2,465,684
38,220	989,602	256,920	2,601,425	-	-	4,395,064
38,448	1,377,493	259,118	2,758,406	5,342,800	1,709,713	25,550,216
(37,913)	144,616	(253,900)	(2,731,786)	(26,368)	(1,709,521)	2,719,516
-	-	-	2,378,890	389,446	1,979,859	6,680,688
-	-	-	(110,880)	-	(555,334)	(6,772,122)
-	-	-	2,268,010	389,446	1,424,525	(91,434)
(37,913)	144,616	(253,900)	(463,776)	363,078	(284,996)	2,628,082
288,502	395,280	2,816,743	14,316,077	4,039,467	2,517,410	36,291,267
\$ 250,589	\$ 539,896	\$ 2,562,843	\$ 13,852,301	\$ 4,402,545	\$ 2,232,414	\$ 38,919,349

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
ISLAND TRANSIT
YEAR ENDED SEPTEMBER 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Intergovernmental - federal	\$ 7,663,503	\$ 1,322,201	\$ (6,341,302)
Intergovernmental - state	924,662	779,828	(144,834)
Intergovernmental - local	750,000	750,000	-
Farebox revenues	300,000	294,073	(5,927)
Charges for services	1,070,000	1,157,276	87,276
Other	15,060	38,552	23,492
Total revenues	10,723,225	4,341,930	(6,381,295)
Expenditures			
Current			
Transportation system			
Transit system			
Personnel services	1,628,511	1,628,509	2
Materials and supplies	50,735	26,116	24,619
Contractual services	938,501	820,514	117,987
Other charges	124,697	124,697	-
Total transportation system expenditures	2,742,444	2,599,836	142,608
Maintenance			
Personnel services	909,109	816,651	92,458
Materials and supplies	508,766	387,469	121,297
Contractual services	74,354	36,830	37,524
Total maintenance expenditures	1,492,229	1,240,950	251,279
Administrative services			
Personnel services	267,030	246,380	20,650
Materials and supplies	55,296	38,356	16,940
Contractual services	165,226	55,919	109,307
Other charges	1,000	108	892
Total administrative services	488,552	340,763	147,789
Capital outlay	6,000,000	53,069	5,946,931
Total expenditures	10,723,225	4,234,618	6,488,607
Revenues over (under) expenditures	-	107,312	107,312
Fund balance, beginning of year	70,910	70,910	-
Fund balance, end of year	<u>\$ 70,910</u>	<u>\$ 178,222</u>	<u>\$ 107,312</u>

**CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
ROSENBERG LIBRARY
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Property taxes - current	\$ 2,029,488	\$ 2,025,874	\$ (3,614)
Property taxes - delinquent	50,456	38,626	(11,830)
Total revenues	<u>2,079,944</u>	<u>2,064,500</u>	<u>(15,444)</u>
Expenditures			
Current			
Payments to Rosenberg Library	<u>2,079,944</u>	<u>2,064,500</u>	<u>15,444</u>
Total expenditures	<u>2,079,944</u>	<u>2,064,500</u>	<u>15,444</u>
Revenues over (under) expenditures	-	-	-
Fund balance, beginning of year	<u>(11,078)</u>	<u>(11,078)</u>	-
Fund balance, end of year	<u><u>\$ (11,078)</u></u>	<u><u>\$ (11,078)</u></u>	<u><u>\$ -</u></u>

**CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Special Revenue - Debt Service Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Property taxes	\$ 2,044,946	\$ 2,019,846	\$ (25,100)
Earnings on investments	21,000	6,454	(14,546)
Intergovernmental	2,964,040	3,290,132	326,092
Total revenues	5,029,986	5,316,432	286,446
Expenditures			
Principal retirement	4,135,000	3,856,829	278,171
Interest and fiscal agent fees	1,207,800	1,485,971	(278,171)
Total expenditures	5,342,800	5,342,800	-
Revenues over (under) expenditures	(312,814)	(26,368)	286,446
Transfer in:			
Industrial Development Corporation	389,446	389,446	-
Total other financing sources	389,446	389,446	-
Revenues and other financing sources over (under) expenditures	76,632	363,078	286,446
Fund balance, beginning of year	4,039,467	4,039,467	-
Fund balance, end of year	<u>\$ 4,116,099</u>	<u>\$ 4,402,545</u>	<u>\$ 286,446</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 the City, 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 the City, 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 POSITION
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2014**

	Business-type Activities - Enterprise Funds			
	Sanitation	Drainage	Airport	Total
ASSETS				
CURRENT ASSETS				
Cash and temporary investments	\$ 810,922	\$ 1,087,980	\$ 888,935	\$ 2,787,837
Accounts receivable, net of allowance for doubtful accounts	2,650,477	736,898	284,288	3,671,663
Due from other funds	-	-	91,499	91,499
Prepaid expenses	-	-	547	547
Restricted assets				
Cash and investments	158	1,981,401	-	1,981,559
Total current assets	3,461,557	3,806,279	1,265,269	8,533,105
NON-CURRENT ASSETS				
Capital assets not being depreciated	39,832	2,713,946	6,297,816	9,051,594
Capital assets (net of depreciation)	2,337,134	4,453,020	12,109,408	18,899,562
Total non-current assets	2,376,966	7,166,966	18,407,224	27,951,156
Total assets	5,838,523	10,973,245	19,672,493	36,484,261
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	182,365	54,240	71,502	308,107
Due to other governments	267,282	-	-	267,282
Due to other Funds	94,011	69,558	19,929	183,498
Unearned revenue	15,875	-	171,042	186,917
Long-term debt, current portion				
Compensated absences	35,000	10,500	6,500	52,000
Total current liabilities	594,533	134,298	268,973	997,804
NON-CURRENT LIABILITIES				
Long-term debt, noncurrent portion				
Compensated absences	319,050	75,308	67,757	462,115
Total non-current liabilities	319,050	75,308	67,757	462,115
Total liabilities	913,583	209,606	336,730	1,459,919
NET POSITION				
Net investment in capital assets	2,376,966	7,166,966	18,407,224	27,951,156
Restricted for debt service	158	-	-	158
Restricted for capital improvements	-	1,981,401	-	1,981,401
Unrestricted	2,547,816	1,615,272	928,539	5,091,627
Total net position	\$ 4,924,940	\$ 10,763,639	\$ 19,335,763	\$ 35,024,342

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
Operating revenues				
Charges for services	\$ 5,616,509	\$ 2,583,757	\$ 1,230,457	\$ 9,430,723
Miscellaneous	1,645	67,319	-	68,964
Total operating revenues	5,618,154	2,651,076	1,230,457	9,499,687
Operating expenses				
Personnel services	2,234,159	1,288,397	410,908	3,933,464
Contractual services	1,652,953	387,999	122,354	2,163,306
Supplies and materials	60,607	50,890	92,949	204,446
Other expenses	152,734	96,090	265,238	514,062
Administrative charge	202,656	45,599	52,087	300,342
Depreciation	351,461	415,739	654,624	1,421,824
Total operating expenses	4,654,570	2,284,714	1,598,160	8,537,444
Operating income (loss)	963,584	366,362	(367,703)	962,243
Non-operating revenues				
Intergovernmental revenue	-	-	12,898	12,898
Interest and investment revenue	2,129	6,341	1,638	10,108
Gain on disposal of capital assets	27,198	-	-	27,198
Total non-operating revenues	29,327	6,341	14,536	50,204
Income (loss) before contributions and transfers	992,911	372,703	(353,167)	1,012,447
Capital contributions	(1,807)	15,497	1,061,424	1,075,114
Transfers out	(235,706)	(101,839)	(26,429)	(363,974)
Change in net position	755,398	286,361	681,828	1,723,587
Net position, beginning of year - as restated	4,169,542	10,477,278	18,653,935	33,300,755
Net position, end of year	\$ 4,924,940	\$ 10,763,639	\$ 19,335,763	\$ 35,024,342

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
OPERATING ACTIVITIES				
Cash received from customers	\$ 5,095,633	\$ 2,611,455	\$ 1,168,450	\$ 8,875,538
Cash payments to suppliers for goods and services	(1,872,081)	(894,690)	(400,151)	(3,166,922)
Cash payments to employees	(2,217,499)	(1,300,685)	(399,297)	(3,917,481)
Administrative service charge	(202,656)	(45,599)	(52,087)	(300,342)
Net cash provided by operating activities	803,397	370,481	316,915	1,490,793
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers out	(235,706)	(101,839)	(6,500)	(344,045)
Net cash provided by (used in) noncapital financing activities	(235,706)	(101,839)	(6,500)	(344,045)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments for capital acquisitions (net of sales)	(454,605)	(622,159)	(78,019)	(1,154,783)
Net cash used in capital and related financing activities	(454,605)	(622,159)	(78,019)	(1,154,783)
INVESTING ACTIVITIES				
Interest on investments	2,129	6,341	1,638	10,108
Net cash provided by investing activities	2,129	6,341	1,638	10,108
Net increase (decrease) in equity in pooled cash and investments	115,215	(347,176)	234,034	2,073
CASH AND TEMPORARY INVESTMENTS, beginning of year	695,865	3,416,557	654,901	4,767,323
CASH AND TEMPORARY INVESTMENTS, end of year	<u>\$ 811,080</u>	<u>\$ 3,069,381</u>	<u>\$ 888,935</u>	<u>\$ 4,769,396</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

	<u>Enterprise Funds</u>			
	<u>Sanitation</u>	<u>Drainage</u>	<u>Airport</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 963,584	\$ 366,362	\$ (367,703)	\$ 962,243
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Amortization and depreciation expense	351,461	415,739	654,624	1,421,824
(Increase) decrease in accounts receivable	(522,621)	(39,621)	(80,693)	(642,935)
(Increase) decrease in due from other funds	94,011	69,558		163,569
(Increase) decrease in inventory and prepaid	-	-	62	62
Increase (decrease) in salaries and benefits payable	6,809	10,205	1,560	18,574
Increase (decrease) in accounts payable	(99,798)	(429,269)	80,328	(448,739)
Increase (decrease) in deferred revenue	100	-	18,686	18,786
Increase (decrease) in compensated absences payable	9,851	(22,493)	10,051	(2,591)
Net cash provided by operating activities	<u>\$ 803,397</u>	<u>\$ 370,481</u>	<u>\$ 316,915</u>	<u>\$ 1,490,793</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
ENTERPRISE FUND
WATER WORKS SYSTEM
YEAR ENDED SEPTEMBER 30, 2014

