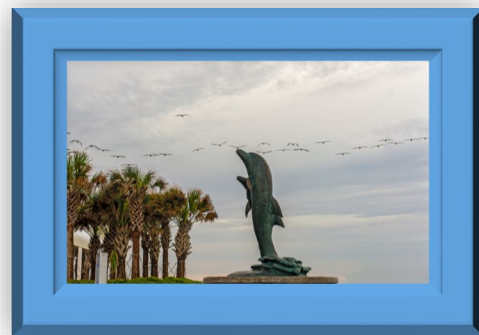


City of Galveston, Texas



Comprehensive Annual Financial Report

For the Fiscal Year Ended

September 30, 2013

CITY OF GALVESTON, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
SEPTEMBER 30, 2013**

Prepared by:

Finance Department

**CITY OF GALVESTON, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED SEPTEMBER 30, 2013**

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INTRODUCTORY SECTION



P. O. Box 779 / Galveston, Texas 77553

LETTER OF TRANSMITTAL

March 21, 2014

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

State law requires that all general purpose local governments publish within 180 days of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Galveston, Texas for the fiscal year ended September 30, 2013.

This report consists of management's representations concerning the finances of the City of Galveston. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. In order to provide a reasonable basis for making these representations, management of the City of Galveston has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Galveston's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Galveston's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Galveston's financial statements have been audited by Weaver, 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 of Galveston for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Galveston's financial statements for the fiscal year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The independent audit of the financial statements of the City of Galveston was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Galveston's separately issued

Single Audit Report. GAAP 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 of Galveston's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

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

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

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

- The Park Board which provides improvements and maintenance to City waterfront parks and beaches
- 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
- The City of Galveston Employee's Retirement Plan for City employees, the Galveston Firefighters' Pension Fund, and the City of Galveston Employee's Retirement Plan for Police.

The annual budget serves as the foundation for the City of Galveston's financial planning and control. All departments of the City are requested to submit requests for appropriation to the government's manager around the middle of June each year. The City Manager uses these requests as the starting point for

developing a proposed budget. The government's manager then presents this proposed budget to the council for review the first week of August. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than seven days before September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department with the Finance Director and City Manager's approval. Transfers of appropriations between departments, however, require the special approval of the governing council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 93 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 of Galveston operates.

Economic Climate

Galveston Island Economic Climate Overview:

According to the U.S. Department of Labor Statistics, the Consumer Price Index for The Southwest, using 12 month analysis from June 2012 to July 2013, the most recent data as of this date, show a 1.7% increase under the All Items category. According to the same source, food costs have risen 1.4% in a year, energy has increased 4.7%, gasoline has increased 5.2%, piped natural gas has increased 8.85%, medical care has increased 2.6%, and shelter has increased 2.3%.

According to Bloomberg, the economic health of 44 U.S. states improved in the fourth quarter, the most in any period since 2006, as almost all benefited from growing employment and personal income. The gains matched the total in the second quarter of 2006, more than a year before the 18-month recession began, according to the Bloomberg Economic Evaluation of States index.

Texas is one bright spot in the entire country – the Texas unemployment rate has been at or below the national rate for 76 consecutive months. While the national economy continues to maintain an unemployment rate of approximately 7.4 percent, the Texas unemployment rate currently sits at about 6.5 percent, according to data from the U.S. Bureau of Labor Statistics. Texas state sales tax receipts for May 2013 were 7.9 percent higher than May 2012. Housing starts are up 23 percent over the previous year and the median sale price for an existing single family home was 10.7 percent higher than a year ago.

Galveston itself is seeing a rise in population, personal income and school enrollment since the loss of residents after Hurricane Ike in 2008. An estimated increase in population of 701 followed by an increase in school enrollment of 50 students in 2012 compared to 2011. The Galveston unemployment rate is lagging behind the Texas unemployment rate and sits at 7.6 percent. Estimated actual taxable value of property in Galveston is up 2.7% over last year.

The Port of Galveston is an important contributor to both Galveston and Texas economies. It generates 11,400 jobs, \$558 million in income for Texas workers and has an estimated annual impact of \$1.1 million to the state of Texas. The Port of Galveston is working with the City of Galveston to construct an Intermodal Transit/Parking facility which is expected to include 5,000 square feet of retail space. This project is projected to open in 2014. The Royal Caribbean International Cruise Line will be hosting their

R.C.I. Voyager class ship “Navigator of the Sea” year round in Galveston beginning in November of 2014.

Great plans are underway for Pelican Island with Rolls Royce bringing their new Marine Service Center on property leased from Gulf Copper Corporation on Pelican Island. This 40,000 square foot facility will serve key offshore and marine customers and, in the future, will serve as a training center and a large central spare parts warehouse. Additionally Southwest Shipyards plans for the construction of a new facility for expanded business opportunities. Pelican Island Storage Terminals plans an expansion of additional tanks to support the increase in business from the Oil and Gas Industry.

Gulf Copper Shipyard Galveston’s facility offers dry dock and rig repair services for offshore vessels. Gulf Copper has plans to develop a deep water access marine industrial park on Pelican Island.

Scholes International Airport continues to upgrade its facilities with a new radar installation increasing observation capabilities of controllers. Additional projects include rehabilitation of the tarmac and the development of additional hangers which will result in an increase in based aircraft and fuel flowage income. The total project square feet is 13,222; the capital investment is estimated at \$4,674,908 and the creation of 6 new jobs.

The Gulf of Mexico Foundation plans to construct a Habitat Restoration Technology Center to expand its efforts in habitat conservation, restoration, education and Gulf awareness. The move will bring to the island up to 26 professional jobs and is expected to put Galveston in a national spotlight as researchers work to restore and educate the public about the Gulf of Mexico, upon which millions of jobs depend.

Schlitterbahn Galveston Water Park recently invested \$313,000 adding a zip line tower called the Soaring Eagle to the amenities of the water park. In addition they have spent \$3,013,000 on the acquisition of the former Racquet Club assets and plans to relocate warehousing and support service to the newly acquired property. The existing warehouses will be demolished allowing for expansion of the existing water park and additional parking.

Long-term financial planning

For the next several years the City will receive funding in the form of Community Block Development Grant Recovery (CDBG-R) funding as well as FEMA for assistance with housing and infrastructure needs. These federal funds are necessarily administered by the State and subject to both federal and supplemental State regulation. Various State agencies will be involved in the administration of millions of federal dollars dedicated to assist in Galveston’s recovery.

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 operating cash balance of \$11.6 million, representing approximately 109 days of maintenance and operation.

As it builds for the future, the City of Galveston is also taking important steps to ensure continued financial stability. The City has secured renewal of its \$20 million emergency bridge loan in the event of a major catastrophic emergency. The loan will cover the City for an entire year, not just hurricane season.

Relevant financial policies

The City adheres to an investment policy that emphasizes, in order of priority, safety, liquidity and return on investment. With a positive economic outlook, conservative budgeting and substantial reserves for debt service, the City received 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

The next three to five years will be a continuance of recovery initiatives. The 2014 annual operating budget identified four primary goals, that of (1) sustainable government, (2) a commitment to improving the streets of the City of Galveston (3) implementing paid parking on the Seawall (4) an employee compensation study. All budgeted costs were within revenue projections over the budget cycle. The City's bond rating by Standard and Poor was upgraded from "A+" to "AA." The City successfully refunded some bonded debt and realized tremendous savings.

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, 2012. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government reports.

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

The award is valid for a period of one year only. We believe that 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, 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 that assisted and contributed to the preparation of this report. Other City departments and offices make a significant contribution to the preparation of this report. We acknowledge their efforts in providing information and assistance during the preparation of this report. Finally, we acknowledge the Mayor and Council Members who have consistently supported the City's goal of excellence in all aspects of financial management. Their support is greatly appreciated.

Respectfully submitted,



Brian Maxwell
Interim City Manager



Elizabeth A. Free
Director of Finance

City of Galveston, Texas

Incorporated March 1939
Charter Adopted April 19, 1960

Council – Manager Form of Government

City Council

Mayor	Lewis Rosen
Mayor Pro Tem	Rusty Legg
Council Member	Cornelia Harris Banks
Council Member	Elizabeth Beeton
Council Member	Norman Pappous
Council Member	Terrilyn Tarlton
Council Member	Marie Robb

City Council Appointees

City Manager	Michael Kovacs
City Secretary	Janelle Williams
City Attorney	Dorothy Palumbo
Court Judge	Jim Schweitzer
City Auditor	Glenn Bulgherini

Departmental Directors (City Manager Appointees)

Airport
Assistant City Manager
Assistant City Manager
City Engineer
Emergency Management
Finance
Fire
Grants
Island Transit
Municipal Court
Municipal Garage
Parks and Recreation
Planning and Housing
Police
Public Information Officer
Public Works
Sanitation
Technology
Utilities

Hud N. Hopkins
Brian Maxwell
Jon Roberts
Ross Blackketter
Charlie Kelly
Beth Free
Mike Wisko
Sterling W. Patrick
Michael Worthy
Anita Brown
David A. Smith
Barbara E. Sanderson
Richard Vasquez
Henry Porretto
Liz Rogers
Angelo Grasso
Cindy DeWitt
Ryan Young
David VanRiper



Government Finance Officers Association

**Certificate of
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Financial
Reporting**

Presented to

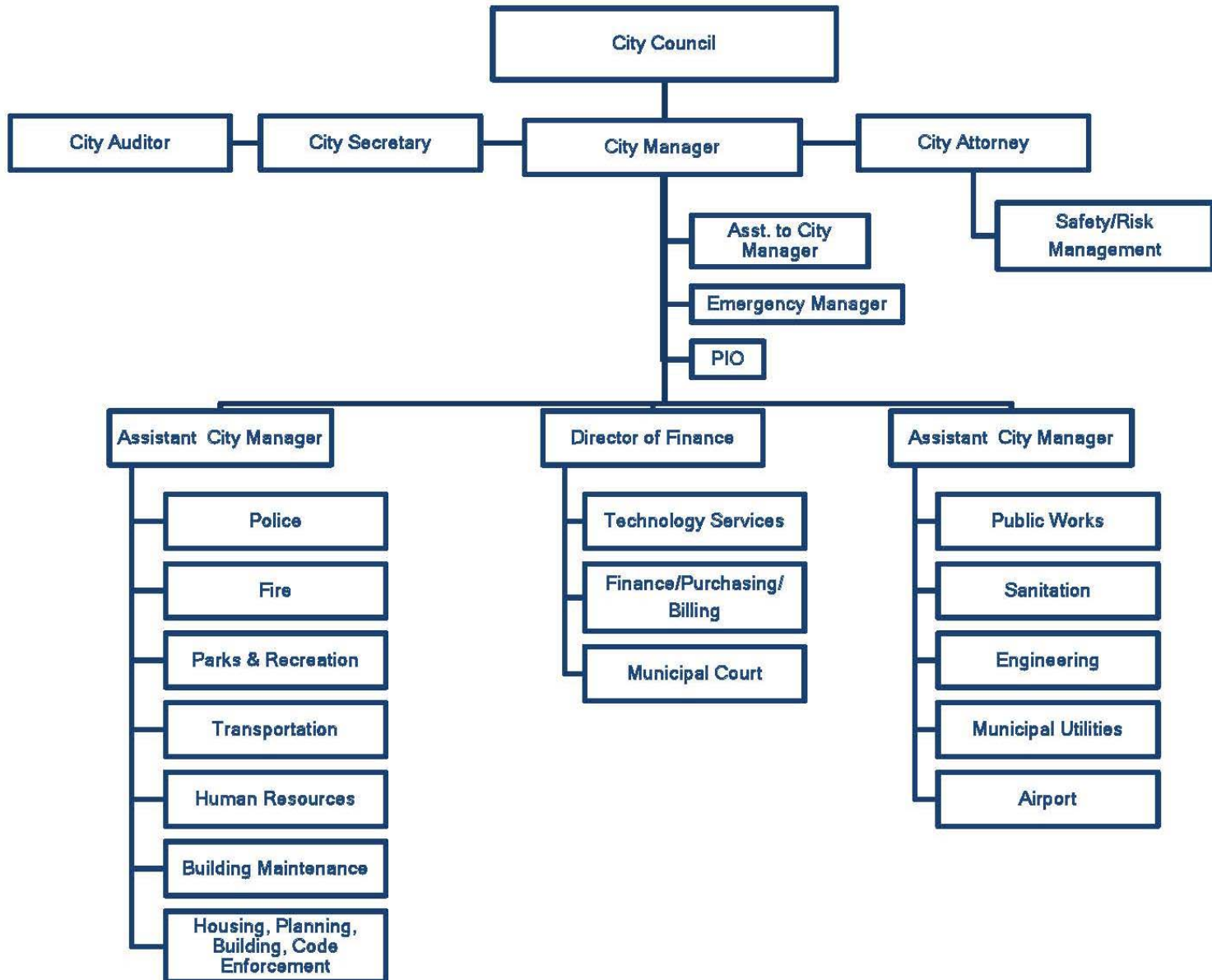
**City of Galveston
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

**CITY OF GALVESTON
ORGANIZATIONAL CHART**



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, 2013, 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, the Board of Trustees of the Galveston Wharves, the City of Galveston Property Finance Authority and the Galveston Housing Finance Corporation, 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 Property Finance Authority, the Galveston Housing Finance Corporation, 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

Page 2

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, 2013, 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 89 through 90) 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

Page 3

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 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 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 21, 2014, 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 21, 2014

Management's Discussion and Analysis (Unaudited)

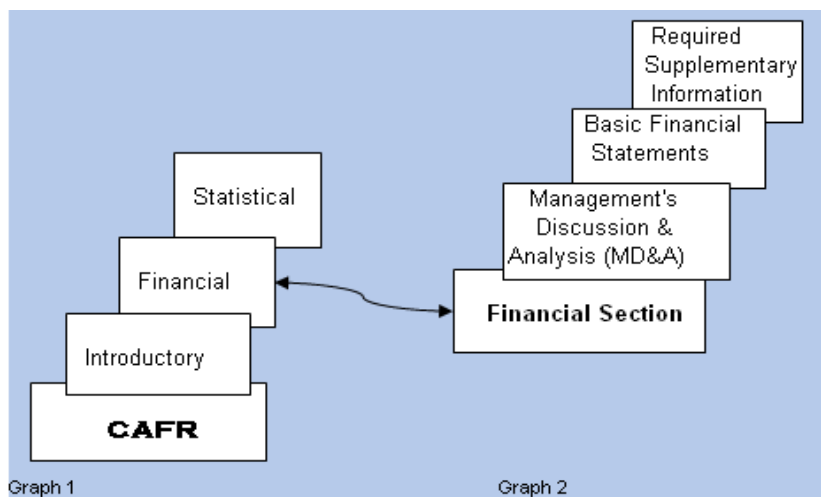
As management of the City of Galveston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. The discussion and analysis includes comparative data for 2012. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$355.1 million (net position). Of these assets, capital assets increased \$30.5 million, or 8.7%, from the prior year.
- The ratio of total assets to total liabilities for governmental activities was 2.3 times; for business type activities the ratio was 3.2 times.
- General Fund cash and equivalents increased \$4.2 million from the prior year.
- The fund balance of the General Fund increased from \$16.8 million to \$18.7 million, a 11.7% increase. The ending balance represents \$1.9 million saving in expenditures.
- Business-type assets increased \$21.7 million over the last fiscal year. Of these, capital assets increased \$31.4 million, an increase of 15.9% and restricted cash and investments decreased \$7.0 million, a decrease of 20.1% 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 four 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 liabilities, with the difference between the two 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 government'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, separate Tax Increment Reinvestment Zones, a legally separate Industrial Development Corporation, two property and housing finance corporations and the Galveston Wharves for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 18 – 19 of this report.