	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	\$ 17,098,228	\$ 17,098,228	\$ 17,069,803	\$ -	\$ 17,069,803	\$ (28,425)
Tap fees	279,200	279,200	409,278	-	409,278	130,078
Other	2,862,428	2,862,428	93,719	-	93,719	(2,768,709)
Total operating revenues	20,239,856	20,239,856	17,572,800	-	17,572,800	(2,667,056)
Operating expenses						
Personnel services	2,052,663	1,896,722	1,795,544	-	1,795,544	101,178
Materials and supplies	1,094,257	1,170,834	872,690	-	872,690	298,144
Contractual services	1,179,045	1,245,123	1,148,350	-	1,148,350	96,773
Other charges	499,677	504,845	449,149	-	449,149	55,696
Administrative service charge	637,138	637,138	637,138	-	637,138	-
Surface water contract	8,518,765	8,518,765	5,147,230	2,692,885	7,840,115	678,650
Depreciation	-	-	4,536,320	(4,536,320)	-	-
Total operating expenses	13,981,545	13,973,427	14,586,421	(1,843,435)	12,742,986	1,230,441
Operating income	6,258,311	6,266,429	2,986,379	1,843,435	4,829,814	(1,436,615)
Non-operating revenues (expenses)						
Interest earned	23,000	23,000	19,067	-	19,067	(3,933)
Interest expense	(1,025,400)	(1,025,400)	(1,007,933)	-	(1,007,933)	17,467
Principal expenditure	(1,637,678)	(1,637,678)	-	(1,637,678)	(1,637,678)	-
Capital outlay	(100,000)	(198,493)	-	(74,283)	(74,283)	124,210
Gain on disposal of capital asset	-	-	2,451	-	2,451	2,451
Amortization of bond issuance costs	(101,135)	(101,510)	135,948	-	135,948	237,458
Total non-operating revenues (expenses)	(2,841,213)	(2,940,081)	(850,467)	(1,711,961)	(2,562,428)	377,653
Income (loss) before operating transfers and capital contributions	3,417,098	3,326,348	2,135,912	131,474	2,267,386	(1,058,962)
Capital contributions	-	-	890,732	(890,732)	-	-
Operating transfer in (out)	(3,416,723)	(3,326,723)	(470,114)	-	(470,114)	2,856,609
Change in net position	375	(375)	2,556,530	(759,258)	1,797,272	1,797,647
Net position, beginning of year - as restated	67,595,257	67,595,257	67,595,257	-	67,595,257	-
Net position, end of year	\$ 67,595,632	\$ 67,594,882	\$ 70,151,787	\$ (759,258)	\$ 69,392,529	\$ 1,797,647

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
ENTERPRISE FUND
SEWER SYSTEM
YEAR ENDED SEPTEMBER 30, 2014

	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						
Sewer charges	\$ 12,715,250	\$ 12,715,250	\$ 12,779,964	\$ -	\$ 12,779,964	\$ 64,714
Tap fees	42,420	42,420	124,096	-	124,096	81,676
Waste hauler fees	98,000	98,000	110,962	-	110,962	12,962
Other	1,000	1,000	1,714	-	1,714	714
Total operating revenues	12,856,670	12,856,670	13,016,736	-	13,016,736	160,066
Operating expenses						
Personnel services	4,631,287	4,202,611	3,772,819	-	3,772,819	429,792
Materials and supplies	1,764,694	1,772,147	1,425,040	-	1,425,040	347,107
Contractual services	1,732,536	1,804,678	1,613,872	-	1,613,872	190,806
Other charges	471,693	483,125	512,091	-	512,091	(28,966)
Administrative service charge	388,869	388,869	364,315	-	364,315	24,554
Depreciation	-	-	2,622,255	(2,622,255)	-	-
Total operating expenses	8,989,079	8,651,430	10,310,392	(2,622,255)	7,688,137	963,293
Operating income	3,867,591	4,205,240	2,706,344	2,622,255	5,328,599	1,123,359
Non-operating revenues (expenses)						
Interest earned	20,000	20,000	24,907	-	24,907	4,907
Interest expense	(1,125,272)	(1,125,272)	(1,122,605)	-	(1,122,605)	2,667
Principal expenditure	(2,150,956)	(2,150,956)	-	(2,150,956)	(2,150,956)	-
Capital outlay	(101,620)	(500,978)	-	(122,797)	(122,797)	378,181
Gain on disposal of capital asset	-	-	1,861	-	1,861	1,861
Amortization of bond issuance costs	(75,020)	(75,020)	4,942	-	4,942	79,962
Total non-operating revenues (expenses)	(3,432,868)	(3,832,226)	(1,090,895)	(2,273,753)	(3,364,648)	467,578
Income before operating transfers and capital contributions	434,723	373,014	1,615,449	348,502	1,963,951	1,590,937
Capital contributions	-	-	25,157,947	(25,157,947)	-	-
Operating transfer in (out)	(434,723)	(373,014)	(1,703,931)	114,968	(1,588,963)	(1,215,949)
Change in net position	-	-	25,069,465	(24,694,477)	374,988	374,988
Net position, beginning of year - as restated	88,946,424	88,946,424	88,946,424	-	88,946,424	
Net position, end of year	\$ 88,946,424	\$ 88,946,424	\$ 114,015,889	\$ (24,694,477)	\$ 89,321,412	\$ 374,988

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
ENTERPRISE FUND
SANITATION SERVICES
YEAR ENDED SEPTEMBER 30, 2014

	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	\$ 5,236,387	\$ 5,326,387	\$ 5,616,509	\$ -	\$ 5,616,509	\$ 290,122
Other	1,500	1,500	1,645	-	1,645	145
Total operating revenues	5,237,887	5,327,887	5,618,154	-	5,618,154	290,267
Operating expenses						
Personnel services	2,335,041	2,323,629	2,234,159	-	2,234,159	89,470
Materials and supplies	69,371	69,576	60,607	-	60,607	8,969
Contractual services	1,760,388	1,770,738	1,652,953	-	1,652,953	117,785
Other charges	153,199	153,239	152,734	-	152,734	505
Administrative service charge	202,656	202,656	202,656	-	202,656	-
Depreciation	-	-	351,461	(351,461)	-	-
Total operating expenses	4,520,655	4,519,838	4,654,570	(351,461)	4,303,109	216,729
Operating income	717,232	808,049	963,584	351,461	1,315,045	506,996
Non-operating revenues (expenses)						
Interest earned	2,700	2,700	2,129	-	2,129	(571)
Capital outlay	(574,932)	(575,749)	-	(388,497)	(388,497)	187,252
Gain on disposal of capital asset	-	-	27,198	-	27,198	27,198
Total non-operating revenues (expenses)	(572,232)	(573,049)	29,327	(388,497)	(359,170)	213,879
Income (loss) before operating transfers and capital contributions	145,000	235,000	992,911	(37,036)	955,875	720,875
Capital contributions	-	-	(1,807)	1,807	-	-
Operating transfer in (out)	(235,000)	(235,000)	(235,706)	-	(235,706)	(706)
Change in net position	(90,000)	-	755,398	(35,229)	720,169	720,169
Net position, beginning of year	4,169,542	4,169,542	4,169,542	-	4,169,542	-
Net position, end of year	\$ 4,079,542	\$ 4,169,542	\$ 4,924,940	\$ (35,229)	\$ 4,889,711	\$ 720,169

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
ENTERPRISE FUND
DRAINAGE UTILITY
YEAR ENDED SEPTEMBER 30, 2014

	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	\$ 2,656,000	\$ 2,656,000	\$ 2,583,757	\$ -	\$ 2,583,757	\$ (72,243)
Other	48,000	48,000	67,319	-	67,319	19,319
Total operating revenues	2,704,000	2,704,000	2,651,076	-	2,651,076	(52,924)
Operating expenses						
Personnel services	1,696,901	1,669,488	1,288,397	-	1,288,397	381,091
Materials and supplies	87,709	74,246	50,890	-	50,890	23,356
Contractual services	378,143	391,407	387,999	-	387,999	3,408
Other charges	102,601	105,834	96,090	-	96,090	9,744
Administrative service charge	45,599	45,599	45,599	-	45,599	-
Depreciation	-	-	415,739	(415,739)	-	-
Total operating expenses	2,310,953	2,286,574	2,284,714	(415,739)	1,868,975	417,599
Operating income	393,047	417,426	366,362	415,739	782,101	364,675
Non-operating revenues (expenses)						
Interest earned	3,000	3,000	6,341	-	6,341	3,341
Capital outlay - vehicles, etc.	(100,000)	(102,598)	-	(15,363)	(15,363)	87,235
Total non-operating revenues (expenses)	(97,000)	(99,598)	6,341	(15,363)	(9,022)	90,576
Income before operating transfers and capital contributions	296,047	317,828	372,703	400,376	773,079	455,251
Capital contributions	-	-	15,497	(15,497)	-	-
Operating transfer in (out)	(798,835)	(820,616)	(101,839)	-	(101,839)	718,777
Change in net position	(502,788)	(502,788)	286,361	384,879	671,240	1,174,028
Net position, beginning of year	10,477,278	10,477,278	10,477,278	-	10,477,278	-
Net position, end of year	<u>\$ 9,974,490</u>	<u>\$ 9,974,490</u>	<u>\$ 10,763,639</u>	<u>\$ 384,879</u>	<u>\$ 11,148,518</u>	<u>\$ 1,174,028</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
ENTERPRISE FUND
AIRPORT
YEAR ENDED SEPTEMBER 30, 2014

	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						
Building rental	\$ 49,631	\$ 49,631	\$ 53,839	\$ -	\$ 53,839	\$ 4,208
Hangar rental	10,149	10,149	9,984	-	9,984	(165)
Terminal space rental	47,361	47,361	47,319	-	47,319	(42)
Land lease rental	804,726	804,726	787,117	-	787,117	(17,609)
Oil company receipts	40,000	40,000	14,178	-	14,178	(25,822)
Other	350,000	350,000	318,020	-	318,020	(31,980)
Total operating revenues	1,301,867	1,301,867	1,230,457	-	1,230,457	(71,410)
Operating expenses						
Personnel services	393,928	410,908	410,908	-	410,908	-
Materials and supplies	110,329	112,196	92,949	-	92,949	19,247
Contractual services	123,580	130,806	122,354	-	122,354	8,452
Other charges and bad debt expense	164,867	157,431	265,238	-	265,238	(107,807)
Administrative service charge	52,087	52,087	52,087	-	52,087	-
Depreciation	-	-	654,624	(654,624)	-	-
Total operating expenses	844,791	863,428	1,598,160	(654,624)	943,536	(80,108)
Operating income (loss)	457,076	438,439	(367,703)	654,624	286,921	(151,518)
Non-operating revenues (expenses)						
Intergovernmental revenue	50,000	50,000	12,898	-	12,898	(37,102)
Interest earned	2,300	2,300	1,638	-	1,638	(662)
Capital outlay - improvements	(350,000)	(328,020)	-	(53,142)	(53,142)	274,878
Total non-operating revenues (expenses)	(297,700)	(275,720)	14,536	(53,142)	(38,606)	237,114
Income (loss) before capital contributions	159,376	162,719	(353,167)	601,482	248,315	85,596
Capital contributions	-	-	1,061,424	(1,061,424)	-	-
Operating transfer in (out)	-	-	(26,429)	-	(26,429)	(26,429)
Change in net position	159,376	162,719	681,828	(459,942)	221,886	59,167
Net position, beginning of year	18,653,935	18,653,935	18,653,935	-	18,653,935	
Net position, end of year	\$ 18,813,311	\$ 18,816,654	\$ 19,335,763	\$ (459,942)	\$ 18,875,821	\$ 59,167

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 Service – 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.

Separation Pay – To account for the final payout of employees accrued benefits at the separation of employment.

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2014**

	Central Garage	Casualty and Liability Insurance	Central Service
ASSETS			
CURRENT ASSETS			
Cash and temporary investments	\$ 1,514,985	\$ 1,532,703	\$ 642,218
Accounts receivable, net of allowance for doubtful accounts	178,400	2,006	-
Inventories	195,813	-	3,048
Prepaid expenses	-	327,986	-
Restricted assets			
Cash and investments	-	-	275,491
Total current assets	1,889,198	1,862,695	920,757
NON-CURRENT ASSETS			
Capital assets (net of depreciation)	97,712	22,584	5,431,948
Total non-current assets	97,712	22,584	5,431,948
Total assets	1,986,910	1,885,279	6,352,705
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	115,896	103,488	63,927
Accrued interest payable	-	-	62,041
Due to Other Funds	-	-	238
Long-term debt, current portion			
Claims and judgments	-	-	-
Notes payable	-	-	100,951
Bonds and certificates of obligation payable	-	-	101,700
Total current liabilities	115,896	103,488	328,857
NON-CURRENT LIABILITIES			
Long-term debt, noncurrent portion			
Compensated absences	146,271	24,910	231,105
Claims and judgments	-	-	-
Contracts payable	-	-	-
Notes payable	-	-	835,582
Bonds and certification of obligation payable	-	-	2,883,921
Total non-current liabilities	146,271	24,910	3,950,608
Total liabilities	262,167	128,398	4,279,465
NET POSITION			
Net investment in capital assets	97,712	22,584	2,446,321
Restricted for debt service	-	-	275,491
Unrestricted	1,627,031	1,734,297	(648,572)
Total net position	\$ 1,724,743	\$ 1,756,881	\$ 2,073,240

The Notes to the Basic Financial Statements
are an integral part of this statement.

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Separation Pay	Total
\$ 93,247	\$ 1,378,974	\$ 4,507,842	\$ 38,499	\$ 9,708,468
-	-	20,249	-	200,655
-	-	-	-	198,861
-	-	-	-	327,986
-	-	-	-	275,491
93,247	1,378,974	4,528,091	38,499	10,711,461
-	-	-	-	5,552,244
-	-	-	-	5,552,244
93,247	1,378,974	4,528,091	38,499	16,263,705
303	18,096	41,941	-	343,651
-	-	-	-	62,041
-	-	-	-	238
-	184,108	-	-	184,108
-	-	-	-	100,951
-	-	-	-	101,700
303	202,204	41,941	-	792,689
87,199	-	-	-	489,485
-	586,928	486,838	-	1,073,766
-	-	3,080,617	-	3,080,617
-	-	-	-	835,582
-	-	-	-	2,883,921
87,199	586,928	3,567,455	-	8,363,371
87,502	789,132	3,609,396	-	9,156,060
-	-	-	-	2,566,617
-	-	-	-	275,491
5,745	589,842	918,695	38,499	4,265,537
<u>\$ 5,745</u>	<u>\$ 589,842</u>	<u>\$ 918,695</u>	<u>\$ 38,499</u>	<u>\$ 7,107,645</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	Central Garage	Casualty and Liability Insurance	Central Service
Operating revenues			
Charges for services	\$ 4,921,411	\$ 2,136,552	\$ 2,566,765
Miscellaneous	10,757	-	-
Total operating revenues	4,932,168	2,136,552	2,566,765
Operating expenses			
Personnel services	1,137,903	137,020	1,075,113
Contractual services	424,417	27,515	599,242
Supplies and materials	3,070,198	2,467	234,777
Insurance claims and premiums	-	1,524,509	-
Other expenses	419,173	748	35,148
Depreciation	16,204	-	332,334
Total operating expenses	5,067,895	1,692,259	2,276,614
Operating income (loss)	(135,727)	444,293	290,151
Non-operating revenues (expenses)			
Interest and investment revenue	3,143	2,103	1,297
Insurance proceeds	58,398	-	-
Gain (loss) on disposal of capital assets	-	2,006	-
Interest expense	-	-	(193,870)
Other expense	-	-	-
Total non-operating revenues (expenses)	61,541	4,109	(192,573)
Income (loss) before contributions and transfers	(74,186)	448,402	97,578
Transfers in	-	-	-
Transfers out	-	-	(238)
Change in net position	(74,186)	448,402	97,340
Net position, beginning of year - as restated	1,798,929	1,308,479	1,975,900
Net position, end of year	<u>\$ 1,724,743</u>	<u>\$ 1,756,881</u>	<u>\$ 2,073,240</u>

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Separation Pay	Total
\$ -	\$ 715,185	\$ 5,791,429	\$ -	\$ 16,131,342
-	-	-	-	10,757
-	715,185	5,791,429	-	16,142,099
39,403	-	-	813,898	3,203,337
35,991	-	-	-	1,087,165
3,527	-	-	-	3,310,969
-	487,391	5,775,439	-	7,787,339
10,237	998	353,652	-	819,956
-	-	-	-	348,538
89,158	488,389	6,129,091	813,898	16,557,304
(89,158)	226,796	(337,662)	(813,898)	(415,205)
7	2,590	9,168	15	18,323
-	-	-	-	58,398
-	-	-	-	2,006
-	-	-	-	(193,870)
-	-	(25)	-	(25)
7	2,590	9,143	15	(115,168)
(89,151)	229,386	(328,519)	(813,883)	(530,373)
89,151	-	-	852,382	941,533
-	-	-	-	(238)
-	229,386	(328,519)	38,499	410,922
5,745	360,456	1,247,214	-	6,696,723
<u>\$ 5,745</u>	<u>\$ 589,842</u>	<u>\$ 918,695</u>	<u>\$ 38,499</u>	<u>\$ 7,107,645</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Central Garage</u>	<u>Casualty and Liability Insurance</u>
OPERATING ACTIVITIES		
Receipts from customers and users	\$ 4,816,631	\$ 2,134,546
Disbursed for personnel services	(1,135,191)	(131,294)
Disbursed for goods and services	(3,941,134)	(1,543,075)
Net cash provided by (used in) operating activities	(259,694)	460,177
NONCAPITAL FINANCING ACTIVITIES		
Interfund transfers in	-	-
Interfund transfers out	-	-
Proceeds from insurance	58,398	-
Net cash provided by (used in) noncapital financing activities	58,398	-
CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for capital acquisitions (net of sales)	-	-
Proceeds from sale of capital assets	-	2,005
Principal payment on debt - bond	-	-
Principal payment on debt - capital leases	-	-
Interest payments on notes payable	-	-
Interest payments on revenue bonds	-	-
Net cash provided by (used in) capital and related financing activities	-	2,005
INVESTING ACTIVITIES		
Interest received	3,143	2,103
Net cash provided by investing activities	3,143	2,103
Net increase (decrease) in equity in pooled cash and investments	(198,153)	464,285
CASH AND TEMPORARY INVESTMENTS, beginning of year	1,713,138	1,068,418
CASH AND TEMPORARY INVESTMENTS, end of year	<u>\$ 1,514,985</u>	<u>\$ 1,532,703</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ (135,727)	\$ 444,293
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	16,204	-
Decrease in accounts receivable	(115,537)	(2,006)
Decrease in inventory	(10,029)	-
Decrease in prepaid expenses	-	(22,085)
Increase (decrease) in accounts payable	(17,317)	34,249
Increase (decrease) in salaries payable	-	-
Increase in compensated absences payable	2,712	5,726
Net cash provided by (used in) operating activities	<u>\$ (259,694)</u>	<u>\$ 460,177</u>

Central Service	Construction Management	Workers Compensation Insurance	Health and Life Insurance	Separation Pay	Total
\$ 2,566,765	\$ -	\$ 715,185	\$ 5,982,863	\$ -	\$ 16,215,990
(1,064,951)	(29,927)	-	-	(813,898)	(3,175,261)
<u>(1,003,517)</u>	<u>(49,609)</u>	<u>(557,721)</u>	<u>(5,680,567)</u>	<u>-</u>	<u>(12,775,623)</u>
498,297	(79,536)	157,464	302,296	(813,898)	265,106
-	89,151	-	-	852,382	941,533
-	-	-	-	-	-
-	-	-	-	-	58,398
-	89,151	-	-	852,382	999,931
(119,967)	-	-	-	-	(119,967)
-	-	-	-	-	2,005
(96,060)	-	-	-	-	(96,060)
(96,890)	-	-	-	-	(96,890)
(42,864)	-	-	-	-	(42,864)
<u>(151,308)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(151,308)</u>
(507,089)	-	-	-	-	(505,084)
1,297	7	2,590	9,168	15	18,323
<u>1,297</u>	<u>7</u>	<u>2,590</u>	<u>9,168</u>	<u>15</u>	<u>18,323</u>
(7,495)	9,622	160,054	311,464	38,499	778,276
<u>925,204</u>	<u>83,625</u>	<u>1,218,920</u>	<u>4,196,378</u>	<u>-</u>	<u>9,205,683</u>
<u>\$ 917,709</u>	<u>\$ 93,247</u>	<u>\$ 1,378,974</u>	<u>\$ 4,507,842</u>	<u>\$ 38,499</u>	<u>\$ 9,983,959</u>
\$ 290,151	\$ (89,158)	\$ 226,796	\$ (337,662)	\$ (813,898)	\$ (415,205)
332,334	-	-	-	-	348,538
-	-	-	191,434	-	73,891
(758)	-	-	-	-	(10,787)
-	-	-	-	-	(22,085)
(133,592)	146	(69,332)	448,524	-	262,678
-	-	-	-	-	-
<u>10,162</u>	<u>9,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,076</u>
<u>\$ 498,297</u>	<u>\$ (79,536)</u>	<u>\$ 157,464</u>	<u>\$ 302,296</u>	<u>\$ (813,898)</u>	<u>\$ 265,106</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, 2013.