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

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

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

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

The City maintains twenty-seven 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-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund 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 20 – 24 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 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 25-28 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 29 – 30 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 31 – 88 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 89. 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 exceeded liabilities by \$355.1 million at the close of the most recent fiscal year.

A significant portion of the City's net position (72.1%) 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	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$126,172	\$127,525	\$ 57,041	\$ 66,224	\$183,213	193,749
Capital assets	151,463	152,303	228,958	197,618	380,421	349,921
Total assets	277,635	279,828	285,999	263,842	563,634	543,670
Current Liabilities	34,037	39,880	8,274	6,766	42,311	46,646
Long-term liabilities	84,365	91,685	81,840	94,495	166,205	186,180
Total liabilities	118,402	131,565	90,114	101,261	208,516	232,826
Net position						
Net investment in						
capital assets	102,988	90,855	152,955	80,158	255,943	171,013
Restricted	22,387	25,670	25,630	11,920	48,017	37,590
Unrestricted	33,858	31,737	17,299	70,504	51,157	102,241
Total net position	\$159,233	\$148,262	\$195,884	\$162,582	\$355,117	\$310,844

An additional portion of the City's net position (13.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

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 advalorem tax and sales tax revenue has also increased. In the current fiscal year, the general fund increased fund balance by \$1.9 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 \$247.6 million, comprising 87.0% of all business-type activities total assets at year end. The Waterworks system's and Sewer system's net position were \$68.8 million and \$90.5 million, respectively, which is 82.3% of total net position compared to 79.5% for 2012. 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 71.7% and 28.3% respectively. Expenses were divided between governmental activities and business-type activities 69.6% and 30.4% respectively. Net position increased \$11.0 million, or 7.4% from the prior period for governmental activities and increased \$33.3 million or 20.4% for business-type activities. Overall, net position increased 14.2%.

CITY OF GALVESTON, TEXAS

Table A-2

Changes in Net Position (in thousands)

For the fiscal year ended September 30, 2013

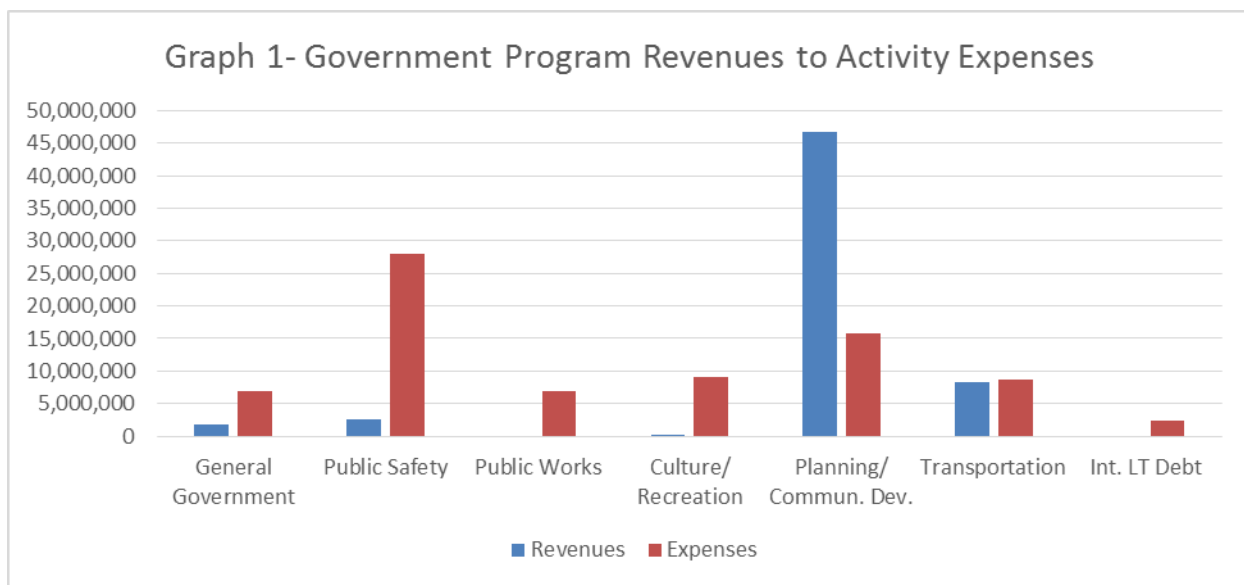
With comparative totals for fiscal year ended September 30, 2012

	Governmental activities		Business - type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for services	\$ 7,280	\$ 6,934	\$ 39,337	\$ 37,557	\$ 46,617	\$ 44,327
Operating grants & contributions	14,296	34,074	-	-	14,296	34,074
Capital grants and contributions	31,242	28,628	26	4,370	31,268	33,162
General revenues:						
Property taxes	21,988	21,489	-	-	21,988	21,489
Sales taxes	18,638	17,712	-	-	18,638	17,712
Hotel occupancy taxes	5,500	5,507	-	-	5,500	5,507
Franchise fees	5,043	5,073	-	-	5,043	5,073
Payments in lieu of taxes	124	119	-	-	124	119
Other	2,714	3,540	4,229	360	6,993	3,900
Total revenues	106,825	123,076	43,592	42,287	150,417	165,363
Expenses						
General government	6,874	5,164	-	-	6,874	5,164
Public safety	28,075	26,919	-	-	28,075	26,919
Public works	6,847	6,925	-	-	6,847	6,925
Culture and recreation	9,082	9,672	-	-	9,082	9,672
Planning /community development	11,972	12,942	-	-	11,972	12,942
Transportation system	8,164	24,150	-	-	8,164	24,150
Interest on long-term debt	1,716	4,909	-	-	1,716	4,909
Waterworks system	-	-	13,990	14,001	13,990	14,001
Sewer system	-	-	11,669	10,991	11,669	10,991
Sanitation services	-	-	4,382	4,175	4,382	4,175
Drainage utility	-	-	1,873	1,959	1,873	1,959
Airport	-	-	1,499	1,468	1,499	1,468
Total Expenses	72,730	90,681	33,413	32,594	106,143	123,275
Increase (decrease) in net position						
before transfers	34,095	32,395	10,179	9,693	44,274	42,088
Transfer in (out)	(23,124)	(18,830)	23,124	18,830	-	-
Changes in net position	10,971	13,565	33,303	28,523	44,274	42,088
Net position at beginning of year, as originally stated	148,262	135,502	162,581	134,455	310,843	269,957
Prior period adjustment	-	(805)	-	(397)	-	(1,202)
Net position at beginning of year	148,262	134,697	162,581	134,058	310,843	268,755
Net position at end of year	\$159,233	\$148,262	\$195,884	\$162,581	\$355,117	\$310,843

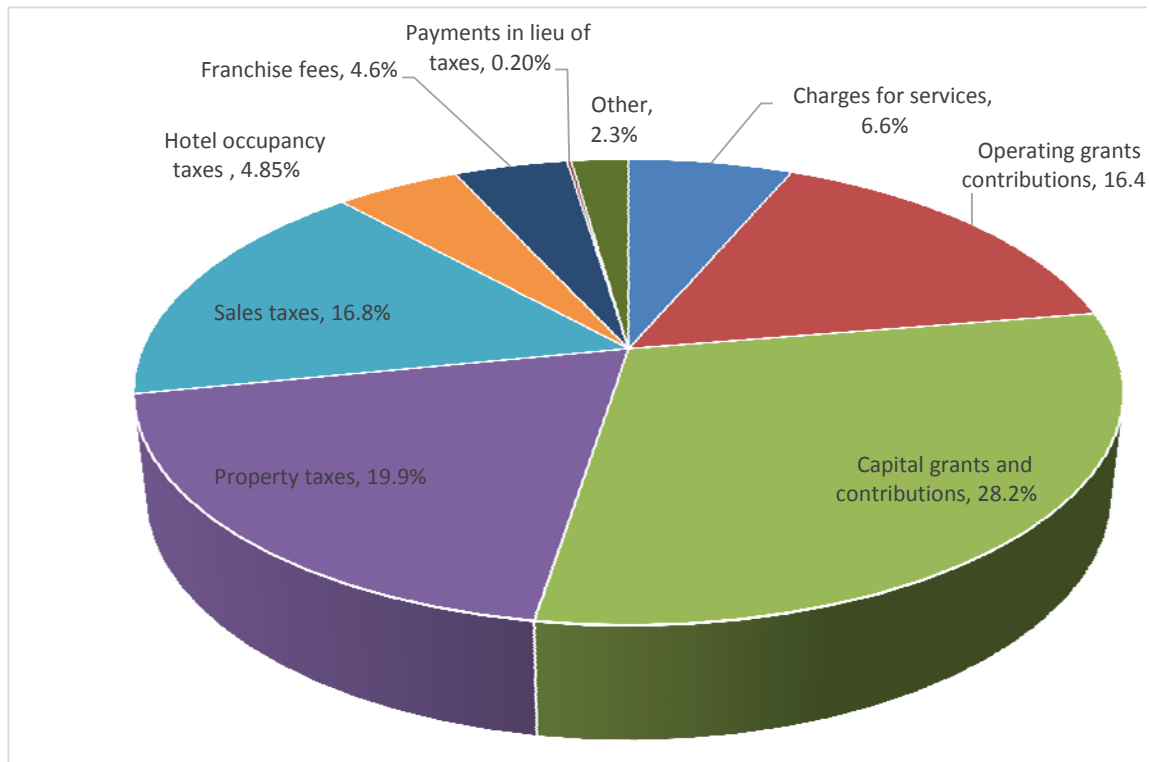
Table A-2 above reflects that:

- Spending for governmental activities for the fiscal year was \$76.7 million, a decrease of \$18.0 million over the previous fiscal year.
- Public safety, which includes expenses for police, fire, emergency management and special events, accounted for 36.6% of governmental activities compared to 29.7% in 2012. The authorized force increased from 142 to 144 with the hiring of additional personnel for the Seawall Parking enforcement. Public safety operating expenses increased \$1.2 million or 4.3% compared to the prior year.
- The single largest source of revenue is from capital grants and contributions, representing 28.2% of the \$110.7 million governmental activity revenue stream.
- Operating grants and contributions represented another 16.4% of governmental revenues.
- Local property taxes provided approximately 19.9% of governmental activity revenue. City property taxes, sales taxes, hotel occupancy taxes, franchise fees, and payments in lieu of taxes were \$51.2 million, an increase of \$1.3 from the previous year. Taxes and franchise fees contributed to 46.2% of governmental activities revenue compared to 40.5% in fiscal year 2012.
- Charges for services account for 6.6% of governmental activities, and increased \$346,000 in fiscal 2013 to \$7.3 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 \$76.6. Program revenues provided \$56.7 million, for a net expense of \$19.9 million for the fiscal year 2012-2013.



Graph 2 below presents the sources of revenue for governmental activities. Federal assistance, most notably from the ARRA and CDBG recovery assistance program provided 44.6% of the 2013 year funding. A combination of sales taxes (16.8%), hotel taxes (5.0%), franchise fees (4.6%), and payments in lieu of taxes received from business-type activities (0.20%) comprise total revenues. The City's property taxes contributed an additional 19.9% of total revenues, charges for services contributed 6.6% and other revenue 2.3%.



Business-type Activities. Business-type activities increased the City's net position by \$33.3 million, or 20.5%. Business-type net position accounted for 55.2% of the City's total net position. Revenues derived from charges for services account for 88.8% 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, 2013

With comparative totals for fiscal year ended September 30, 2012

Program	Program Expenses	Revenues	2013 Net Revenue (Cost) of Service	2012 Net Revenue Cost of Service
Waterworks system	\$13,990	\$17,482	\$3,492	\$3,333
Sewer system	11,669	12,968	1,299	2,501
Sanitation services	4,382	5,088	\$706	480
Drainage utility	1,873	2,564	\$691	888
Airport	1,499	1,260	\$239	2,131
Totals	\$33,413	\$39,362	\$5,949	\$9,333

As indicated in Table A-3, expenses of the public utility related funds (Waterworks system, Sewer system, Sanitation and Drainage) totaled \$31.9 million, or 95.5% of all the expenses of business-type activities.