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

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
ASSETS				
Cash and temporary investments	\$ -	\$ -	\$ 1,646,319	\$ 1,646,319
Receivables				
Interest and dividends	75,607	43,543	19,857	139,007
Loans to participants	172,988	-	-	172,988
Total receivables	248,595	43,543	19,857	311,995
Investments				
Money market funds	194,623	728,452	-	923,075
U.S. Government agencies	1,201,114	-	-	1,201,114
Bonds	3,008,181	-	-	3,008,181
Common stocks	8,934,488	17,467,415	17,895,307	44,297,210
Mutual funds (equity funds)	6,865,655	6,638,159	7,455,602	20,959,416
Bond mutual funds	2,287,461	18,971,920	10,089,934	31,349,315
Alternative investments	-	-	3,932,982	3,932,982
Total investments	22,491,522	43,805,946	39,373,825	105,671,293
Prepaid benefits	-	-	-	-
TOTAL ASSETS	\$ 22,740,117	\$ 43,849,489	\$ 41,040,001	\$ 107,629,607
LIABILITIES				
Accounts payable	\$ 24,813	\$ 23,848	\$ 1,627	\$ 50,288
TOTAL LIABILITIES	24,813	23,848	1,627	50,288
NET POSITION				
Held in trust for benefits and other purposes	\$ 22,715,304	\$ 43,825,641	\$ 41,038,374	\$ 107,579,319

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CHANGES IN
FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2013**

	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
ADDITIONS				
Contributions				
Employer	\$ 1,114,126	\$ 1,583,356	\$ 945,945	\$ 3,643,427
Plan members	1,113,812	1,054,201	1,075,902	3,243,915
Total contributions	2,227,938	2,637,557	2,021,847	6,887,342
Investment earnings				
Net increase in fair value of investments	2,792,904	5,349,888	4,916,836	13,059,628
Interest	260,484	-	607,129	867,613
Dividends	360,240	1,174,540	-	1,534,780
Investment activity expense	(129,820)	(230,551)	(155,580)	(515,951)
Total net investment earnings	3,283,808	6,293,877	5,368,385	14,946,070
Other income	-	-	1,830	1,830
Total additions - investments and contributions	5,511,746	8,931,434	7,392,062	21,835,242
DEDUCTIONS				
Benefits	3,864,219	3,964,629	2,791,019	10,619,867
Employee contribution refunds	-	-	310,852	310,852
Administrative	113,501	136,324	91,123	340,948
Total deductions	3,977,720	4,100,953	3,192,994	11,271,667
Change in net position	1,534,026	4,830,481	4,199,068	10,563,575
Net position, beginning of year	21,181,278	38,995,160	36,839,306	97,015,744
Net position, end of year	\$ 22,715,304	\$ 43,825,641	\$ 41,038,374	\$ 107,579,319

**CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

ASSETS	<u>September 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2014</u>
Cash and temporary investments	\$ 1,140,734	\$ 221,173	\$ -	\$ 1,361,907
Total assets	<u>\$ 1,140,734</u>	<u>\$ 221,173</u>	<u>\$ -</u>	<u>\$ 1,361,907</u>
 LIABILITIES				
Accounts payable and other current liabilities	\$ -	\$ 5,060	\$ -	\$ 5,060
Refunds payable and others	1,140,734	216,113	-	1,356,847
Total liabilities	<u>\$ 1,140,734</u>	<u>\$ 221,173</u>	<u>\$ -</u>	<u>\$ 1,361,907</u>

MAJOR DISCRETELY PRESENTED COMPONENT UNITS

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

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District	Totals
ASSETS					
Cash and equivalents	\$ 5,507,276	\$ 7,096,181	\$ -	\$ -	\$ 12,603,457
Investments	3,013,031	-	-	-	3,013,031
Receivables - less allowance for uncollectibles	2,639,442	100,038	92,541	-	2,832,021
Due from other governments	-	31,930	-	-	31,930
Inventories	11,923	-	-	-	11,923
Prepaid items	259,272	-	-	-	259,272
Deferred charges	-	-	-	-	-
Restricted assets	-	-	-	-	-
Capital assets not being depreciated	1,576,547	-	-	-	1,576,547
Capital assets (net of accumulated depreciation)	337,626,830	-	-	-	337,626,830
Total assets	350,634,321	7,228,149	92,541	-	357,955,011
LIABILITIES					
Accounts payable and accrued expenses	2,737,540	2,799,465	-	13,355	5,550,360
Accrued interest payable	10,686	-	-	-	10,686
Due to other governments	-	-	-	-	-
Long-term debt liabilities					
Due within one year	581,357	665,000	-	-	1,246,357
Due in more than one year	2,570,640	19,439,172	-	-	22,009,812
Total liabilities	5,900,223	22,903,637	-	13,355	28,817,215
NET POSITION (DEFICIT)					
Net investment in capital assets	336,059,232	-	-	-	336,059,232
Restricted					
Capital projects	-	-	-	-	-
Debt service	136,702	1,348,669	-	-	1,485,371
Unrestricted	8,538,164	(17,024,157)	92,541	(13,355)	(8,406,807)
Total net position (deficit)	\$ 344,734,098	\$ (15,675,488)	\$ 92,541	\$ (13,355)	\$ 329,137,796

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2014**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
Component Unit			
Park Board of Trustees	\$ 29,379,260	\$ 4,568,039	\$ 2,570,887
Galveston Island Redevelopments Authority	9,015,945	-	-
Campeche Shores - Public Improvement District No. 1	89,670	-	-
Beachside Village - Public Improvement District	85,470	-	-
Total governmental activities	<u>\$ 38,570,345</u>	<u>\$ 4,568,039</u>	<u>\$ 2,570,887</u>

GENERAL REVENUES

Taxes:

Property taxes

Hotel occupancy taxes

Unrestricted investment earnings

Capital asset contributions, net

Total general revenues and extraordinary items

Change in net position

NET POSITION (DEFICIT), beginning of year

NET POSITION (DEFICIT), end of year

Net (Expense) and Changes in Net Position

Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District	Totals
\$ (22,240,334)	\$ -	\$ -	\$ -	\$ (22,240,334)
-	(9,015,945)	-	-	(9,015,945)
-	-	(89,670)	-	(89,670)
-	-	-	(85,470)	(85,470)
<u>(22,240,334)</u>	<u>(9,015,945)</u>	<u>(89,670)</u>	<u>(85,470)</u>	<u>(31,431,419)</u>
-	3,480,930	88,200	77,946	3,647,076
8,826,339	-	-	-	8,826,339
27,917	1,798	-	-	29,715
16,092,355	-	-	-	16,092,355
<u>24,946,611</u>	<u>3,482,728</u>	<u>88,200</u>	<u>77,946</u>	<u>28,595,485</u>
2,706,277	(5,533,217)	(1,470)	(7,524)	(2,835,934)
<u>342,027,821</u>	<u>(10,142,271)</u>	<u>94,011</u>	<u>(5,831)</u>	<u>331,973,730</u>
<u>\$ 344,734,098</u>	<u>\$ (15,675,488)</u>	<u>\$ 92,541</u>	<u>\$ (13,355)</u>	<u>\$ 329,137,796</u>

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
BUSINESS ACTIVITY TYPES
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
ASSETS				
Cash and equivalents	\$ 9,541,824	\$ 212,515	\$ 57,781	\$ 9,812,120
Receivables - less allowance for uncollectibles	13,538,704	-	-	13,538,704
Internal balances	-	(85,348)	85,348	-
Restricted assets				
Cash and temporary investments	21,444,652	-	-	21,444,652
Prepays	774,902	-	-	774,902
Other assets	199,146	-	-	199,146
Net investments in direct financing and capital leases - non-current	2,456,136	-	-	2,456,136
Capital assets not being depreciated	37,194,789	41,137	805,188	38,041,114
Capital assets (net of accumulated depreciation)	100,443,741	-	-	100,443,741
Total assets	185,593,894	168,304	948,317	186,710,515
LIABILITIES				
Accounts payable and accrued expenses	3,592,334	7,187	11,855	3,611,376
Accrued interest	786,776	-	-	786,776
Due to primary government	187,302	-	-	187,302
Long-term liabilities				
Due within one year	5,867,863	-	-	5,867,863
Due in more than one year	46,411,219	-	-	46,411,219
Total liabilities	56,845,494	7,187	11,855	56,864,536
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on refunding	188,841	-	-	188,841
Total deferred inflows of resources	188,841	-	-	188,841
NET POSITION				
Net investment in capital assets	103,644,735	-	-	103,644,735
Restricted for:				
Debt service	6,202,683	-	-	6,202,683
Unrestricted	18,712,141	161,117	936,462	19,809,720
Total net position	\$ 128,559,559	\$ 161,117	\$ 936,462	\$ 129,657,138

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
BUSINESS ACTIVITY TYPES
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Unit				
Business-type Activities:				
Board of Trustees of Galveston Wharves	\$ 27,491,457	\$ 24,767,493	\$ -	\$ 15,958,039
Galveston Housing Finance Corporation	19,122	8,363	-	-
Galveston Property Finance Authority	50,914	-	-	-
Total governmental activities	<u>\$ 27,561,493</u>	<u>\$ 24,775,856</u>	<u>\$ -</u>	<u>\$ 15,958,039</u>

GENERAL REVENUES

Unrestricted investment earnings
Other income

Total general revenues and transfers

Change in net position

NET POSITION, beginning of year - as restated

NET POSITION, end of year

Net (Expense) and Changes in Net Position			
Component Unit			
Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Totals
\$ 13,234,075	\$ -	\$ -	\$ 13,234,075
-	(10,759)	-	(10,759)
-	-	(50,914)	(50,914)
<u>13,234,075</u>	<u>(10,759)</u>	<u>(50,914)</u>	<u>13,172,402</u>
201,126	572	31	201,729
-	-	58,010	58,010
<u>201,126</u>	<u>572</u>	<u>58,041</u>	<u>259,739</u>
13,435,201	(10,187)	7,127	13,432,141
<u>115,124,358</u>	<u>171,304</u>	<u>929,335</u>	<u>116,224,997</u>
<u>\$ 128,559,559</u>	<u>\$ 161,117</u>	<u>\$ 936,462</u>	<u>\$ 129,657,138</u>

STATISTICAL SECTION
(Unaudited)

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.

FINANCIAL TRENDS INFORMATION – information to help the reader understand how the City of Galveston's financial performance and well-being have changed over time.

- 1 Net position by component
- 2 Changes in net position
- 3 Fund balances, governmental funds
- 4 Changes in fund balances, governmental funds

REVENUE CAPACITY INFORMATION – information to help the reader assess the City of Galveston's most significant local revenue source, the property tax.

- 5 Assessed value and estimated actual value of taxable property
- 6 Direct and overlapping property tax rates
- 7 Principal property tax payers
- 8 Property tax levies and collections

DEBT CAPACITY INFORMATION – 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.

- 9 Ratios of outstanding debt by type
- 10 Ratios of net general bonded debt outstanding
- 11 Direct and overlapping governmental activities debt

DEMOGRAPHIC ECONOMIC INFORMATION – information to help the reader understand the environment within which the City of Galveston's financial activities take place.

- 12 Demographic and economic statistics
- 13 Principal employers

OPERATING INFORMATION – information in the City of Galveston's financial report relates to the services the city provides and the activities it performs.

- 14 Full-time equivalent city government employees by function/program
- 15 Operating indicators by function/program
- 16 Capital asset statistics by function/program

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

Table 1
City of Galveston
Net Position by Component (in thousands)
Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
Invested in capital assets, net of related debt	\$ 29,356	\$ 25,631	\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300	\$ 98,510	\$ 90,856	\$ 102,988	\$ 110,071
Restricted	4,894	10,791	18,757	19,950	25,689	26,256	25,326	25,670	22,388	26,170
Unrestricted	8,012	11,081	5,912	6,113	18,853	26,157	10,861	31,737	33,857	30,237
Total governmental activities net position	<u>\$ 42,262</u>	<u>\$ 47,503</u>	<u>\$ 61,996</u>	<u>\$ 75,336</u>	<u>\$ 94,149</u>	<u>\$ 150,713</u>	<u>\$ 134,697</u>	<u>\$ 148,262</u>	<u>\$ 159,233</u>	<u>\$ 166,478</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 70,442	\$ 71,492	\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051	\$ 99,989	\$ 80,157	\$ 181,656	\$ 181,656
Restricted	3,301	9,502	10,327	11,053	7,173	10,949	11,886	11,920	21,326	21,326
Unrestricted	3,069	5,817	13,967	12,364	24,354	20,713	22,183	70,504	18,221	18,221
Total business-type activities net position	<u>\$ 76,812</u>	<u>\$ 86,811</u>	<u>\$ 98,285</u>	<u>\$ 87,765</u>	<u>\$ 96,566</u>	<u>\$ 110,713</u>	<u>\$ 134,058</u>	<u>\$ 162,582</u>	<u>\$ 221,202</u>	<u>\$ 221,202</u>
Primary government										
Invested in capital assets, net of related debt	\$ 99,798	\$ 97,123	\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351	\$ 198,499	\$ 171,013	\$ 284,644	\$ 291,727
Restricted	8,195	20,293	29,084	31,003	32,862	37,205	37,212	37,590	43,714	47,496
Unrestricted	11,081	16,898	19,879	18,477	43,207	46,870	33,044	102,241	52,078	48,457
Total primary government net position	<u>\$ 119,074</u>	<u>\$ 134,314</u>	<u>\$ 160,281</u>	<u>\$ 163,101</u>	<u>\$ 190,715</u>	<u>\$ 261,426</u>	<u>\$ 268,755</u>	<u>\$ 310,844</u>	<u>\$ 380,435</u>	<u>\$ 387,680</u>

Table 2
City of Galveston
Changes in Net Position (in thousands)
Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Expenses				
Governmental activities:				
General government	\$ 4,662	\$ 4,924	\$ 5,166	\$ 5,307
Public safety	24,110	24,876	27,040	32,145
Public works	4,332	5,113	5,990	12,735
Culture and recreation	5,211	7,025	8,258	9,020
Planning and community development	2,375	4,202	4,483	4,936
Transportation system	4,032	4,269	5,552	4,548
Interest on long-term debt	2,866	3,649	3,096	2,839
Total governmental activities expenses	<u>47,588</u>	<u>54,058</u>	<u>59,585</u>	<u>71,530</u>
Business-type activities:				
Waterworks	10,956	11,850	12,999	13,350
Sewer system	7,921	9,229	11,536	10,806
Sanitation	3,376	3,541	3,781	3,808
Drainage	1,085	1,342	1,312	1,651
Airport	933	1,128	1,201	1,185
Golf course	1,010	1,028	333	-
Total business-type activities expenses	<u>25,281</u>	<u>28,118</u>	<u>31,162</u>	<u>30,800</u>
Total primary government expenses	<u>72,869</u>	<u>82,176</u>	<u>90,747</u>	<u>102,330</u>
Program Revenues				
Governmental activities:				
Charges for services				
General government	1,254	1,322	1,400	1,552
Public safety	2,451	2,739	3,133	3,338
Public works	26	20	21	37
Culture and recreation	40	6	407	166
Planning and community development	2,273	2,231	1,620	1,119
Transportation system	522	698	939	697
Operating grants and contributions				
General government	-	-	-	-
Public safety	1,090	956	487	312
Public works	-	-	-	-
Culture and recreation	95	83	767	936
Planning and community development	1,559	2,199	2,021	2,244
Transportation system	2,295	2,396	2,455	3,136
Capital grants and contributions				
General government	-	-	-	-
Public safety	-	-	-	5,086
Public works	-	-	-	10,752
Culture and recreation	116	-	9,557	8,656
Planning and community development	-	-	-	-
Transportation system	2,440	1,575	1,735	1,501
Total governmental activities program revenues	<u>14,161</u>	<u>14,225</u>	<u>24,542</u>	<u>39,532</u>
Business-type activities:				
Charges for services				
Waterworks	11,230	14,173	14,309	14,640
Sewer system	9,409	11,395	12,799	12,259
Sanitation	3,932	4,240	4,587	4,360
Drainage	1,816	2,710	2,800	2,691
Airport	875	937	1,071	960
Golf course	912	827	189	-
Capital grants and contributions				
Waterworks	-	-	-	-
Sewer system	-	-	-	-
Drainage	-	-	-	-
Airport	1,178	2,680	6,065	1,925
Total business-type activities program revenues	<u>29,352</u>	<u>36,962</u>	<u>41,820</u>	<u>36,835</u>
Total primary government program revenues	<u>43,513</u>	<u>51,187</u>	<u>66,362</u>	<u>76,367</u>
Net (Expense)/Revenues				
Governmental activities	(33,427)	(39,833)	(35,043)	(31,998)
Business-type activities	4,071	8,844	10,658	6,035
Total primary government net expense	<u>\$ (29,356)</u>	<u>\$ (30,989)</u>	<u>\$ (24,385)</u>	<u>\$ (25,963)</u>

Fiscal Year						
	2009	2010	2011	2012	2013	2014
\$	5,742	\$ 8,484	\$ 7,413	\$ 5,164	\$ 6,874	\$ 7,864
	29,390	29,180	27,056	26,919	28,075	29,542
	69,234	25,590	23,631	6,925	6,847	6,504
	10,764	8,289	8,820	9,672	9,082	11,300
	4,237	7,902	31,723	12,942	11,972	5,246
	5,120	5,347	4,649	24,150	8,164	6,804
	2,757	2,868	2,555	4,909	1,716	2,160
	<u>127,244</u>	<u>87,660</u>	<u>105,847</u>	<u>90,681</u>	<u>72,730</u>	<u>69,420</u>
	13,060	14,165	15,519	14,001	13,990	15,402
	9,900	11,202	11,058	10,991	11,669	11,505
	3,907	3,999	4,108	4,176	4,382	4,781
	1,700	1,737	1,750	1,959	1,873	2,356
	1,073	1,127	1,496	1,468	1,499	1,579
	-	-	-	-	-	-
	<u>29,640</u>	<u>32,230</u>	<u>33,931</u>	<u>32,594</u>	<u>33,412</u>	<u>35,623</u>
	<u>156,884</u>	<u>119,890</u>	<u>139,778</u>	<u>123,275</u>	<u>106,142</u>	<u>105,043</u>
	1,628	1,717	1,841	2,159	1,884	1,873
	2,595	2,310	3,030	2,554	2,417	2,246
	30	50	318	-	-	-
	8	2	1	2	2	-
	1,890	1,282	1,441	1,379	1,402	1,845
	461	508	650	840	1,575	1,875
	489	3,336	176	-	-	-
	1,646	5,234	537	181	249	254
	76,730	37,424	281	-	-	-
	980	963	734	116	139	180
	1,653	5,069	25,706	31,006	11,118	9,067
	3,034	6,749	3,015	2,771	2,789	3,559
	316	-	-	-	-	-
	-	-	-	-	-	-
	-	25,298	10,247	1,718	71	13
	2	23	3	-	-	-
	-	-	12,398	23,385	27,313	24,112
	448	2,934	1,392	3,525	3,858	799
	<u>91,910</u>	<u>92,899</u>	<u>61,770</u>	<u>69,636</u>	<u>52,818</u>	<u>45,822</u>
	14,168	14,988	16,132	16,834	17,482	17,510
	11,082	11,523	12,108	12,365	12,968	13,015
	3,888	4,257	4,247	4,655	5,088	5,617
	2,418	2,567	2,507	2,517	2,564	2,584
	783	1,312	804	1,186	1,236	1,230
	-	-	-	-	-	-
	-	-	-	501	-	-
	-	-	-	1,127	-	-
	-	-	-	330	-	-
	2,253	11,964	2,700	2,413	26	999
	<u>34,592</u>	<u>46,611</u>	<u>38,498</u>	<u>41,927</u>	<u>39,363</u>	<u>40,955</u>
	<u>126,502</u>	<u>139,510</u>	<u>100,268</u>	<u>111,563</u>	<u>92,181</u>	<u>86,777</u>
	(35,334)	5,239	(44,077)	(21,045)	(19,912)	(23,598)
	4,952	14,381	4,567	9,333	5,951	5,332
	<u>\$ (30,382)</u>	<u>\$ 19,620</u>	<u>\$ (39,510)</u>	<u>\$ (11,712)</u>	<u>\$ (13,962)</u>	<u>\$ (18,266)</u>