Related revenues of those funds totaled \$39.4 million, or 90.4% of all business-type revenues. Public utility related funds operating revenues for the prior year were \$41.9 million and expenses were \$32.6 million. The Island population and customer service base decreased as a consequence of Hurricane Ike. Consumption remained down 9.0% from pre-Ike levels.

The net excess of program revenues over expenses for the four public utility related funds was \$6.2 million compared to \$7.2 million in 2012. In total, business type activity excess revenues over expenses were \$5.9 million in 2013 compared to \$9.3 million in 2012.

Table A-4 shows business-type activities revenues by source. Charges for services provided 90.2% of the total and other revenues provided 9.7%.

Revenues by Source-Business Type Activities
(in thousands)

For the fiscal year ended September 20, 2013

With comparative totals for fiscal year ended September 30, 2012

	2013 Dollars	2013 Percent	2012 Dollars	2012 Percent
Charges for Services	\$39,337	90.2%	\$37,557	88.82%
Capital grants and contributions	26	0.0%	4,370	10.33%
Other	4,229	9.7%	360	0.85%
Totals	\$43,592	100.0%	\$42,287	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 \$20.9 million in fiscal 2012 to \$23.5 million in fiscal year 2013. Cash and temporary investments amount to \$15.8 million or 67.3% of total assets and net receivables are reported at \$7.6 million, or 32.7% of the total.
- General Fund liabilities increased by \$650,494. Liabilities were \$4.8 million in 2013. Deferred revenue from property taxes amounted to 54.6% of General Fund liabilities compared to 63.1% for fiscal year 2012.
- General Fund actual revenues were more than budget by \$1,087,048. Expenditures were favorable to budget by \$245,122. However, revenues exceeded expenditures by \$970,920 as a result of organizational efficiencies.
- The General fund's fund balance increased \$2 million in 2013 to \$18.7 million.
- Other governmental non-major funds (24 separate funds) have cash and investments totaling \$37.4 million, comprising 35.0% of the total assets of all governmental funds.
- The fund balance of the Debt Service Fund increased by \$0.27 million to \$4.0 million at the end of 2013

□ As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$63.8 million. Of this amount, \$14.6 million constitutes unassigned fund balance, which is available for spending at the government's discretion. Restricted amounts for capital projects amounted to \$21.2 million. Committed amounts are reported for operations, \$3.6 million and capital construction \$1.4 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 \$247.7 million, which comprises 87.3% of the total assets of all proprietary funds. Unrestricted net position of those two funds are \$5.8 million and \$4.2 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 2013 departments were within budgeted appropriations as detailed in the included exhibits of the Financial Statements.

The adopted budget for fiscal year 2013 set General Fund revenue and expenditures at \$42.5 million (exclusive of other financing sources), which amounted to a \$1.2 million increase over the prior year. The property tax rate remained the same as the prior year, at \$0.554 mills. While the 2013 budget contemplated a zero increase in fund balance, the actual increase was \$2.0 million of revenues over expenditures. Sales tax revenue exceeded budgeted amounts by \$1.1 million. Property taxes realized were favorable to budget by \$45,000.

General Fund budgeted expenditures were \$42.6 million. Departments reported a favorable variance to budgets in most areas, including general government, \$161,000; public safety, \$66,000; culture and recreation, \$121,000; planning and community development, \$126,000. Capital outlay and public works was the only areas where there was an unfavorable variance of \$94,000 and \$151,000, respectively. Conservative spending policies contributed to the favorable year-end results.

Capital Asset and Debt Administration

CITY OF GALVESTON, TEXAS

Table A-5

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

September 30, 2013

With comparative totals for September 30, 2012

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 20,013	\$ 19,712	\$ 2,489	\$ 2,487	\$ 22,502	\$ 22,199
Infrastructure	62,215	65,924	84,087	86,179	146,302	152,103
Buildings	39,560	38,689	45,600	47,114	85,160	85,803
Equipment and furniture	15,435	18,801	7,289	6,459	22,724	25,260
Contractual water rights	-	-	17,904	15,043	17,904	15,043
Construction in progress	14,240	9,177	71,590	40,336	85,830	49,513
	<u>\$151,463</u>	<u>\$151,463</u>	<u>\$228,959</u>	<u>\$197,618</u>	<u>\$380,422</u>	<u>\$349,921</u>

As shown in Table A-5, at the end of 2013, the City's investment in capital assets has a carrying value of \$380.4 million. This includes a broad range of capital assets, such as utility system infrastructure, contractual rights to the City's water supply, streets, airport structures and runways, several buildings, police and fire equipment, park facilities, and other equipment and furniture. Governmental funds contributed \$151.5 million in capital assets, while business-type activities have invested in \$229.0 million of capital assets.

Governmental capital assets subject to depreciation increased \$1.9 million. Construction in progress increased \$5.1 million. Depreciation expense accounted for a decrease in carrying value of \$8.4 million. In governmental capital assets, work is continuing to be done with Island transit maintenance facility with bus wash still to be constructed.

Business type capital assets subject to depreciation increased \$8.2 million. Construction in progress increased \$31.3 million. Depreciation expense accounted for a decrease in carrying value of \$8.4 million. Construction of the Main Wastewater treatment plant increased by \$21.6 million, this is an \$86.1 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 \$143.4 million. Of this amount, \$20.4 million was comprised of debt backed by the full faith and credit of the government, and \$26.7 million was comprised of special assessment debt for which the government is liable in the event of a deficiency in the amount of hotel tax revenue collected. The remainder of the City's debt (\$96.3 million) primarily represents bonds secured solely by specified revenue sources, \$35.7 million and certificates of obligation, \$33.7 million.

CITY OF GALVESTON, TEXAS

Outstanding Debt (in thousands)

September 30, 2013

With comparative totals for September 30, 2012

Table A-6

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$20,358	\$21,702	\$ -	\$ -	\$20,358	\$21,702
Special obligation bonds	26,690	30,290	-	-	26,690	30,290
Contracts payable	-	-	26,902	31,862	26,902	31,862
Revenue bonds	-	-	35,755	37,955	35,755	37,955
Certificates of obligation	19,572	22,516	14,116	14,658	33,688	37,174
Notes payable	1,291	2,426	3,039	7,822	4,330	10,248
Capital lease obligation	1,033	1,654	-	135	1,033	1,789
	<u>\$68,944</u>	<u>\$78,588</u>	<u>\$79,812</u>	<u>\$92,432</u>	<u>\$148,756</u>	<u>\$171,020</u>

The City's total debt overall decreased \$22.3 during the current fiscal year. In January of 2014, Standard & Poor's Ratings Services raised its underlying rating to "AA" from "A+" on Galveston's existing GO debt, also with a stable outlook, citing the City's strong economy. The City has very strong budgetary flexibility. It had reserves of \$16.4 million, 35.0% of general fund expenditures in fiscal 2013. 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 and Next Year's Budgets and Rates

The property tax rate was \$0.554 per \$100 valuation for fiscal year 2013. The rate for the General Fund (maintenance and operation) increased .38% from \$0.451 to \$0.453 per \$100. General fund property tax revenue is projected to increase \$782,465 or 4.52% in the 2013 year.

The 2013 budget did not include use of fund balance to assist in meeting its obligations for the general fund. In the General Fund, the City budgeted the cost of service levels within a sustainable revenue stream. Additionally, funds have been provided for vehicle replacement of \$1,000,000 and emergency reserve of \$431,705.

The U.S. Gross Domestic Product increased to 2.4% and unemployment showed signs of recovery. The federal unemployment rate was 6.7% while Texas' unemployment rate was at 6.0%. Current economic growth in the U.S. continues to show uncertainty with the political unrest throughout the world.

All of these factors were considered in preparing the City's budget for the 2014 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Galveston, 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, 2013**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities
ASSETS					
Cash and investments	\$ 81,406,948	\$ 13,416,443	\$ 94,823,391	\$ 12,631,254	\$ 18,058,956
Investments	-	-	-	2,518,581	-
Receivables, net of allowance for uncollectibles	5,351,924	9,221,845	14,573,769	2,437,812	8,253,415
Internal balances	(4,831,622)	4,831,622	-	-	-
Due from other governments	23,817,430	-	23,817,430	31,930	-
Note receivable from component units	18,263,086	-	18,263,086	-	-
Restricted assets	275,099	27,852,788	28,127,887	-	22,339,688
Net pension asset	344,421	-	344,421	-	-
Inventories	350,745	120,668	471,413	9,021	-
Prepaid items	353,106	609	353,715	263,436	703,300
Deferred charges	840,957	1,596,012	2,436,969	-	811,166
Other assets	-	-	-	-	199,145
Net investments in direct financing lease	-	-	-	-	2,655,282
Capital assets not being depreciated	34,254,104	74,080,276	108,334,380	1,576,547	30,734,280
Capital assets net of depreciation	117,209,370	154,878,235	272,087,605	334,722,479	97,355,005
Total assets	277,635,568	285,998,498	563,634,066	354,191,060	181,110,237
LIABILITIES					
Accounts payable and accrued expenses	18,294,412	3,416,447	21,710,859	3,769,673	4,097,840
Accrued interest	628,103	885,814	1,513,917	9,102	1,115,044
Due to other governments	271,546	454,738	726,284	-	-
Due to primary government	-	-	-	-	187,302
Unearned revenue	14,843,528	1,295,085	16,138,613	-	-
Customer deposits	-	2,222,653	2,222,653	-	-
Long-term liabilities					
Due within one year	6,181,783	6,595,530	12,777,313	1,218,487	4,268,611
Due in more than one year	78,183,040	75,244,016	153,427,056	17,220,068	54,405,274
Total liabilities	118,402,412	90,114,283	208,516,695	22,217,330	64,074,071
NET POSITION					
Net investment in capital assets	102,988,279	152,955,165	255,943,444	333,558,036	92,456,023
Restricted for:					
Capital projects	-	17,206,098	17,206,098	-	-
Grants	8,775,316	-	8,775,316	-	-
Beach preservation	968,854	-	968,854	-	-
Debt service	12,643,266	8,424,037	21,067,303	1,520,935	5,964,618
Unrestricted	33,857,441	17,298,915	51,156,356	(3,105,241)	18,615,525
Total net position	\$ 159,233,156	\$ 195,884,215	\$ 355,117,371	\$ 331,973,730	\$ 117,036,166

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, 2013**

Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Governmental Activities	Business-type Activities
					Governmental Activities	Business-type Activities			
Primary government									
Governmental activities									
General government	\$ 6,874,430	\$ 1,884,003	\$ -	\$ -	\$ (4,990,427)	\$ -	\$ (4,990,427)	\$ -	\$ -
Public safety	28,074,886	2,416,865	249,124	-	(25,408,897)	-	(25,408,897)	-	-
Public works	6,846,961	-	-	71,489	(6,775,472)	-	(6,775,472)	-	-
Culture and recreation	9,081,974	1,610	139,395	-	(8,940,969)	-	(8,940,969)	-	-
Planning and community development	11,971,665	1,402,000	11,117,692	27,313,031	27,861,058	-	27,861,058	-	-
Transportation system	8,163,669	1,575,197	2,789,343	3,857,831	58,702	-	58,702	-	-
Interest on long-term debt	1,716,431	-	-	-	(1,716,431)	-	(1,716,431)	-	-
Total governmental activities	<u>72,730,016</u>	<u>7,279,675</u>	<u>14,295,554</u>	<u>31,242,351</u>	<u>(19,912,436)</u>	<u>-</u>	<u>(19,912,436)</u>	<u>-</u>	<u>-</u>
Business-type activities									
Waterworks	13,990,064	17,481,557	-	-	-	3,491,493	3,491,493	-	-
Sewer system	11,668,912	12,967,850	-	-	-	1,298,938	1,298,938	-	-
Sanitation	4,381,600	5,088,005	-	-	-	706,405	706,405	-	-
Drainage	1,873,067	2,564,023	-	-	-	690,956	690,956	-	-
Airport	1,498,736	1,235,942	-	25,777	-	(237,017)	(237,017)	-	-
Total business-type activities	<u>33,412,379</u>	<u>39,337,377</u>	<u>-</u>	<u>25,777</u>	<u>-</u>	<u>5,950,775</u>	<u>5,950,775</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 106,142,395</u>	<u>\$ 46,617,052</u>	<u>\$ 14,295,554</u>	<u>\$ 31,268,128</u>	<u>(19,912,436)</u>	<u>5,950,775</u>	<u>(13,961,661)</u>	<u>-</u>	<u>-</u>
Component unit									
Governmental activities	27,291,756	4,547,780	-	287,468	-	-	-	(22,456,508)	-
Business-type activities	30,856,686	24,922,793	-	11,154,694	-	-	-	-	5,220,801
Total component units	<u>\$ 58,148,442</u>	<u>\$ 29,470,573</u>	<u>\$ -</u>	<u>\$ 11,442,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,456,508)</u>	<u>5,220,801</u>
GENERAL REVENUES									
Taxes:									
Property taxes					21,987,845	-	21,987,845	3,752,234	-
Sales and use taxes					18,637,897	-	18,637,897	-	-
Hotel occupancy taxes					5,499,988	-	5,499,988	8,376,675	-
Franchise fees					5,042,575	-	5,042,575	-	-
Payments in lieu of taxes					124,678	-	124,678	-	-
Unrestricted investment earnings					179,224	153,480	332,704	144,313	123,317
Miscellaneous					2,535,000	4,074,659	6,609,659	-	62,593
Capital asset contributions, net					-	-	-	9,133,023	-
Extraordinary item - Insurance proceeds for casualty loss					-	-	-	-	17,749,975
Extraordinary item - loan forgiveness					-	-	-	4,856,419	-
Transfers					(23,123,655)	23,123,655	-	-	-
Total general revenues, extraordinary items and transfers					<u>30,883,552</u>	<u>27,351,794</u>	<u>58,235,346</u>	<u>26,262,664</u>	<u>17,935,885</u>
Change in net position					10,971,116	33,302,569	44,273,685	3,806,156	23,156,686
NET POSITION, beginning of year					<u>148,262,040</u>	<u>162,581,646</u>	<u>310,843,686</u>	<u>328,167,574</u>	<u>93,879,480</u>
NET POSITION, end of year					<u>\$ 159,233,156</u>	<u>\$ 195,884,215</u>	<u>\$ 355,117,371</u>	<u>\$ 331,973,730</u>	<u>\$ 117,036,166</u>