Table 2
City of Galveston
Changes in Net Position (in thousands)
Last Ten Fiscal Years
 (accrual basis of accounting)
 (unaudited)
 (Continued)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes, levied for general purposes	\$ 13,838	\$ 15,480	\$ 16,333	\$ 18,640
Sales and use taxes	14,425	16,850	17,498	17,747
Hotel occupancy taxes	3,418	4,122	4,619	4,958
Franchise taxes	4,880	5,149	5,375	5,450
Payments in lieu of taxes	596	655	737	126
Net loss on sale of asset	-	-	-	-
Unrestricted investment earnings	753	1,650	2,439	1,483
Miscellaneous	641	669	844	224
Capital contributions	-	-	-	-
Loss of assets due to Hurricane Ike	-	-	-	(2,022)
Impairment of capital assets due to Hurricane Ike	-	-	-	(1,867)
Insurance proceeds	-	-	-	-
Transfers	500	500	1,690	600
Total governmental activities	<u>39,051</u>	<u>45,075</u>	<u>49,535</u>	<u>45,339</u>
Business-type activities:				
Net (loss) gain on sale of asset	20	(271)	2,454	1,805
Unrestricted investment earnings	447	1,755	52	136
Miscellaneous	-	170	-	-
Impairment of capital assets due to Hurricane Ike	-	-	-	(17,897)
Insurance proceeds	-	-	-	-
Transfers	(500)	(500)	(1,690)	(600)
Total business-type activities	<u>(33)</u>	<u>1,154</u>	<u>816</u>	<u>(16,556)</u>
Total primary government	<u>39,018</u>	<u>46,229</u>	<u>50,351</u>	<u>28,783</u>
Change in Net Position				
Governmental activities	5,624	5,242	14,492	13,341
Business-type activities	4,038	9,998	11,474	(10,521)
Total primary government	<u>\$ 9,662</u>	<u>\$ 15,240</u>	<u>\$ 25,966</u>	<u>\$ 2,820</u>

Fiscal Year						
2009	2010	2011	2012	2013	2014	
\$ 19,718	\$ 18,270	\$ 20,087	\$ 21,489	\$ 21,988	\$ 22,920	
18,588	15,705	16,589	17,712	18,638	19,978	
3,742	4,058	4,722	5,507	5,500	6,092	
4,807	4,756	5,009	5,073	5,043	5,267	
120	120	120	119	125	165	
-	-	-	-	-	-	
219	115	89	122	179	120	
418	438	1,113	3,418	2,535	927	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
1,112	-	-	-	-	-	
4,863	7,170	-	-	-	-	
562	695	(18,863)	(18,830)	(23,124)	(23,601)	
<u>54,149</u>	<u>51,327</u>	<u>28,866</u>	<u>34,609</u>	<u>30,884</u>	<u>31,868</u>	
877	169	-	-	-	-	
28	106	155	132	153	54	
-	-	158	228	4,075	165	
-	(34)	-	-	-	-	
3,509	220	-	-	-	-	
(562)	(695)	18,863	18,830	23,124	23,601	
<u>3,852</u>	<u>(234)</u>	<u>19,176</u>	<u>19,191</u>	<u>27,352</u>	<u>23,821</u>	
<u>58,001</u>	<u>51,093</u>	<u>48,042</u>	<u>53,800</u>	<u>58,235</u>	<u>55,689</u>	
18,815	56,566	(15,211)	13,565	10,971	8,270	
8,804	14,147	23,743	28,524	33,303	29,153	
<u>\$ 27,619</u>	<u>\$ 70,713</u>	<u>\$ 8,532</u>	<u>\$ 42,088</u>	<u>\$ 44,274</u>	<u>\$ 37,423</u>	

Table 3
City of Galveston
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund				
Non-spendable				
Inventory	\$ -	\$ -	\$ 8,255	\$ -
Prepaid items	200,997	206,920	190,081	86,688
Restricted				
Debt service	-	-	-	-
Committed				
Emergency reserves	1,917,994	2,053,226	2,425,226	2,625,226
Other	-	-	-	-
Assigned	-	-	-	-
Unassigned	7,252,569	9,840,129	11,227,881	11,421,882
Total general fund	<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>	<u>\$ 13,851,443</u>	<u>\$ 14,133,796</u>
All Other Governmental Funds				
Non-spendable				
Inventory	\$ 216,159	\$ 255,735	\$ 311,042	\$ 363,026
Restricted				
Debt service	5,663,207	6,663,217	6,819,760	7,044,374
Beach preservation	-	-	-	-
Capital projects	7,359,277	14,555,199	16,204,348	14,130,090
Grants	-	-	-	-
Other	90,848	166,257	175,307	69,031
Convention Center Operator	-	-	-	-
City of Galveston	-	-	-	-
Committed				
Other	1,618,405	1,447,555	1,512,171	1,492,648
Assigned	442,606	849,133	465,327	(127,495)
Unassigned	-	-	-	-
Total all other governmental funds	<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>	<u>\$ 22,971,674</u>

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
100,407	101,738	88,521	49,626	47,206	85,379
-	-	-	363,296	363,296	2,519,528
2,825,226	3,025,226	3,225,226	3,425,226	3,575,226	3,575,226
-	-	363,296	-	-	-
-	-	176,999	-	-	-
<u>13,751,737</u>	<u>8,580,214</u>	<u>6,588,090</u>	<u>12,939,901</u>	<u>14,751,167</u>	<u>13,706,159</u>
<u>\$ 16,677,370</u>	<u>\$ 11,707,178</u>	<u>\$ 10,442,132</u>	<u>\$ 16,778,049</u>	<u>\$ 18,736,895</u>	<u>\$ 19,886,292</u>
\$ 363,212	\$ 193,611	\$ 151,858	\$ 148,976	\$ 162,672	\$ 259,579
7,603,944	7,643,345	8,447,339	12,515,705	12,749,073	6,634,959
-	-	-	4,921,580	968,854	3,228,192
14,662,428	16,854,667	29,207,678	15,276,707	21,195,867	20,634,660
-	-	-	8,782,571	8,775,316	10,143,558
176,765	287,163	-	-	-	-
-	-	-	-	-	3,821,514
-	-	-	-	-	2,815,873
1,552,638	2,680,920	2,145,641	1,834,852	1,353,703	1,633,932
33,210,416	30,831,813	-	-	-	-
-	-	(147,964)	(188,367)	(138,902)	(109,360)
<u>\$ 57,569,403</u>	<u>\$ 58,491,519</u>	<u>\$ 39,804,552</u>	<u>\$ 43,292,024</u>	<u>\$ 45,066,583</u>	<u>\$ 49,062,907</u>

Table 4
City of Galveston
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes										
Property taxes	\$ 13,883,642	\$ 15,570,356	\$ 16,200,093	\$ 18,647,994	\$ 19,530,352	\$ 18,284,008	\$ 20,133,281	\$ 21,581,964	\$ 22,134,235	\$ 23,063,200
Sales and use taxes	14,424,663	16,849,450	22,116,284	22,704,813	22,329,682	19,762,544	21,310,423	23,218,434	24,137,885	26,477,757
Franchise fees	4,879,699	5,148,416	5,374,681	5,450,345	4,806,846	4,756,164	5,009,456	5,073,022	5,042,575	5,267,085
Hotel occupancy	-	4,122,104	-	-	-	-	-	-	-	-
Licenses and permits	1,313,886	1,577,415	1,334,749	1,000,361	1,784,222	1,161,760	1,143,096	1,260,920	1,157,610	1,226,220
Fines and forfeitures	2,330,349	1,828,036	2,466,285	2,601,586	2,326,075	2,040,355	2,833,357	2,466,092	2,243,919	1,991,045
Charges for services	3,432,738	3,533,981	3,686,864	2,838,980	2,075,934	2,285,567	2,647,526	2,703,729	3,290,246	3,818,853
Investment earnings	682,679	1,523,724	2,234,647	1,378,287	414,544	103,811	77,639	103,988	149,833	101,853
Intergovernmental	7,295,013	7,185,304	6,893,575	16,654,859	83,977,409	68,424,863	54,464,276	62,395,037	47,740,626	40,750,422
Other	4,737,887	791,144	1,407,875	1,567,770	1,427,391	2,388,035	2,235,767	2,633,854	974,471	1,163,677
Payments in lieu of taxes	-	655,190	736,824	125,880	119,753	120,117	-	-	-	-
Total revenues	<u>52,980,556</u>	<u>58,785,120</u>	<u>62,451,877</u>	<u>72,970,875</u>	<u>138,792,208</u>	<u>119,327,224</u>	<u>109,854,821</u>	<u>121,437,040</u>	<u>106,871,400</u>	<u>103,860,112</u>
Expenditures										
General government	4,624,844	5,005,095	5,044,120	5,482,693	5,934,113	7,642,352	6,565,344	5,862,705	6,478,540	6,881,718
Public safety	22,197,995	23,518,717	25,262,076	31,028,485	28,674,367	28,881,042	27,751,162	26,312,416	26,953,671	27,522,088
Highways and roads	2,732,340	3,152,531	3,356,179	9,479,789	66,170,885	17,007,107	20,947,719	4,376,642	4,171,875	3,707,638
Culture and recreation	3,566,928	6,071,320	6,826,276	7,816,000	8,800,651	6,697,503	7,933,345	7,902,712	6,964,476	9,101,210
Planning and community development	3,766,931	3,762,075	4,330,446	3,531,916	3,293,090	6,420,644	30,051,147	33,911,247	11,784,903	5,086,927
Transportation	4,102,026	4,355,966	4,892,519	5,022,723	4,418,959	4,941,417	5,115,134	5,057,683	5,291,857	5,562,920
Capital outlay	6,489,761	3,473,537	5,437,402	8,027,872	7,223,020	33,770,019	26,735,581	28,211,925	33,036,633	34,977,699
Debt service										
Principal	2,336,783	2,638,390	2,376,618	1,976,368	2,048,866	22,393,732	2,474,843	3,460,785	7,420,397	6,030,509
Interest and fiscal charges	2,977,186	3,321,250	3,225,640	3,501,027	3,451,105	3,479,515	3,657,873	3,385,968	3,311,138	2,561,735
Total expenditures	<u>52,794,794</u>	<u>55,298,881</u>	<u>60,751,276</u>	<u>75,866,873</u>	<u>130,015,056</u>	<u>131,233,331</u>	<u>131,232,148</u>	<u>118,482,083</u>	<u>105,413,490</u>	<u>101,432,444</u>
Excess of revenues										
Over (under) expenditures	185,762	3,486,239	1,700,601	(2,895,998)	8,777,152	(11,906,107)	(21,377,327)	2,954,957	1,457,910	2,427,668
Other Financing Sources (Uses)										
Premiums on debt issued	-	-	-	-	-	-	-	2,632,838	1,700,560	-
Bonds issued	-	9,840,254	-	-	-	-	8,029,904	-	-	-
Payment to refunding bond escrow agent	-	(2,669,235)	-	-	-	-	(7,810,944)	-	(42,296,436)	-
Issuance of debt	349,786	-	767,043	-	-	-	150,000	1,564,791	41,165,000	1,071,675
Proceeds from loan	-	-	-	-	22,500,000	-	-	-	-	-
Sales of assets	264,629	118,052	258,495	61,239	21,898	(3,808)	150,489	1,990,040	467,254	49,650
Capital contributions	-	-	-	-	316,072	-	-	-	-	-
Transfers in	600,000	4,023,293	4,490,769	4,264,684	4,696,451	6,295,984	4,281,316	2,816,126	13,261,479	9,599,009
Transfers (out)	(100,000)	(3,523,293)	(3,914,885)	(3,663,853)	(4,080,005)	(5,601,169)	(3,378,451)	(2,135,363)	(12,022,362)	(8,002,281)
Total other financing sources (uses)	1,114,415	7,789,071	1,601,422	662,070	23,454,416	691,007	1,422,314	6,868,432	2,275,495	2,718,053
Extraordinary item - insurance proceeds to Hurricane Ike	-	-	-	-	4,909,735	7,170,024	-	-	-	-
Net change in fund balance	<u>\$ 1,300,177</u>	<u>\$ 11,275,310</u>	<u>\$ 3,302,023</u>	<u>\$ (2,233,928)</u>	<u>\$ 37,141,303</u>	<u>\$ (4,045,076)</u>	<u>\$(19,955,013)</u>	<u>\$ 9,823,389</u>	<u>\$ 3,733,405</u>	<u>\$ 5,145,721</u>
Debt service as a percentage of noncapital expenditures	13.6%	15.8%	13.9%	11.2%	4.6%	40.3%	5.0%	6.9%	17.4%	10.3%

Table 5
City of Galveston
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(unaudited)

Fiscal Year Ended September 30,	Tax Year	Real Property			Less Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
		Residential Property	Commercial Property	Personal Property					
2005	2004	1,417,277,656	2,170,011,241	350,374,967	1,356,161,582	2,581,502,282	0.54170	3,937,872,354	65.56%
2006	2005	1,672,452,438	2,820,883,699	377,360,369	1,962,444,790	2,908,251,716	0.54170	4,870,900,236	59.71%
2007	2006	1,683,926,873	3,003,749,029	314,300,569	1,673,747,884	3,328,228,587	0.49400	5,001,976,471	66.54%
2008	2007	2,017,563,012	3,434,393,698	414,272,322	1,726,137,187	4,140,091,845	0.49400	6,183,802,150	66.95%
2009	2008	2,238,512,202	3,448,537,786	481,608,711	1,738,355,125	4,430,303,574	0.49400	6,518,843,089	67.96%
2010	2009	1,895,989,601	2,915,703,876	471,811,336	1,505,666,315	3,777,838,498	0.55400	5,602,592,850	67.43%
2011	2010	2,326,513,779	3,180,929,673	448,096,912	1,653,285,702	4,302,254,662	0.55400	6,273,760,599	68.58%
2012	2011	2,389,829,758	3,186,490,428	496,632,617	1,656,461,844	4,416,490,959	0.55400	6,420,552,045	68.79%
2013	2012	2,492,520,267	3,231,185,848	447,606,979	1,660,988,116	4,510,324,978	0.55400	6,508,502,012	69.30%
2014	2013	2,578,072,508	3,219,107,042	512,611,154	1,660,330,009	4,649,460,695	0.55400	6,672,920,667	69.68%

* : Information not available

Source: Galveston Central Appraisal District

Note: 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. Residential property includes both single-family and multi-family properties.

Table 6
City of Galveston
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(unaudited)

Fiscal Year Ended September 30,	City Direct Rates				Overlapping Rates				
	General	Library	Debt Service	Total Direct	Galveston Independent School District	Galveston College	Navigation District 1	Galveston County	Total Millage
2005	0.43580	0.05000	0.05590	0.54170	1.71000	0.19520	0.04090	0.62795	3.11575
2006	0.42280	0.05000	0.06890	0.54170	1.71000	0.19180	0.03800	0.64000	3.12150
2007	0.38340	0.05000	0.06060	0.49400	1.52500	0.17000	0.03370	0.58740	2.81010
2008	0.38980	0.05000	0.05420	0.49400	1.17500	0.17000	0.03300	0.56860	2.44060
2009	0.39310	0.05000	0.05090	0.49400	1.16500	0.17000	0.03200	0.55860	2.41960
2010	0.44040	0.05000	0.06360	0.55400	1.16500	0.19000	0.04800	0.61860	2.57560
2011	0.44640	0.05000	0.05760	0.55400	1.16500	0.18950	0.04880	0.61980	2.57710
2012	0.45120	0.05000	0.05280	0.55400	1.16500	0.18950	0.04660	0.61290	2.56800
2013	0.45320	0.05000	0.05080	0.55400	1.16500	0.18940	0.04660	0.59990	2.55490
2014	0.45513	0.05000	0.04887	0.55400	1.16500	0.18700	0.04662	0.58980	2.54242

Source: Galveston Central Appraisal District, 2014 Taxing Entities and Tax Rates

Table 7
City of Galveston
Principal Property Tax Payers
Current Year and Nine Years Ago
(unaudited)

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
CenterPoint Energy Inc	\$ 45,629,900	1	0.98%	\$ 18,447,470	3	0.71%
Willie G's Post Oak Inc	31,500,000	2	0.68%			-
Fertitta Hospitality Inc	30,703,700	3	0.66%			-
Galveston Island Water Park LP	16,647,580	4	0.36%			-
Galveston Terminals Inc	16,418,980	5	0.35%	41,426,380	1	1.60%
Silverleaf Resorts Inc	15,135,850	6	0.33%			-
AET Offshore Services Inc	14,402,685	7	0.31%	9,925,120	8	0.38%
Eighteen Seventy Strand Corp	13,556,570	8	0.29%			-
Walmart Realty Co, #504	13,015,320	9	0.28%			-
Island Hospitality Inc	12,082,150	10	0.26%			-
American National Insurance Co	-		-	13,101,540	5	0.51%
Southwestern Bell Telephone Co	-		-	20,964,540	2	0.81%
Newpark Shipbuilding	-		-	13,324,280	4	0.52%
MBP Corporation	-		-	11,340,710	6	0.44%
Sealy & Smith Foundation	-		-	10,826,190	7	0.42%
Wal-mart Stores, Inc	-		-	8,757,140	9	0.34%
Dawn on the Seawall Partnership	-		-	8,700,000	10	0.34%
Property taxpayers	<u>\$ 209,092,735</u>		<u>4.50%</u>	<u>\$ 156,813,370</u>		<u>6.07%</u>

Source: Galveston County Appraisal District

Total Taxable Assessed Value \$ 4,649,460,695

\$ 2,581,502,282

Table 8
City of Galveston
Property Tax Levies and Collections
Last Ten Fiscal Years
(unaudited)

<u>Fiscal Year Ended September 30,</u>	<u>Tax Year</u>	<u>Tax Rate (A)</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections (adjustments) in Subsequent Years</u>	<u>Total Collections to Date</u>	
				<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2005	2004	0.54170	\$ 13,908,839	\$ 13,142,435	94.5%	\$ 547,588	\$ 13,690,023	98.4%
2006	2005	0.54170	15,753,999	15,104,332	95.9%	460,883	15,565,215	98.8%
2007	2006	0.49400	16,373,557	15,524,973	94.8%	392,080	15,917,053	97.2%
2008	2007	0.49400	18,845,581	17,848,399	94.7%	482,864	18,331,263	97.3%
2009	2008	0.49400	19,933,324	18,814,521	94.4%	383,514	19,198,035	96.3%
2010	2009	0.55400	18,549,699	17,435,131	94.0%	525,369	17,960,500	96.8%
2011	2010	0.55400	20,259,666	19,157,461	94.6%	628,686	19,786,147	97.7%
2012	2011	0.55400	21,237,761	20,665,231	97.3%	534,159	21,199,390	99.8%
2013	2012	0.55400	21,871,371	21,295,639	97.4%	513,930	21,809,570	99.7%
2014	2013	0.55400	22,575,966	22,198,509	98.3%	384,119	22,582,628	100.0%

Source: Tax department records of the City.

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

Table 9
City of Galveston
Ratios of Outstanding Debt by Type (in thousands except per capita amounts)
Last Ten Fiscal Years
(unaudited)

Fiscal Year	Governmental Activities					Business-Type Activities				Total Primary Government	Percentage of Personal Income *	Per Capita *
	General Obligation Bonds	Special Obligation Bonds	Capital Leases	Certificates of Obligation	Other**	Revenue Bonds	Capital Leases	Certificates of Obligation	Other**			
2005	\$ 17,184	\$ 39,670	\$ 1,072	\$ 19,324	\$ 7,754	\$ 50,860	\$ 627	\$ 2,870	\$ 63,631	154,556	1.50%	\$ 2,669
2006	23,733	38,360	608	19,324	10,502	62,544	725	725	68,537	189,132	1.86%	3,304
2007	22,898	36,985	756	19,324	21,433	60,575	2,128	630	63,645	185,914	1.79%	3,187
2008	21,967	35,535	748	22,905	21,077	56,450	2,892	16,849	64,493	201,577	1.92%	3,406
2009	20,963	34,010	880	22,772	35,171	80,585	2,420	16,146	68,998	214,273	2.40%	4,259
2010	19,834	32,835	606	22,691	17,139	75,980	2,025	15,668	66,549	185,689	1.85%	3,293
2011	18,478	31,595	212	22,605	16,453	71,285	1,643	15,174	60,924	174,281	1.55%	3,650
2012	21,702	30,290	1,654	22,516	16,430	63,880	3,451	14,658	67,541	172,415	1.53%	3,611
2013	18,569	27,155	1,589	21,362	18,530	61,680	3,088	14,116	54,657	148,756	1.25%	3,114
2014	18,950	25,960	880	16,900	9,681	58,095	2,850	13,674	46,510	165,505	1.40%	3,465

Notes: 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.