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

**CITY OF GALVESTON, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

ASSETS	General Fund	Hurricane Ike	CDBG Disaster Fund Non-housing	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ 15,798,795	\$ 19,233,928	\$ -	\$ 37,443,641	\$ 72,476,364
Receivables, net of allowance for uncollectibles	3,497,631	-	-	1,579,747	5,077,378
Due from other governments	2,649,796	3,395,051	8,367,762	9,404,821	23,817,430
Due from other funds	1,542,750	-	-	-	1,542,750
Inventories	-	-	-	162,672	162,672
Prepaid items	47,206	-	-	-	47,206
Total assets	\$ 23,536,178	\$ 22,628,979	\$ 8,367,762	\$ 48,590,881	\$ 103,123,800
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,178,214	\$ 269,897	\$ 8,353,189	\$ 7,099,142	\$ 16,900,442
Accrued liabilities	704,243	36	6,969	72,364	783,612
Due to other funds	50,000	2,758,869	-	1,542,750	4,351,619
Payable to other governments	271,546	-	-	-	271,546
Unearned revenue	2,595,280	10,824,861	7,604	3,585,358	17,013,103
Total liabilities	4,799,283	13,853,663	8,367,762	12,299,614	39,320,322
FUND BALANCES					
Nonspendable					
Inventories	-	-	-	162,672	162,672
Prepaid items	47,206	-	-	-	47,206
Restricted for					
Debt service	363,296	-	-	12,749,073	13,112,369
Beach preservation	-	-	-	968,854	968,854
Capital projects	-	-	-	21,195,867	21,195,867
Grants	-	8,775,316	-	-	8,775,316
Committed					
Emergency reserves	3,575,226	-	-	-	3,575,226
Governmental projects	-	-	-	1,353,703	1,353,703
Unassigned	14,751,167	-	-	(138,902)	14,612,265
Total fund balances	18,736,895	8,775,316	-	36,291,267	63,803,478
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,536,178	\$ 22,628,979	\$ 8,367,762	\$ 48,590,881	\$ 103,123,800

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, 2013**

Total fund balances - governmental funds \$ 63,803,478

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 \$100,171,932 was: 145,682,659

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	1,253,741
Adjudicated municipal court fines	915,834
Long-term receivable from component unit	18,263,086

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. 4,711,501

Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.

Bonds payable	(63,538,380)
Capital lease obligation	(1,291,437)
Compensated absences	(7,651,630)
Accrued interest	(564,341)
Net pension asset	344,421
Net pension obligation	(1,932,406)
Loss on refunding of debt	428,893
Deferred charges	803,427
Deferred bond issuance premium / discount	<u>(1,995,690)</u>

Net position of governmental activities \$ 159,233,156

CITY OF GALVESTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Hurricane Ike	CDBG Disaster Fund Non-housing	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 18,113,123	\$ -	\$ -	\$ 4,021,112	\$ 22,134,235
Sales and use taxes	14,123,833	-	-	10,014,052	24,137,885
Franchise fees	5,042,575	-	-	-	5,042,575
Licenses and permits	1,157,610	-	-	-	1,157,610
Fines and forfeitures	2,118,781	-	-	125,138	2,243,919
Charges for services	1,760,829	-	-	1,529,417	3,290,246
Investment earnings	69,092	-	-	80,741	149,833
Intergovernmental	128,340	2,422,215	25,948,617	19,241,454	47,740,626
Other	800,367	-	-	174,104	974,471
Total revenues	43,314,550	2,422,215	25,948,617	35,186,018	106,871,400
Expenditures					
Current					
General government	5,692,584	237,907	1,966	546,083	6,478,540
Public safety	26,644,217	123,620	-	185,834	26,953,671
Highways and roads	3,269,749	902,126	-	-	4,171,875
Culture and recreation	1,892,078	21,853	-	5,050,545	6,964,476
Planning and community development	1,977,611	-	1,104,702	8,702,590	11,784,903
Transportation	750,052	122,670	-	4,419,135	5,291,857
Debt service					
Principal	372,046	-	-	7,048,351	7,420,397
Interest and fiscal charges	3,104	-	-	2,458,780	2,461,884
Bond issuance cost	-	-	-	849,254	849,254
Capital outlay	1,742,189	1,094,733	24,841,949	5,357,762	33,036,633
Total expenditures	42,343,630	2,502,909	25,948,617	34,618,334	105,413,490
Excess (deficiency) of revenues over expenditures	970,920	(80,694)	-	567,684	1,457,910
Other financing sources (uses)					
Premiums on debt issued	-	-	-	1,700,560	1,700,560
Proceeds from issuance of debt	-	-	-	41,165,000	41,165,000
Payment to refunded bond escrow agent	-	-	-	(42,296,436)	(42,296,436)
Sales of assets	467,254	-	-	-	467,254
Transfers in	635,901	109,340	-	12,516,238	13,261,479
Transfers (out)	(115,229)	(35,901)	-	(11,871,232)	(12,022,362)
Total other financing sources (uses)	987,926	73,439	-	1,214,130	2,275,495
Net change in fund balances	1,958,846	(7,255)	-	1,781,814	3,733,405
Fund balances, beginning of year	16,778,049	8,782,571	-	34,509,453	60,070,073
Fund balances, end of year	\$ 18,736,895	\$ 8,775,316	\$ -	\$ 36,291,267	\$ 63,803,478

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, 2013

Net change in fund balances - total governmental funds \$ 3,733,405

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

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

This is the amount by which depreciation (\$8,142,981) exceeds capital outlay (\$7,190,413) in the current period. (952,568)

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. (13,203)

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.

Proceeds from the issues of bonds	(41,165,000)
Premiums on bond issuance	(1,700,560)
Bond issuance cost	849,254
Payments to escrow agent to defease debt	42,296,436
Repayment of bonds	7,048,351
Loan payable forgiven by Federal government	1,300,000
Accretion on capital appreciation bonds, net	65,637
Amortization of bond premiums	132,434
Amortization of bond issuance cost	(44,370)
Amortization of loss on refunding	(22,543)
Repayment on capital leases	363,045

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:

Accrued interest on long-term debt	93,998
Compensated absences	9,301
Net pension obligation	(764,590)

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. 919,750

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. (1,177,661)

Change in net position of governmental activities \$ 10,971,116

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, 2013

	Budgeted Amounts		Actual Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	GAAP Basis	Reconciling Items	Budgetary Basis	
Revenues						
Property taxes	\$ 18,056,723	\$ 18,056,723	\$ 18,113,123	\$ -	\$ 18,113,123	\$ 56,400
Sales and use taxes	12,981,968	12,981,968	14,123,833	-	14,123,833	1,141,865
Franchise taxes	5,171,851	5,171,851	5,042,575	-	5,042,575	(129,276)
Licenses and permits	1,178,805	1,178,805	1,157,610	-	1,157,610	(21,195)
Intergovernmental	122,195	122,195	128,340	-	128,340	6,145
Charge for services	1,634,849	1,634,849	1,760,829	-	1,760,829	125,980
Fines and forfeitures	2,554,586	2,254,586	2,118,781	-	2,118,781	(135,805)
Investment earnings	42,569	42,569	69,092	(44)	69,048	26,479
Other	783,912	783,912	800,367	-	800,367	16,455
Total revenues	42,527,458	42,227,458	43,314,550	(44)	43,314,506	1,087,048
Expenditures						
Current						
General government	5,855,055	5,779,485	5,692,584	-	5,692,584	86,901
Public safety	26,804,293	26,710,425	26,644,217	-	26,644,217	66,208
Public works	3,268,815	3,176,120	3,269,749	-	3,269,749	(93,629)
Culture and recreation	2,013,638	2,013,638	1,892,078	-	1,892,078	121,560
Planning and community development	2,103,158	2,131,158	1,977,611	-	1,977,611	153,547
Transportation	750,050	750,050	750,052	-	750,052	(2)
Vehicle capital outlay	1,455,000	1,645,789	1,742,189	-	1,742,189	(96,400)
Debt service	335,415	335,415	375,150	-	375,150	(39,735)
Total expenditures	42,585,424	42,542,080	42,343,630	-	42,343,630	198,450
Excess (deficiency) of revenues over expenditures	(57,966)	(314,622)	970,920	(44)	970,876	1,285,498
Other financing sources						
Transfer to emergency reserves	(200,000)	(150,000)	-	(150,000)	(150,000)	-
Sale of assets	43,000	43,000	467,254	-	467,254	424,254
Transfers in (out), net	168,295	168,295	520,672	-	520,672	352,377
Total other financing sources	11,295	61,295	987,926	(150,000)	837,926	776,631
Net change in fund balances	(46,671)	(253,327)	1,958,846	(150,044)	1,808,802	2,062,129
Fund balance, beginning of year	16,778,049	16,778,049	16,778,049	(11,055)	16,766,994	(11,055)
Fund balance, end of year	\$ 16,731,378	\$ 16,524,722	\$ 18,736,895	\$ (161,099)	\$ 18,575,796	\$ 2,051,074

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, 2013**

ASSETS	Business Type Activities - Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
CURRENT ASSETS					
Cash and temporary investments	\$ 7,420,900	\$ 3,457,880	\$ 2,537,663	\$ 13,416,443	\$ 8,930,584
Accounts receivable, net of allowance for doubtful accounts	3,175,177	3,017,940	3,028,728	9,221,845	274,546
Due from other funds	420,499	1,043,410	1,160,465	2,624,374	184,495
Inventories	60,334	60,334	-	120,668	188,073
Prepaid expenses	-	-	609	609	305,900
Restricted assets					
Cash and investments	7,539,066	18,084,062	2,229,660	27,852,788	275,099
Total current assets	18,615,976	25,663,626	8,957,125	53,236,727	10,158,697
NONCURRENT ASSETS					
Deferred charges	831,357	764,655	-	1,596,012	37,530
Capital assets not being depreciated	17,081,792	49,268,650	7,729,834	74,080,276	-
Capital assets (net of depreciation)	88,610,531	46,848,898	19,418,806	154,878,235	5,780,815
Total noncurrent assets	106,523,680	96,882,203	27,148,640	230,554,523	5,818,345
Total assets	125,139,656	122,545,829	36,105,765	283,791,250	15,977,042
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	1,832,295	861,371	722,781	3,416,447	610,358
Accrued interest payable	426,500	459,314	-	885,814	63,762
Due to other governments	152,036	-	302,702	454,738	-
Customer deposits	1,111,327	1,111,326	-	2,222,653	-
Unearned revenue	1,124,464	2,490	168,131	1,295,085	-
Long-term debt, current portion					
Compensated absences	22,000	40,000	52,000	114,000	-
Claims and judgments	-	-	-	-	199,834
Contracts payable	1,992,885	-	-	1,992,885	-
Notes payable	557,928	557,917	-	1,115,845	96,890
Bonds and certificates of obligation payable	1,779,761	1,593,039	-	3,372,800	97,200
Total current liabilities	8,999,196	4,625,457	1,245,614	14,870,267	1,068,044
NONCURRENT LIABILITIES					
Long-term debt, noncurrent portion:					
Compensated absences	169,480	452,679	464,706	1,086,865	461,408
Claims and judgments	-	-	-	-	1,000,331
Contracts payable	25,342,981	-	-	25,342,981	2,607,195
Notes payable	961,739	961,739	-	1,923,478	936,533
Bonds and other long-term debt payable	20,870,954	26,019,738	-	46,890,692	2,984,782
Total noncurrent liabilities	47,345,154	27,434,156	464,706	75,244,016	7,990,249
Total liabilities	56,344,350	32,059,613	1,710,320	90,114,283	9,058,293
NET POSITION					
Net investment in capital assets	56,537,099	69,269,426	27,148,640	152,955,165	2,736,363
Restricted for debt service	3,310,074	5,113,805	158	8,424,037	275,099
Restricted for capital improvements	3,117,665	11,858,931	2,229,502	17,206,098	-
Unrestricted	5,830,468	4,244,054	5,017,145	15,091,667	3,907,287
Total net position	\$ 68,795,306	\$ 90,486,216	\$ 34,395,445	193,676,967	\$ 6,918,749

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.

	2,207,248
Total net position per government-wide financial statements	\$ 195,884,215

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, 2013**

	Business Type Activities - Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues					
Charges for services	\$ 17,447,689	\$ 12,967,850	\$ 8,887,970	\$ 39,303,509	\$ 16,806,589
Miscellaneous	3,754,553	36,630	296,742	4,087,925	6,027
Total operating revenues	21,202,242	13,004,480	9,184,712	43,391,434	16,812,616
Operating expenses					
Personnel services	1,671,936	3,751,753	3,506,690	8,930,379	2,288,621
Contractual services	945,507	1,511,235	2,100,343	4,557,085	1,025,566
Supplies and materials	881,992	1,664,392	186,274	2,732,658	3,465,019
Surface water contract	4,029,515	-	-	4,029,515	-
Insurance claims and premiums	-	-	-	-	7,300,907
Other expenses	471,708	494,376	439,841	1,405,925	785,752
Administration charge	628,335	383,497	296,039	1,307,871	-
Depreciation	4,327,725	2,695,311	1,334,962	8,357,998	292,813
Total operating expenses	12,956,718	10,500,564	7,864,149	31,321,431	15,158,678
Operating income	8,245,524	2,503,916	1,320,563	12,070,003	1,653,938
Nonoperating revenues (expenses)					
Intergovernmental revenue	-	-	25,777	25,777	-
Interest and investment revenue	57,668	75,838	19,974	153,480	29,390
Insurance proceeds	-	-	-	-	69,157
Gain on disposal of capital assets	9,093	10,833	676	20,602	-
Interest expense	(1,064,903)	(1,196,850)	(5,222)	(2,266,975)	(201,253)
Amortization of bond issuance costs	(250,026)	(54,734)	(1,496)	(306,256)	(2,724)
Total nonoperating revenues (expenses)	(1,248,168)	(1,164,913)	39,709	(2,373,372)	(105,430)
Income before contributions and transfers	6,997,356	1,339,003	1,360,272	9,696,631	1,548,508
Capital contributions	952,292	23,000,406	263,597	24,216,295	-
Transfers in	-	13,747	23,423	37,170	-
Transfers out	(537,187)	(392,588)	(200,037)	(1,129,812)	(146,473)
Change in net position	7,412,461	23,960,568	1,447,255	32,820,284	1,402,035
Net position, beginning of year	61,382,845	66,525,648	32,948,190	160,856,683	5,516,714
Net position, end of year	\$ 68,795,306	\$ 90,486,216	\$ 34,395,445	193,676,967	\$ 6,918,749

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.