Discretely presented component units are included in this schedule.

Table 10
City of Galveston
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

Fiscal Year	Gross Bonded Debt ^{1,2}	Less Amounts Available in Debt Service Fund and Debt Payable from Enterprise Revenues	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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
2009	20,962,765	4,504,517	16,458,248	0.25%	327
2010	19,833,738	4,557,189	15,276,549	0.27%	271
2011	18,478,488	4,610,860	13,867,628	0.22%	290
2012	21,701,978	3,765,734	17,936,244	0.28%	370
2013	20,357,990	4,039,467	16,318,523	0.25%	342
2014	16,916,967	4,402,545	12,514,422	0.22%	299

1 Includes all long term general obligation debt

2 FY 2014 includes \$445,041 accretion

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

Table 11
City of Galveston
Direct and Overlapping Governmental Activities Debt
Last Ten Fiscal Years
(unaudited)

Governmental Unit		Debt Outstanding	* Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes				
Galveston Independent School District	1	\$ 59,104,998	83.75%	\$ 49,500,436
Galveston County	2	250,505,000	19.06%	47,746,253
Subtotal, overlapping debt				97,246,689
City direct debt				65,406,067
Total direct and overlapping debt				\$ 162,652,756
Ratio of total direct and overlapping net debt to 2014 assessed valuation				3.61%
Direct and overlapping net debt per capita				\$ 3,337

Sources:

- (1): Galveston Independent School District and City Finance Department
- (2): Galveston County Auditors Office
- (3): City Finance Department

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Galveston. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for paying the debt of each overlapping government.

* Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

Table 12
City of Galveston
Demographic and Economic Statistics
Last Ten Fiscal Years
(unaudited)

Calendar Year	Estimated Population ²	Personal Income	Per Capita Personal Income ¹	Median Age ¹	Education Level in Years of Formal Schooling ²	School Enrollment ²	Unemployment Rate ³	Value of Building Permits Issued (millions) ⁴
2005	57,905	1,028,913,945	17,769	35.5	12.0	9,149	6.0%	N/A
2006	57,247	1,017,221,943	17,769	35.5	12.0	9,200	5.5%	N/A
2007	58,329	1,036,448,001	17,769	35.5	12.0	8,400	4.9%	N/A
2008	59,186	1,051,676,034	17,769	35.5	12.0	6,876	5.6%	298.2
2009	50,308	893,922,852	17,769	35.5	12.0	6,047	7.7%	165.9
2010	56,391	1,002,011,679	17,769	38.8	12.0	6,400	8.4%	125.3
2011	47,743	1,125,827,683	23,581	38.8	12.0	6,400	8.9%	108.6
2012	48,444	1,142,357,964	23,581	38.8	12.0	6,450	7.6%	108.6
2013	47,762	1,185,548,364	24,822	38.8	12.0	6,450	7.7%	227.1
2014	48,733	1,287,038,530	26,410	38.8	12.0	6,800	5.6%	173.3

Sources: 1 - United States Census Bureau
2 - Galveston Independent School District
3 - United States Census Bureau (2013) and Texas Workforce Commission
4 - City of Galveston

Note: Personal income information is a total for the year.

Table 13
City of Galveston
Principal Employers
Current Year and Nine Years Ago
(unaudited)

<u>Employer</u>	<u>2014</u>			<u>2005</u>		
	<u>Estimated Employees</u>	<u>Rank</u>	<u>Percentage of Total City Workforce</u>	<u>Estimated Employees</u>	<u>Rank</u>	<u>Percentage of Total City Workforce</u>
University of Texas Medical Branch	11,534	1	50.47%	14,000	1	53.03%
Galveston Independent School District	1,366	2	5.98%	1,271	3	4.81%
Landry's	1,300	3	5.69%	1,010	4	3.83%
American National Insurance Company	866	4	3.79%	1,539	2	5.83%
Galveston County (on Island only)	864	5	3.78%	1,068	6	4.05%
Moody Gardens	810	6	3.54%	1,000	5	3.79%
City of Galveston	722	7	3.16%	760	7	2.88%
Mitchell Family Corp	460	8	2.01%	-		-
Texas A&M University at Galveston	423	9	1.85%	-		-
Galveston College	300	10	1.31%	543	8	2.06%
Fertitta Hospitality	-		-	535	9	2.03%
U.S. Army Corps of Engineers	-		-	390	10	1.48%
Total	18,645		81.59%	22,116		83.77%

Source: Galveston Chamber of Commerce and Texas Work Force.

Table 14
City of Galveston
Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years
(unaudited)

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Government:										
City Secretary	3	3	3	3	4	3	3	3	3	3
Municipal Court	12	13	13	13	9	9	10	10	10	9
City Manager	4	4	4	4	4	3	5	5	4	4
City Auditor	-	-	-	1	1	-	1	1	2	2
Finance	17	16	17	16	20	18	13	13	14	15
Legal	5	6	5	5	5	5	5	5	6	6
Human Resources	4	4	3	4	4	5	4	3	3	3
Public Safety:										
Police	216	219	220	205	192	197	131	177	177	188
Fire	123	127	131	131	119	124	115	115	115	115
Emergency Management	2	2	1	1	2	1	1	1	2	2
Public Works:										
Streets and Traffic	50	50	50	51	44	45	31	31	36	42
Parks:	36	51	34	38	44	39	34	34	33	34
Planning and Community Development:	25	33	23	35	42	54	23	24	24	23
Waterworks:	43	39	38	34	36	39	32	32	35	37
Sewer System:	80	73	74	69	55	65	69	69	80	81
Drainage Utility:	25	23	22	16	16	7	23	23	26	35
Municipal Golf Course:	12	12	12	-	-	-	-	-	-	-
Sanitation:	57	55	55	43	39	39	45	45	45	48
Municipal Airport:	9	9	9	9	8	8	8	8	8	8
Central Service:	11	11	10	12	9	10	12	12	13	14
Central Garage:	22	22	23	22	20	19	22	22	22	22
Municipal Insurance:	2	2	2	2	2	-	2	2	2	2
Construction Management:	6	6	6	7	7	6	5	5	5	5
Island Transit:	64	65	65	59	48	52	52	52	52	52
Total City Employees:	<u>828</u>	<u>845</u>	<u>820</u>	<u>780</u>	<u>730</u>	<u>748</u>	<u>646</u>	<u>692</u>	<u>717</u>	<u>750</u>

Source: City Budget Office

Table 15
City of Galveston
Operating Indicators by Function/Program
Last Ten Fiscal Years
(unaudited)

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police:										
Physical arrests	9,094	17,845	14,245	10,889	7,154	7,043	6,593	7,065	7,597	6,039
Parking violations	47,116	38,822	38,822	18,600	5,733	4,391	11,951	27,680	9,267	25,556
Traffic violations	43,435	21,084	21,084	32,804	31,072	25,499	40,676	15,328	28,765	22,148
Fire:										
Calls	7,657	7,299	7,751	7,852	7,024	6,382	8,645	6,681	6,311	7,020
Inspections	1,154	1,654	2,276	2,099	1,913	2,123	735	1,324	407	1,678
Water:										
Service connections	22,000	22,000	25,747	22,688	25,083	26,305	23,966	21,323	20,595	23,294
Average daily consumption (gallons)	13,648,765	13,648,765	16,696,885	16,458,298	15,399,203	16,013,795	16,143,437	14,480,142	14,570,688	14,557,447
Sewer:										
Average daily flow (gallons)	10,215,000	10,215,000	10,877,000	8,161,875	8,175,912	8,529,000	6,694,692	7,108,791	7,854,000	7,136,000
Maximum daily capacity of plants (gallons)	14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	14,580,000	14,580,000	14,580,000	14,500,000	17,713,000

Source: Various City departments.

Table 16
City of Galveston
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years
(unaudited)

<u>Function/Program</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Police										
Stations	3	2	3	1	1	3	4	1	2	1
Patrol units	58	58	63	60	63	51	67	55	60	74
Police officers	170	154	162	158	152	158	131	139	143	143
Fire										
Stations	6	6	6	6	6	6	6	6	6	6
Fire fighters	109	117	131	120	120	112	115	108	115	109
Highways and streets										
Streets (miles)	288	288	321	321	321	321	321	321	321	321
Street lights	3,812	3,812	4,199	4,212	4,236	4,257	4,444	4,365	4,377	4,411
Culture and recreation										
Parks acreage	277	277	277	128	50	50	50	50	168	168
Parks	16	16	16	10	14	14	14	14	14	14
Tennis courts	15	15	15	19	15	15	16	16	16	16
Community centers	1	1	1	2	2	2	2	2	2	2
Cemeteries	7	7	7	6	5	5	2	2	7	7
Athletic fields	28	28	28	20	22	22	11	11	12	12
Municipal golf course	1	1	1	-	-	-	-	-	-	-
Water										
Water mains (miles)	317	317	333	380	385	386	388	389	389	389
Fire hydrants	1,934	1,931	2,350	2,368	2,410	2,414	2,422	2,422	2,422	2,552
Maximum daily capacity (thousands of gallons)	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	37,150,000	39,700,000	39,700,000
Sewer										
Treatment plants	4	4	4	5	4	4	4	4	4	4
Sanitary sewers (miles)	182	220	182	238	238	243	243	243	243	243
Storm sewers (miles)	75	75	75	75	75	75	75	75	75	75
Maximum daily treatment capacity (thousands of gallons)	14,500,000	14,500,000	14,500,000	14,580,000	14,580,000	8,529,000	14,580,000	14,580,000	14,250,000	14,250,000

Source: Various City departments and Centerpoint Energy

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