	482,285
Change in business-type activities in net position per government-wide financial statements	<u>\$ 33,302,569</u>

**CITY OF GALVESTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund				Governmental Activities
	Waterworks System	Sewer System	Other Enterprise Funds	Total	Internal Service
OPERATING ACTIVITIES					
Receipts from customers and users	\$ 17,917,105	\$ 12,989,008	\$ 8,786,182	\$ 39,692,295	\$ 16,761,595
Disbursed for personnel services	(1,684,887)	(3,644,697)	(3,444,559)	(8,774,143)	(2,214,450)
Disbursed for goods and services	(5,573,668)	(3,192,369)	(2,272,399)	(11,038,436)	(12,466,021)
Administrative service charge	(628,335)	(383,497)	(295,035)	(1,306,867)	-
Other operating revenues	3,754,553	36,630	-	3,791,183	-
Net cash provided by operating activities	13,784,768	5,805,075	2,774,189	22,364,032	2,081,124
NONCAPITAL FINANCING ACTIVITIES					
Interfund transfers in	-	13,747	23,423	37,170	5,853
Interfund transfers out	(537,187)	(392,588)	(200,037)	(1,129,812)	(152,326)
Insurance proceeds	-	-	-	-	69,157
Net cash used in noncapital financing activities	(537,187)	(378,841)	(176,614)	(1,092,642)	(77,316)
CAPITAL AND RELATED FINANCING ACTIVITIES					
Payments for capital acquisitions (net of sales)	(6,079,821)	(3,681,783)	(2,716,834)	(12,478,438)	(418,878)
Principal payments on debt - bonds	(6,072,661)	(1,605,901)	(115,000)	(7,793,562)	(93,600)
Principal payments on debt - long term contracts	(4,041,489)	(541,490)	-	(4,582,979)	-
Principal payments on debt - capital leases	-	-	(200,000)	(200,000)	(92,994)
Interest paid on revenue bonds and long term contracts	(1,287,015)	(1,112,606)	(17,067)	(2,416,688)	(157,241)
Interest paid on capital leases and notes payable	-	(55,782)	-	(55,782)	(45,767)
Transfers (to) from other funds	50,000	-	-	50,000	-
Bond issuance costs/gain on refunding	-	31,025	-	31,025	-
Contributed capital	952,292	-	14,675	966,967	-
Net cash used in capital and related financing activities	(16,478,694)	(6,966,537)	(3,034,226)	(26,479,457)	(808,480)
INVESTING ACTIVITIES					
Interest on investments	57,668	75,838	19,974	153,480	29,390
Net cash provided by investing activities	57,668	75,838	19,974	153,480	29,390
Net increase (decrease) in cash and cash equivalents	(3,173,445)	(1,464,465)	(416,677)	(5,054,587)	1,224,718
CASH AND CASH EQUIVALENTS, beginning of year	18,133,411	23,006,407	5,184,000	46,323,818	7,980,965
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 14,959,966</u>	<u>\$ 21,541,942</u>	<u>\$ 4,767,323</u>	<u>\$ 41,269,231</u>	<u>\$ 9,205,683</u>

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, 2013
(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	\$ 8,245,524	\$ 2,503,916	\$ 1,320,563	\$ 12,070,003	\$ 1,653,938
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	4,327,725	2,695,311	1,334,962	8,357,998	292,813
(Increase) decrease in accounts receivable	173,383	70,561	(106,666)	137,278	(51,020)
(Increase) decrease in inventory and prepaid expenses	(11,929)	(11,929)	4,126	(19,732)	61,901
Increase (decrease) in deferred revenue	347,606	2,165	(315,810)	33,961	-
Increase (decrease) in accounts payable	766,985	489,563	475,620	1,732,168	49,321
Increase (decrease) in salaries payable	5,219	30,804	14,783	50,806	8,955
Increase (decrease) in customer deposits	(50,900)	(51,568)	-	(102,468)	-
Increase (decrease) in compensated absences payable	(18,845)	76,252	46,611	104,018	65,216
Net cash provided by operating activities	\$ 13,784,768	\$ 5,805,075	\$ 2,774,189	\$ 22,364,032	\$ 2,081,124
Noncash Investing, Capital and Financing Activities					
Bond issuance cost/defeasement	\$ (378,789)	\$ -	\$ -	(378,789)	\$ -
Contributed capital	-	23,000,406	263,597	23,264,003	-
Net noncash transactions	\$ (378,789)	\$ 23,000,406	\$ 263,597	\$ 22,885,214	\$ -
Reconciliation of cash to statement of net position					
Unrestricted cash and equivalents	\$ 7,420,900	\$ 3,457,880	\$ 2,537,663	\$ 13,416,443	\$ 8,930,584
Restricted cash and equivalents	7,539,066	18,084,062	2,229,660	27,852,788	275,099
CASH AND CASH EQUIVALENTS	\$ 14,959,966	\$ 21,541,942	\$ 4,767,323	\$ 41,269,231	\$ 9,205,683

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, 2013**

	Pension Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 1,574,536	\$ 1,140,734
Receivables		
Interest and dividends	100,405	-
Loans to participants	164,751	-
Total receivables	265,156	-
Investments		
Money market funds	1,446,126	
U.S. government securities	2,249,183	
Bonds	3,979,775	
Common stock	37,360,542	-
Mutual funds (equity funds)	23,884,264	-
Bond mutual funds	26,306,747	-
Total investments	95,226,637	-
Prepaid benefits	-	-
TOTAL ASSETS	97,066,329	\$ 1,140,734
LIABILITIES		
Accounts payable	50,585	-
Refunds payable and others	-	1,140,734
TOTAL LIABILITIES	50,585	\$ 1,140,734
NET POSITION		
Held in trust for benefits and other purposes	\$ 97,015,744	

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, 2013**

	Pension Trust Fund
ADDITIONS	
Contributions	
Employer	\$ 3,652,996
Plan members	3,150,473
Total contributions	6,803,469
Investment earnings	
Net increase in fair value of investments	5,948,544
Interest	1,180,326
Dividends	1,509,930
Investment activity expense	(617,193)
Total net investment earnings	8,021,607
Other Additions	
Miscellaneous	1,821
Total additions - investments and contributions	14,826,897
DEDUCTIONS	
Benefits	10,694,510
Employee contribution refunds	73,547
Administrative	292,321
Total deductions	11,060,378
Change in net position	3,766,519
Net position, beginning of year	93,249,225
Net position, end of year	\$ 97,015,744

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

**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, 2012.

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
2504 Church
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 no 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus/Basis of Accounting – Continued

Additionally, the government reports the following fund types:

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

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.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 41.0% of total property taxes including the related penalty and interest accrual as of year-end. The allowance for enterprise fund charges for services is 21.0% 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2013, are recorded as prepaid items.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 policy. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. At September 30, 2013, 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2013:

	Business Type Activities - Enterprise Funds			Total
	Waterworks System	Sewer System	Other Enterprise Funds	
Restricted for:				
Debt service	\$ 3,310,074	\$ 5,113,805	\$ 158	\$ 8,424,037
Capital projects	3,117,665	11,858,931	2,229,502	17,206,098
Meter deposits	1,111,327	1,111,326	-	2,222,653
	<u>\$ 7,539,066</u>	<u>\$ 18,084,062</u>	<u>\$ 2,229,660</u>	<u>\$ 27,852,788</u>

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Legal Compliance – Budgets – Continued

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 2013. Total appropriations did not increase. Appropriation balances lapse at year-end and may be re-appropriated by City Council.

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

During the fiscal year, the City Council may transfer any unencumbered appropriation balance or portion thereof from one department to another at any time. The City Manager shall have authority, without 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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

N. Revenue and Expenditure/Expenses Analysis in Comparison to Budget

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

	General Fund				
	Budgetary Basis	Unbudgeted Funds	Sub-Funds	Budgeted Transfer to Reserves	GAAP Basis
Revenues	\$ 43,314,506	\$ -	\$ 44	\$ -	\$ 43,314,550
Expenditures	42,343,630	-	-	-	42,343,630
Revenues over expenditures	970,876	-	44	-	970,920
Other financing sources	837,926	-	-	150,000	987,926
Net change in fund balance	1,808,802	-	44	150,000	1,958,846
Fund balance at beginning of year	<u>16,766,994</u>	<u>-</u>	<u>11,055</u>	<u>-</u>	<u>16,778,049</u>
Fund balance at end of year	<u>\$ 18,575,796</u>	<u>\$ -</u>	<u>\$ 11,099</u>	<u>\$ 150,000</u>	<u>\$ 18,736,895</u>

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.

P. New Accounting Pronouncements

The GASB issued 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 inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City will adopt GASB 63 in the fiscal year ending September 30, 2014 and is currently evaluating the impact of this standard on its financial statements.

The GASB issued Statement No. 66, *Technical Corrections-2012; an amendment to GASB Statements No. 10 and No. 62* (GASB 66). The objective of this statement is to improve accounting and financial reporting related to an entity's risk financing activities and operating leases by resolving conflicting guidance that resulted from the issuance of Statement No. 54, and Statement No. 62. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City will adopt GASB 66 in the fiscal year ending September 30, 2014 and is currently evaluating the impact of this standard on its financial statements.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

P. New Accounting Pronouncements – Continued

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.

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).

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

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.

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, 2013,

- Investments in AAA-rated local government investment pools represented 67.2% of the total portfolio, and
- Holdings in a rated money market mutual fund represented 10.6% of the total portfolio.
- Holdings in US Government securities rated AAA represented 22.2% of the total portfolio.

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

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

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%

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 <u>Less than 1 year</u>	Investment Maturities in Years <u>1 - 5 years</u>
U.S. Treasury Notes and Bills	\$ 10,050,000	\$ 3,085,000
U.S. Agency Securities:		
Federal Home Loan Bank	10,000,000	-
Freddie Mac	2,000,000	-
2A-7 like Local Government Pools	66,602,915	1,972,000
SEC Registered Money Market Fund	10,468,937	-
	<u> </u>	<u> </u>
Total	<u>\$ 99,121,852</u>	<u>\$ 5,057,000</u>

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

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

As of September 30, 2013, the portfolio contained:

- No holding in the portfolio had a stated maturity date beyond 17 months, and
- the dollar weighted average of the total combined portfolios was 121 days.

As of September 30, 2013, the portfolio contained U.S. Treasury and Agency securities as shown below.

Listing of Structured Notes with Interest Rate Risk

Security	Par	Purchase Date	Maturity Date	Cusip	Book Value	Market Value
Discretely callable securities:						
U.S. Treasury N/B	\$ 4,020,000	3/5/2012	1/31/2014	912828SB7	\$ 4,020,000	\$ 4,022,826
U.S. Treasury N/B	2,010,000	3/5/2012	1/31/2014	912828SB7	2,010,000	2,011,413
U.S. Treasury N/B	4,020,000	10/15/2012	9/15/2014	912828RG7	4,020,000	4,025,339
U.S. Treasury Notes	3,085,000	3/5/2012	2/15/2015	912828SE1	3,085,000	3,087,289
FHLB Notes	5,000,000	3/5/2012	12/27/2013	313371UC8	5,000,000	5,009,490
Federal Home Loan Bar	5,000,000	3/5/2012	1/29/2014	313376UF0	5,000,000	5,004,835
FHLMC Notes	2,000,000	10/15/2012	8/27/2014	3137EACV9	2,000,000	2,016,128
	<u>\$ 25,135,000</u>				<u>\$ 25,135,000</u>	<u>\$ 25,177,320</u>

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, 2013:

- 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.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2013, was \$0.55400. The tax rate to finance general governmental services was set at \$0.5032 and the tax rate for all other purposes, including debt service, was set at \$0.0508 per \$100 of assessed valuation.

NOTE 4. SALES TAX

The City's sales tax rate is 2.0% for the year ended September 30, 2013. 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 \$4.4 million in fiscal year 2013. 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: 20.0% for beach re-nourishment, 20.0% for streets, sewer and drainage improvement projects, 20.0% for economic development, and 20.0% delegated to park improvements.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. ACCOUNTS RECEIVABLE

Receivables, as of September 30, 2013, 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					
	General	Hurricane Ike	CDBG Disaster Fund		Non-major Governmental Funds	Total
			Non-Housing			
Receivables:						
Property taxes	\$ 1,827,922	\$ -	\$ -	\$ -	\$ 277,631	\$ 2,105,553
Sales taxes	2,472,141	-	-	-	824,047	3,296,188
Franchise taxes	631,097	-	-	-	-	631,097
Hotel taxes	-	-	-	-	1,215,824	1,215,824
Court fines	3,933,907	-	-	-	-	3,933,907
Customer accounts	165,331	-	-	-	1,268,501	1,433,832
Intergovernmental	177,655	3,395,051	8,367,762	-	7,288,764	19,229,232
Other	451,056	-	-	-	203,786	654,842
Gross receivables	9,659,109	3,395,051	8,367,762	-	11,078,553	32,500,475
Less: allowance for uncollectibles	(3,511,682)	-	-	-	(93,985)	(3,605,667)
Net total receivables	<u>\$ 6,147,427</u>	<u>\$ 3,395,051</u>	<u>\$ 8,367,762</u>	<u>\$ -</u>	<u>\$ 10,984,568</u>	<u>\$ 28,894,808</u>

	Business Type Activities - Enterprise Funds					Total All Funds	
	Water	Sewer	Non-major Enterprise Funds		Internal Service Funds		Total
			Funds				
Receivables:							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,105,553	
Sales taxes	-	-	-	-	-	3,296,188	
Franchise taxes	-	-	-	-	-	631,097	
Hotel taxes	-	-	-	-	-	1,215,824	
Court fines	-	-	-	-	-	3,933,907	
Customer accounts	3,455,127	4,196,724	4,080,876	-	11,732,727	13,166,559	
Intergovernmental	-	-	-	-	-	19,229,232	
Other	-	-	-	274,546	274,546	929,388	
Gross receivables	3,455,127	4,196,724	4,080,876	274,546	12,007,273	44,507,748	
Less: allowance for uncollectibles	(279,950)	(1,178,784)	(1,052,148)	-	(2,510,882)	(6,116,549)	
Net total receivables	<u>\$ 3,175,177</u>	<u>\$ 3,017,940</u>	<u>\$ 3,028,728</u>	<u>\$ 274,546</u>	<u>\$ 9,496,391</u>	<u>\$ 38,391,199</u>	

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

NOTE 6. INTERFUND BALANCES AND ACTIVITIES

Interfund transfers for the primary government are as follows for the year ended September 30, 2013:

Transfer Out Fund	Transfer In Fund					Totals
	General Fund	Hurricane Ike Fund	Non-Major Governmental Funds	Sewer System	Non-Major Enterprise Funds	
General fund	\$ -	\$ -	\$ 115,229	\$ -	\$ -	\$ 115,229
Hurricane Ike fund	35,901	-	-	-	-	35,901
Non-major governmental funds	-	-	11,871,232	-	-	11,871,232
Waterworks system	200,000	-	337,189	-	-	537,189
Sewer system	200,000	-	192,588	-	-	392,588
Non-major enterprise funds	200,000	37	-	-	-	200,037
Internal service funds	-	109,303	-	13,747	23,423	146,473
Totals	\$ 635,901	\$ 109,340	\$ 12,516,238	\$ 13,747	\$ 23,423	\$ 13,298,649

The following is a detail of the interfund transfers:

Transfer from	Transfer to	Purpose
General Fund	ARRA	To transfer for paving project
General Fund	Capital Projects Fund	To transfer for rolling stock
General Fund	Hurricane Ike	To transfer for local share
Waterworks System	General Fund	To transfer payment in lieu of taxes
	Texas Water Development Board	
Waterworks System	Grant	To transfer local share for water projects
Waterworks System	Capital Projects Fund	To transfer for construction monitor
Sewer System	General Fund	To transfer payment in lieu of taxes
Sewer System	Capital Projects Fund	To transfer for construction monitor
Sanitation Services	General Fund	To transfer payment in lieu of taxes
	Texas Water Development Board	
Sanitation Services	Grant	To transfer to adjust for local share
Drainage Fund	Capital Projects Fund	To transfer for construction monitor
Hurricane Ike	General Fund	To transfer to adjust for local share
Central Service Fund	Hurricane Ike	To transfer to adjust for insurance proceeds
Central Garage Fund	Sewer System	To transfer fixed asset
Central Garage Fund	Drainage Fund	To transfer fixed asset
Convention Center Operations	Convention Center Surplus Fund	To transfer for hotel tax
Hotel Tax Projects Fund	Convention Center Surplus Fund	To transfer for hotel tax

**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 for the primary government as of September 30, 2013:

Payable Funds: Due to	Receivable Funds: Due From					Totals
	General Fund	Waterworks Fund	Sewer Fund	Non-Major Enterprise Funds	Internal Service Funds	
Governmentals:						
General Fund	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ 50,000
Hurricane Ike Fund	-	370,499	1,043,410	1,160,465	184,495	2,758,869
Non-Major Governmental Funds	1,542,750	-	-	-	-	1,542,750
	<u>\$ 1,542,750</u>	<u>\$ 420,499</u>	<u>\$ 1,043,410</u>	<u>\$ 1,160,465</u>	<u>\$ 184,495</u>	<u>\$ 4,351,619</u>

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

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

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

NOTE 7. CAPITAL ASSETS

The following is a detail of capital asset activity for the year ended September 30, 2013:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 19,712,022	\$ 301,000	\$ -	\$ 20,013,022
Construction in progress	9,177,727	5,063,355	-	14,241,082
Total capital assets not being depreciated	<u>28,889,749</u>	<u>5,364,355</u>	<u>-</u>	<u>34,254,104</u>
Capital assets being depreciated				
Buildings and improvements	48,744,781	164,007	-	48,908,788
Improvements other than buildings	6,144,858	-	-	6,144,858
Machinery and equipment	14,348,701	603,747	(41,860)	14,910,588
Licensed vehicles	17,867,232	1,419,213	(296,800)	18,989,645
Infrastructure	131,103,738	57,971	-	131,161,709
Total capital assets being depreciated	<u>218,209,310</u>	<u>2,244,938</u>	<u>(338,660)</u>	<u>220,115,588</u>
Less accumulated depreciation				
Buildings and improvements	(10,055,525)	(1,084,447)	-	(11,139,972)
Improvements other than buildings	(4,141,489)	(212,793)	-	(4,354,282)
Machinery and equipment	(8,009,521)	(1,314,748)	41,860	(9,282,409)
Licensed vehicles	(7,409,687)	(2,056,263)	283,596	(9,182,354)
Infrastructure	(65,179,658)	(3,767,543)	-	(68,947,201)
Total accumulated depreciation	<u>(94,795,880)</u>	<u>(8,435,794)</u>	<u>325,456</u>	<u>(102,906,218)</u>
Total capital assets being depreciated, net	<u>123,413,430</u>	<u>(6,190,856)</u>	<u>(13,204)</u>	<u>117,209,370</u>
Governmental activities capital assets, net	<u>\$ 152,303,179</u>	<u>\$ (826,501)</u>	<u>\$ (13,204)</u>	<u>\$ 151,463,474</u>

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 7. CAPITAL ASSETS – CONTINUED

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 2,487,160	\$ 2,171	\$ -	\$ 2,489,331
Construction in progress	40,335,859	35,341,637	(4,086,551)	71,590,945
Total capital assets not being depreciated	42,823,019	35,343,808	(4,086,551)	74,080,276
Capital assets being depreciated				
Buildings and system	66,756,694	-	-	66,756,694
Improvements other than buildings	135,092,721	1,453,673		136,546,394
Machinery and equipment	19,345,504	2,157,622	(231,886)	21,271,240
Contractual water rights	27,701,138	6,923,148	(2,093,146)	32,531,140
Total capital assets being depreciated	248,896,057	10,534,443	(2,325,032)	257,105,468
Less accumulated depreciation:				
Buildings and system	(19,642,440)	(1,514,986)	-	(21,157,426)
Improvements other than buildings	(48,913,746)	(3,546,307)	-	(52,460,053)
Machinery and equipment	(12,886,699)	(1,327,749)	231,886	(13,982,562)
Contractual water rights	(12,658,236)	(1,968,956)	-	(14,627,192)
Total accumulated depreciation	(94,101,121)	(8,357,998)	231,886	(102,227,233)
Total capital assets being depreciated, net	154,794,936	2,176,445	(2,093,146)	154,878,235
Business-type activities capital assets, net	<u>\$ 197,617,955</u>	<u>\$ 37,520,253</u>	<u>\$ (6,179,697)</u>	<u>\$ 228,958,511</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	\$ 15,806
Public safety	1,598,278
Public works	2,783,255
Community and recreation	2,152,808
Planning and community development	261,064
Transportation system	1,331,770
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>292,813</u>
Total depreciation expense - governmental activities	<u><u>\$ 8,435,794</u></u>
Business-type activities	
Waterworks	\$ 4,327,725
Sewer system	2,695,311
Sanitation	390,516
Drainage	269,850
Airport	<u>674,596</u>
Total depreciation expense - business-type activities	<u><u>\$ 8,357,998</u></u>

Construction in progress and remaining commitment, as of September 30, 2013, were as follows:

Governmental Activities

<u>Construction in Progress</u>	<u>Project Authorization</u>	<u>Project Cost to Date</u>	<u>Remaining Commitment</u>
Island Transit Maintenance Facility - Design	\$ 11,634,314	\$ 4,801,132	\$ 6,833,182
Various Other Projects	7,661,636	4,136,761	3,524,875
Island Transit Downtown Terminal	7,416,000	1,117,546	6,298,454
Fire Station #4	3,791,923	2,859,210	932,713
Seawall Beautification	2,017,255	387,900	1,629,355
New Freedom Grant Project	1,133,000	268,603	864,397
Trolley	776,549	617,362	159,187
Garten Verein HVAC	<u>67,290</u>	<u>52,568</u>	<u>14,722</u>
	<u><u>\$ 34,497,967</u></u>	<u><u>\$ 14,241,082</u></u>	<u><u>\$ 20,256,885</u></u>

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

NOTE 7. CAPITAL ASSETS – CONTINUED

Business-Type Activities

Construction in Progress	Project Authorization	Project Cost to Date	Remaining Commitment
Waterworks System Fund Projects			
30th Street to 59th Street Waterline	\$ 7,038,932	\$ 6,222,847	\$ 914,987
20 Inch Waterline along Pelican Island	5,278,008	5,092,966	185,042
Construction of 30th Street Storage Tank	1,335,775	894,388	441,387
Airport Pump Station Generator	1,146,917	1,123,677	23,240
Construction of 20" Waterline by Right of Way Lucas	952,418	952,418	-
Fire Hydrant Replacement Program	1,522,281	981,692	540,589
Utility Billing System	121,524	121,524	-
Water Well Rehab #9,11,12	410,976	303,252	107,724
Various Water Projects	1,068,703	801,898	266,805
Sewer System Fund Projects			
Construction of Main Waste Water Treatment Plant	86,110,542	39,172,270	46,938,271
Sanitation Sewer Lift Station I	2,435,069	2,340,399	94,670
Design of Near West End Unserved Areas	700,410	649,598	50,813
Design of Far West End Unserved Areas	612,149	612,119	30
Repair of Various Lift Stations	6,967,797	2,983,613	3,984,185
Design of Upgrade and Expansion of Main Wastewater Treatment Plant	655,682	655,679	3
Utility Billing System	103,467	103,467	-
Sanitation Rehab @ S. Broadway	1,194,725	706,911	487,814
Various Sewer Projects	2,056,353	1,477,496	578,857
Sanitation Fund Project			
Repair of Sanitation Barn	39,584	39,584	-
Drainage Fund Projects			
Engineering Report for the Area from English Bayou to 34th Street Drainage Master Plan	847,020	739,754	107,265
Utility Billing System	103,467	103,467	-
Various Drainage Projects	1,785,717	1,602,838	182,880
Airport Fund Projects			
Design of North and South Hangar Access Taxiways	761,128	648,951	112,177
Construction for Drainage Phase II Near Taxiway Storm Lines	2,906,743	2,865,416	41,326
	409,504	394,721	14,783
Totals	\$126,564,891	\$ 71,590,945	\$ 54,973,946

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, 2013, is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
Primary Government					
General obligation bonds	\$ 19,032,106	\$ -	\$ (1,278,351)	\$ 17,753,755	\$ 1,281,829
Accretion on capital interest bonds	2,669,872	230,491	(296,128)	2,604,235	-
Special obligation bonds	30,290,000	27,565,000	(31,165,000)	26,690,000	730,000
Certificates of obligation	22,515,972	13,600,000	(16,543,600)	19,572,372	2,672,200
Capital leases	1,654,482	-	(363,045)	1,291,437	327,503
Notes payable	2,426,417	-	(1,392,994)	1,033,423	96,890
Accrued compensated absences	8,057,123	855,959	(800,044)	8,113,038	73,030
Claims payable-unemployment tax	-	129,155	(129,155)	-	-
Claims payable-workers comp	1,276,219	306,986	(763,836)	819,369	619,535
Claims payable-health insurance	386,583	2,820,603	(2,826,390)	380,796	380,796
Deferred bond issuance discount/premium	427,564	1,700,560	(132,434)	1,995,690	-
Loss on refunded debt	-	(451,436)	22,543	(428,893)	-
Other post employment benefit liability	2,125,529	963,332	(481,666)	2,607,195	-
Net pension obligation	1,449,093	3,176,997	(2,693,684)	1,932,406	-
Total primary government	92,310,960	50,897,647	(58,843,784)	84,364,823	6,181,783
Discretely presented component units					
Special obligation bonds	565,000	-	(100,000)	465,000	105,000
Capital leases	-	453,976	(155,657)	298,319	147,033
Notes payable	12,730,843	-	(5,255,939)	7,474,904	966,454
Accrued interest	280,425	3,643	(274,966)	9,102	9,102
Accrued compensated absences	177,276	125,120	(124,115)	178,281	-
Due to developer	10,022,051	-	-	10,022,051	-
Total discretely presented component units	23,775,595	582,739	(5,910,677)	18,447,657	1,227,589
Total reporting entity	\$ 116,086,555	\$ 51,480,386	\$ (64,754,461)	\$ 102,812,480	\$ 7,409,372

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 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

\$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 \$814,821 is included in the long-term debt.	\$ 1,728,576
\$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%.	6,715,000
\$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%	1,850,000
\$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%	865,000
\$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%.	7,410,000
Total general obligation bonds	\$ 18,568,576

**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
bonds, due in annual installments of \$350,000 to \$1,040,000 September 2013
through September 2034; interest at 3.0 % to 5.0% \$ 13,925,000

\$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%. 12,765,000

Total special obligations bonds \$ 26,690,000

Certificates of Obligation Bonds

\$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

\$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 \$1,789,414 is included in the long-term debt. 4,663,086

\$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%. 3,098,700

Total certificates of obligation \$ 21,361,786

**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% \$ 54,885

\$1,564,791 - 2012 Capital lease purchase due in annual payments of \$335,415 through January 2017; interest at 3.6% 1,236,552

Total capital leases \$ 1,291,437

Notes Payable

\$1,531,488 - 2007 note payable due in semi-annual installments of \$69,380 through July 2022; interest 4.1%. \$ 1,033,423

Total notes payable \$ 1,033,423

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%. \$ 465,000

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. \$ 10,022,051

**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.	\$ 287,832
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.	694,226
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.	1,837,846
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>4,655,000</u>
Total notes payable	<u><u>\$ 7,474,904</u></u>

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

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

Primary Government

Fiscal Year Ending September 30,	General Obligation Bonds		Special Obligation Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 1,281,829	\$ 1,085,511	\$ 730,000	\$ 979,712
2015	1,276,926	1,084,616	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	9,355,000	1,532,564	920,000	868,012
2019-2023	2,200,000	89,928	5,590,000	3,721,312
2024-2028	-	-	7,500,000	2,467,556
2029-2033	-	-	8,475,000	885,987
2034-2038	-	-	1,040,000	39,000
Total	\$ 17,753,755	\$ 4,890,408	\$ 26,690,000	\$ 11,757,015

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 2,672,200	\$ 544,329	\$ 96,890	\$ 43,839
2015	2,746,700	474,733	100,951	37,810
2016	2,826,200	389,976	105,182	33,579
2017	2,930,700	288,262	109,590	29,171
2018	2,955,200	181,257	114,182	24,578
2019-2023	3,532,472	2,810,065	506,628	48,413
2024-2028	834,300	2,012,173	-	-
2029-2033	1,074,600	924,458	-	-
2034-2038	-	-	-	-
Total	\$ 19,572,372	\$ 7,625,253	\$ 1,033,423	\$ 217,390

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Governmental Activities – Continued

The future minimum lease obligations and the net present value of minimum lease payments on capital leases, as of September 30, 2013, are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Governmental Activities</u>
2014	\$ 373,174
2015	354,295
2016	335,415
2017	<u>335,415</u>
Total minimum payments	1,398,299
Less: interest	<u>(106,862)</u>
Present value of minimum lease payments	1,291,437
Less: current portion	<u>327,503</u>
Long-term portion	<u><u>\$ 963,934</u></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, 2013 is as follows:

	Balance Beginning of Year	Additions	Retirements	Balance End of Year	Current Portion
Primary Government					
Contracts (Gulf Coast West Authority)	\$ 31,861,993	\$ 7,645,000	\$ (12,604,775)	\$ 26,902,218	\$ 2,692,885
Revenue Bonds-Water Fund	15,983,732	-	(827,148)	15,156,584	858,361
Revenue Bonds-Sewer Fund	21,971,268	-	(1,372,852)	20,598,416	1,371,639
Certificates of obligation	14,657,700	-	(541,400)	14,116,300	442,800
Notes payable	7,822,302	-	(4,782,979)	3,039,323	1,115,845
Capital Lease	134,697	-	(134,697)	-	-
Accrued compensated absences	1,096,848	341,464	(237,447)	1,200,865	114,000
Deferred bond issuance discount/premium	966,574	-	(140,734)	825,840	-
Total primary government	94,495,114	7,986,464	(20,642,032)	81,839,546	6,595,530
Discretely presented component units					
Revenue bonds	25,925,000	-	-	25,925,000	1,355,000
Notes payable	6,626,054	-	(2,886,655)	3,739,399	-
Contracts payable	19,323,672	-	-	19,323,672	2,425,000
Accreted Interest on CAB	1,429,783	223,734	-	1,653,517	-
Capital lease	3,316,379	-	(228,565)	3,087,814	237,877
Accrued compensated absences	948,408	540,851	(559,486)	929,773	250,734
Unearned revenues and rents	4,842,624	-	(1,693,039)	3,149,585	-
Deferred bond issuance premium	940,561	-	(75,436)	865,125	-
Total discretely presented component units	63,352,481	764,585	(5,443,181)	58,673,885	4,268,611
Total reporting entity	\$ 157,847,595	\$ 8,751,049	\$ (26,085,213)	\$ 140,513,431	\$ 10,864,141

**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%.	\$ 1,705,912
\$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%.	2,975,000
\$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).	15,316,306
\$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%.	<u>6,905,000</u>

Total contracts payable	<u><u>\$ 26,902,218</u></u>
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Revenue bonds

\$11,000,000 - Series 2003 Waterworks and Sewer Revenue bonds, due in annual installments of \$515,000 to \$535,000 May 2013 through May 2014; interest at 3.5% to 3.6%.	\$ 535,000
\$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%.	29,135,000
\$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%.	<u>6,085,000</u>

Total revenue bonds	<u><u>\$ 35,755,000</u></u>
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**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

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%.

\$ 14,116,300

Total certificate of obligation

\$ 14,116,300

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.

\$ 3,039,323

Total notes payable

\$ 3,039,323

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 pledged 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.

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – Continued

Long-Term Contracts – Waterworks System – Continued

On October 30, 2012, 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.

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%.	<u>\$ 25,925,000</u>
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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%.	<u>\$ 3,087,814</u>
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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 \$1,653,517 is included in the long-term debt.	<u>\$ 20,977,189</u>
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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.	<u>3,739,399</u>
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Total notes payable	<u><u>\$ 3,739,399</u></u>
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**CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – 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
2014	\$ 2,230,000	\$ 1,395,121	\$ 2,692,857	\$ 1,093,928
2015	2,310,000	1,313,086	2,770,674	989,279
2016	2,400,000	1,236,106	2,873,213	862,403
2017	2,480,000	1,155,176	3,920,807	741,495
2018	2,565,000	1,068,676	2,718,278	606,571
2019-2023	13,260,000	3,964,681	11,926,389	1,262,603
2024-2028	8,560,000	1,991,088	-	-
2029-2033	1,950,000	259,424	-	-
Total	\$ 35,755,000	\$ 12,383,358	\$ 26,902,218	\$ 5,556,279

Fiscal Year Ending September 30,	Certificates of Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 442,800	\$ 697,132	\$ 1,115,835	\$ 294,829
2015	463,300	678,312	1,149,689	44,850
2016	483,800	658,622	773,799	10,806
2017	504,300	638,060	-	-
2018	524,800	616,628	-	-
2019-2023	3,001,200	2,702,182	-	-
2024-2028	3,800,700	1,897,888	-	-
2029-2033	4,895,400	805,096	-	-
2034-2038	-	-	-	-
Total	\$ 14,116,300	\$ 8,693,920	\$ 3,039,323	\$ 350,485

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

NOTE 8. LONG-TERM DEBT – CONTINUED

Business Type Activities – 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
2013	\$ 1,355,000	\$ 1,192,294	\$ 2,425,000	\$ 721,550
2014	1,410,000	1,136,994	2,540,000	608,538
2015	1,470,000	1,079,394	2,660,000	489,650
2016	1,530,000	1,019,394	2,795,000	353,275
2017	1,600,000	948,794	2,940,000	209,900
2018-2022	9,305,000	3,427,595	5,963,672	3,514,528
2023-2027	9,255,000	935,313	-	-
Total	\$ 25,925,000	\$ 9,739,778	\$ 19,323,672	\$ 5,897,441

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, 2012 are as follows:

Year Ending December 31,	Future Minimum Lease Payments
2013	\$ 357,060
2014	357,060
2015	357,060
2016	357,060
2017-2021	357,060
2017-2021	1,809,389
	3,594,689
Less interest portion	(506,875)
Capital lease payable	\$ 3,087,814

**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.

CITY OF GALVESTON, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT – CONTINUED

Refunding of Debt

On November 1, 2012, the City issued \$27,565,000 in Hotel Occupancy Tax Refunding Bonds series 2012 A & B with interest rates between 3.0% and 4.0% to advance refund \$27,820,000 of series 2002 A & B bonds with original maturities of 2034 and 2034, respectively. The refunding was undertaken to reduce the City's total debt service over the life of the bonds by approximately \$6,213,296 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4,439,160. As a result, the 2002 series A & B bonds are considered to be defeased, and the liability for those bonds has been removed from the City's general long-term debt account group.

On April 2, 2013, the City issued \$13,600,000 in Combination Tax and Revenue Refunding Bonds series 2013 A & B with interest rates between 1.0% and 2.0% to advance refund \$19,323,672 of series 2004 A & B bonds with original maturities of 2018. The refunding was undertaken to reduce the City's total debt service over the life of the bonds by approximately \$1,205,552 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$1,155,543. As a result, the 2004 series A & B bonds are considered to be defeased, and the liability for those bonds has been removed from the City's general long-term debt account group.

On October 30, 2012, the City issued \$7,645,000 in Gulf Coast Water Authority Contract Revenue Refunding Bonds series 2012 A & B with interest rates between 2.0% and 3.0% to advance refund \$7,390,000 of series 2002 A & B bonds with original maturities of 2022. The refunding was undertaken to reduce the City's total debt service over the life of the bonds by approximately \$982,584 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$859,234. As a result, the 2002 series A & B bonds are considered to be defeased, and the liability for those bonds has been removed from the City's general long-term debt account group.

In 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, 2013 is \$92,133,182.

**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	(36,062)

Deficit fund balances reported for Government Contracts and Grants and Island Transit Capital Projects 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's 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, 2013, 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.

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

NOTE 11. RISK MANAGEMENT

Workers Compensation – Continued

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>
2012	\$ 1,467,075	\$ 433,221	\$ (624,077)	\$ 1,276,219
2013	\$ 1,276,219	\$ 306,986	\$ (763,836)	\$ 819,369

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 \$150,000 per individual and \$6,439,000 in aggregate claims on an annual basis from Majestic 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>
2012	\$ 379,350	\$ 2,624,668	\$ (2,617,435)	\$ 386,583
2013	\$ 386,583	\$ 2,820,603	\$ (2,826,390)	\$ 380,796

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

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.

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, 2012 are as follows:

Year Ended December 31,	Minimum Payments
2013	\$ 405,000
2014	118,125
	\$ 523,125

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.

**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 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.

The Galveston Wharves accounts for the amended lease as a direct financing lease and reflects the following accounts at December 31, 2012:

Minimum lease rental payments receivable			
Due within one year	\$	489,106	
Due after one year		6,521,421	
		7,010,527	
Unearned income, direct financing lease			
Due within one year		289,961	
Due after one year		3,866,139	
		4,156,100	
Net investment in direct financing lease	\$	2,854,427	

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

**CITY OF GALVESTON, TEXAS
NOTES TO 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

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.

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, 2012, 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
2013	\$ 489,106
2014	489,106
2015	489,106
2016	489,106
2017	489,106
Thereafter	4,564,997
Total	\$ 7,010,527

**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

Operating Leases

The Galveston Wharves leases to others certain land and improvements. These leases are classified as operating leases. As of December 31, 2012, 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
2013	\$ 3,048,274
2014	3,093,998
2015	3,140,408
2016	3,203,216
2017	3,267,281
Total	\$ 15,753,177

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.

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

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

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:

	2013	2012	2011
Annual required contribution	\$ 434,668	\$ 466,109	\$ 452,553
Interest on OPEB obligation	95,649	73,059	-
Adjustment to ARC	(48,651)	(37,161)	-
Annual OPEB cost (expense) – end of year	481,666	502,007	452,553
Net estimated employer contributions	-	-	(330,626)
Change in OPEB obligation	481,666	502,007	121,927
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>2,125,529</u>	<u>1,623,522</u>	<u>300,112</u>
Net OPEB obligation – as of end of year	<u>\$ 2,607,195</u>	<u>\$ 2,125,529</u>	<u>\$ 422,039</u>

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 25 as of December 31, 2012, 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.

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

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

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

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.

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM

Plan Descriptions

The City sponsors three single-employer defined benefit pension plans. The City Employees' Retirement Plan (CERF) covers 903 employees and retirees, Galveston Firefighters' Pension Fund (GFPF) covers 198 employees and retirees, and City Employees' Retirement Plan for Police (PERF) covers 259 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.

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

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

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:

Retirement Plan	Fiscal Year	Annual Pension Cost	Actual Contributions Made	Contributed	Net Pension Obligation (Asset)
Primary Government					
Employees' Retirement Plan for City Employees	2011	\$ 1,802,530	\$ 1,700,302	94%	\$ 235,649
	2012	\$ 1,824,400	\$ 1,473,316	81%	\$ 586,733
	2013	\$ 1,824,400	\$ 1,705,676	93%	\$ 705,457
Galveston Firefighters' Pension Fund	2011	\$ 994,678	\$ 972,131	98%	\$ (580,955)
	2012	\$ 927,388	\$ 972,131	105%	\$ (625,698)
	2013	\$ 1,072,814	\$ 791,537	74%	\$ (344,421)
Employees' Retirement Plan for City Police	2011	\$ 1,244,654	\$ 1,229,688	99%	\$ 806,978
	2012	\$ 1,216,145	\$ 1,160,763	95%	\$ 862,360
	2013	\$ 1,352,597	\$ 988,008	73%	\$ 1,226,949
	Employee's Retirement Plan 1/1/2012	Firefighters' Pension Fund 1/1/2012	Police Retirement Plan 1/1/2012		
Actuarial valuation date	Entry age	Entry age	Entry age		
Actuarial cost method	Level percent of pay contribution	Level percent of projected payroll, open	Level percent of pay contribution		
Amortization method	9.00%	14.00%	12.00%		
Contribution rates:	6.00%	14.00%	12.00%		
City	closed period	closed period	closed period		
Plan members	30 years	30 years	30 years		
Amortization Period	5-year Smoothed Market Value	Smoothed Market Value	5-year Smoothed Market Value		
Amortization Period	8.00%	8.00%	7.50%		
Asset valuation method	5.25% per year compounded annually	4.50%	4.0% to 10.24%, graded by service		
Actuarial assumptions:	3.25%	3.00%	4.00%		
Investment rate of return					
Projected salary increases					
Inflation					

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Funding Policy and Annual Pension Cost – Continued

Retirement Plan for Employees - Net Pension Obligation Components	
Annual Required Contribution (ARC)	\$ 1,825,452
Interest on Net Pension Obligation	37,441
Adjustment to the (ARC)	(38,493)
Annual Pension Cost (APC)	<u>1,824,400</u>
Contributions made	<u>(1,705,676)</u>
Change in net pension obligation	118,724
Net Pension Obligation, beginning of year	<u>586,733</u>
Net Pension Obligation, end of year	<u><u>\$ 705,457</u></u>

Retirement Plan for Police - Net Pension Obligation Components	
Annual Required Contribution (ARC)	\$ 1,334,020
Interest on Net Pension Obligation	64,677
Adjustment to the (ARC)	(46,100)
Annual Pension Cost (APC)	<u>1,352,597</u>
Actual contributions made	<u>(988,008)</u>
Change in net pension obligation	364,589
Net Pension Obligation, beginning of year	<u>862,360</u>
Net Pension Obligation, end of year	<u><u>\$ 1,226,949</u></u>

Firefighters' Pension Fund - Net Pension Asset Components	
Annual Required Contribution (ARC)	\$ 1,148,943
Interest on Net Pension Asset	(44,864)
Adjustment to the (ARC)	(31,265)
Annual Pension Cost (APC)	<u>1,072,814</u>
Actual contributions made	<u>(791,537)</u>
Change in net pension asset	281,277
Net Pension Asset, beginning of year	<u>(625,698)</u>
Net Pension Asset, end of year	<u><u>\$ (344,421)</u></u>

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Funding Status and Funding Progress

The funded status of the City’s pension plans, under GASB Statement No. 25 as of January 1, 2012, 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	1/1/2012	\$ 40,151,763	\$ 50,841,331	\$ 10,689,568	79.0%
Police	1/1/2012	\$ 22,695,097	\$ 48,389,593	\$ 25,694,496	46.9%
Firefighters	1/1/2012	\$ 37,288,602	\$ 54,146,959	\$ 16,858,357	68.9%

Under the reporting parameters, the City’s Employees’, Police and Firefighters pension plans are 79.0%, 46.9% and 68.9% funded, respectively, with an estimated actuarial liability exceeding actuarial assets by \$10,689,568, \$25,694,496 and \$16,858,357, respectively, at December 31, 2012.

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.

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.

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

NOTE 14. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Discretely Presented Component Unit Benefit Plans – Continued

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>1/1/2012</u>	<u>1/1/2011</u>	<u>1/1/2010</u>
Actuarial value of plan assets	\$ 8,982,457	\$ 9,312,959	\$ 8,261,569
Actuarial accrued liability	<u>13,404,790</u>	<u>12,824,151</u>	<u>11,915,880</u>
Total funding excess (deficit)	<u>\$ (4,422,333)</u>	<u>\$ (3,511,192)</u>	<u>\$ (3,654,311)</u>
Annual covered payroll	<u>\$ 3,921,729</u>	<u>\$ 3,889,073</u>	<u>\$ 3,990,184</u>
Ratio-over (under) funded to covered payroll	<u>-113%</u>	<u>-90%</u>	<u>-92%</u>

The annual contribution was determined through an actuarial valuation performed as of January 1, 2012.

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 2012 were \$669,776. At December 31, 2012 the GWPP had an unfunded actuarial liability of \$4,422,333.

**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 \$98,131, which was 5.0% of \$1,962,373, its current year covered payroll. Employees' required and actual contributions amounted to \$79,030. Total current year payroll was \$4,220,688.

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, 2013.

**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.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF GALVESTON, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN PENSION PLANS
SEPTEMBER 30, 2013**

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)	(7)
			(1) / (2)	(4) - (3)		(4) / (5)
1/1/2010	\$ 38,723,983	\$ 47,045,470	82.3%	\$ 8,321,487	\$ 17,581,734	47.3%
1/1/2011	\$ 39,645,731	\$ 48,387,558	81.9%	\$ 8,741,827	\$ 18,433,456	47.4%
1/1/2012	\$ 40,151,763	\$ 50,841,331	79.0%	\$ 10,689,568	\$ 18,203,002	58.7%

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)	(7)
			(1) / (2)	(4) - (3)		(4) / (5)
1/1/2008	\$ 36,660,215	\$ 43,218,834	84.8%	\$ 6,558,619	\$ 6,125,532	107.1%
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%

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)	(7)
			(1) / (2)	(4) - (3)		(4) / (5)
1/1/2010	\$ 23,780,731	\$ 48,073,240	49.5%	\$ 24,292,509	\$ 9,986,209	243.3%
1/1/2011	\$ 24,390,425	\$ 48,521,735	50.3%	\$ 24,131,310	\$ 8,570,162	281.6%
1/1/2012	\$ 22,695,097	\$ 48,389,593	46.9%	\$ 25,694,496	\$ 8,233,404	312.1%

**CITY OF GALVESTON, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN PENSION PLANS
SEPTEMBER 30, 2013
(CONTINUED)**

City of Galveston Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)
	(1)	(2)	(3)	(4)
			(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)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
1/1/2010	\$ 8,261,569	\$ 11,915,880	69.3%	\$ 3,654,311	\$ 3,990,184	91.6%
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%

**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, 2013**

	<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	\$ 371,160	\$ 364,660	\$ 361,207	\$ -	\$ 361,207	\$ 3,453
Judicial	621,867	651,867	562,338	-	562,338	89,529
Executive	1,301,332	1,253,606	1,254,949	-	1,254,949	(1,343)
City auditor	181,437	181,437	168,851	-	168,851	12,586
Finance	2,211,239	2,153,239	2,195,034	-	2,195,034	(41,795)
Legal	666,681	672,183	666,598	-	666,598	5,585
Personnel	303,742	304,896	300,483	-	300,483	4,413
Taxation	197,597	197,597	183,124	-	183,124	14,473
Total general government	5,855,055	5,779,485	5,692,584	-	5,692,584	86,901
Public safety						
Police	16,465,558	16,371,890	16,346,413	-	16,346,413	25,477
Fire	9,661,035	9,631,035	9,603,566	-	9,603,566	27,469
Emergency management	516,400	516,200	516,390	-	516,390	(190)
Emergency medical service	191,300	191,300	177,848	-	177,848	13,452
Total public safety	26,834,293	26,710,425	26,644,217	-	26,644,217	66,208
Public works and traffic	3,268,815	3,176,120	3,269,749	-	3,269,749	(93,629)
Culture and recreation	2,013,638	2,013,638	1,892,078	-	1,892,078	121,560
Planning and community development	2,103,158	2,131,158	1,977,611	-	1,977,611	153,547
Transportation system	750,050	750,050	750,052	-	750,052	(2)
Capital outlay	1,455,000	1,645,789	1,742,189	-	1,742,189	(96,400)
Special projects	335,415	335,415	375,150	-	375,150	(39,735)
Total expenditures	\$ 42,615,424	\$ 42,542,080	\$ 42,343,630	\$ -	\$ 42,343,630	\$ 198,450

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 – Accounts 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.

Homelessness Prevention and Rapid Rehousing Program – To account for receipt and expenditure of federal revenue designated for assistance to households who would otherwise be homeless, many due to the economic crisis, and to provide assistance to rapidly re-house persons who are homeless.

Lead-Based Paint Hazard Control – To account for receipt and expenditure of federal revenue designated for identifying and controlling lead-based paint hazards in eligible privately owned housing for rental or owner-occupants.

CDBG Entitlement Grant (ARRA) – To account for receipt and expenditure of federal revenue designated for the development of viable urban communities, by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate income.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS – Continued

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.

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.

The Texas Water Development Board Grant (TWDB) Fund (ARRA) – To account for receipt and expenditure of federal revenue designated for the purpose of construction projects of the City's pressure valves, water lines, storage tanks, pump stations and sewer lines.

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, 2013**

ASSETS	Island Transit	Rosenberg Library	Arts and Historical	Grants and Government Contracts	Industrial Development Corporation	Project Specific Programs
Cash and cash equivalents	\$ -	\$ -	\$ 623,200	\$ 417,205	\$ -	\$ 1,639,277
Receivables, net of allowance for uncollectibles	120,070	88,408	-	920,399	2,355	1,761
Due from other governments	1,219,245	-	-	802,433	824,047	1,283,228
Inventories	162,672	-	-	-	-	-
Total assets	\$ 1,501,987	\$ 88,408	\$ 623,200	\$ 2,140,037	\$ 826,402	\$ 2,924,266
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 26,261	\$ 11,078	\$ -	\$ 301,183	2,405	\$ 1,567,840
Other accrued expenses	51,049	-	-	15,716	-	-
Due to other funds	1,353,767	-	-	-	-	-
Deferred revenue	-	88,408	-	1,859,200	-	2,723
Total liabilities	1,431,077	99,486	-	2,176,099	2,405	1,570,563
FUND BALANCES						
Nonspendable						
Inventories	162,672	-	-	-	-	-
Restricted						
Debt service	-	-	-	-	-	-
Beach preservation	-	-	-	-	823,997	-
Capital projects	-	-	623,200	-	-	-
Committed						
Governmental projects	-	-	-	-	-	1,353,703
Unassigned	(91,762)	(11,078)	-	(36,062)	-	-
Total fund balances	70,910	(11,078)	623,200	(36,062)	823,997	1,353,703
Total liabilities and fund balances	\$ 1,501,987	\$ 88,408	\$ 623,200	\$ 2,140,037	\$ 826,402	\$ 2,924,266

Mary Moody Northern Endowment	Convention Center Funds	Seawall Parking Fund	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)	CDBG Disaster Fund Housing
\$ 2	\$ 6,194,596	\$ 163,603	\$ -	\$ 1,530	\$ -	\$ 65,140	\$ -
-	-	5,016	-	-	672	319,698	9,104
-	-	-	15,685	10,966	-	222	1,701,797
-	-	-	-	-	-	-	-
<u>\$ 2</u>	<u>\$ 6,194,596</u>	<u>\$ 168,619</u>	<u>\$ 15,685</u>	<u>\$ 12,496</u>	<u>\$ 672</u>	<u>\$ 385,060</u>	<u>\$ 1,710,901</u>
\$ -	\$ 2,400	\$ 23,762	\$ 15,685	\$ -	\$ 672	\$ -	\$ 1,705,302
-	-	-	-	-	-	-	5,599
-	-	-	-	-	-	-	-
2	-	-	-	12,496	-	385,060	-
<u>2</u>	<u>2,400</u>	<u>23,762</u>	<u>15,685</u>	<u>12,496</u>	<u>672</u>	<u>385,060</u>	<u>1,710,901</u>
-	-	-	-	-	-	-	-
-	6,192,196	-	-	-	-	-	-
-	-	144,857	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	6,192,196	144,857	-	-	-	-	-
<u>\$ 2</u>	<u>\$ 6,194,596</u>	<u>\$ 168,619</u>	<u>\$ 15,685</u>	<u>\$ 12,496</u>	<u>\$ 672</u>	<u>\$ 385,060</u>	<u>\$ 1,710,901</u>

**CITY OF GALVESTON, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013
(CONTINUED)**

ASSETS	Neighborhood Stabilization Program (ARRA)	Texas Water Development Board Grant Fund	Drainage and Street Improvements	Sewer Improvements	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects
Cash and cash equivalents	\$ -	\$ -	\$ 1,852,344	\$ 903,721	\$ 288,502	\$ 451,349
Receivables, net of allowance for uncollectibles	-	-	-	-	-	-
Due from other governments	564,091	-	-	-	-	2,983,107
Inventories	-	-	-	-	-	-
Total assets	\$ 564,091	\$ -	\$ 1,852,344	\$ 903,721	\$ 288,502	\$ 3,434,456
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 564,091	\$ -	\$ -	\$ -	\$ -	\$ 2,848,860
Other accrued expenses	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	188,983
Deferred revenue	-	-	-	-	-	1,333
Total liabilities	564,091	-	-	-	-	3,039,176
FUND BALANCES						
Nonspendable						
Inventories	-	-	-	-	-	-
Restricted						
Debt service	-	-	-	-	-	-
Beach preservation	-	-	-	-	-	-
Capital projects	-	-	1,852,344	903,721	288,502	395,280
Committed						
Governmental projects	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balances	-	-	1,852,344	903,721	288,502	395,280
Total liabilities and fund balances	\$ 564,091	\$ -	\$ 1,852,344	\$ 903,721	\$ 288,502	\$ 3,434,456

General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Nonmajor Governmental Funds
\$ 2,824,767	\$ 14,337,331	\$ 5,163,664	\$ 2,517,410	\$ 37,443,641
-	-	112,264	-	1,579,747
-	-	-	-	9,404,821
-	-	-	-	162,672
<u>\$ 2,824,767</u>	<u>\$ 14,337,331</u>	<u>\$ 5,275,928</u>	<u>\$ 2,517,410</u>	<u>\$ 48,590,881</u>
\$ 8,024	\$ 21,254	\$ 325	\$ -	\$ 7,099,142
-	-	-	-	72,364
-	-	-	-	1,542,750
-	-	1,236,136	-	3,585,358
<u>8,024</u>	<u>21,254</u>	<u>1,236,461</u>	<u>-</u>	<u>12,299,614</u>
-	-	-	-	162,672
-	-	4,039,467	2,517,410	12,749,073
-	-	-	-	968,854
2,816,743	14,316,077	-	-	21,195,867
-	-	-	-	1,353,703
-	-	-	-	(138,902)
<u>2,816,743</u>	<u>14,316,077</u>	<u>4,039,467</u>	<u>2,517,410</u>	<u>36,291,267</u>
<u>\$ 2,824,767</u>	<u>\$ 14,337,331</u>	<u>\$ 5,275,928</u>	<u>\$ 2,517,410</u>	<u>\$ 48,590,881</u>

CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	Island Transit	Rosenberg Library	Arts and Historical	Grants and Government Contracts	Industrial Development Corporation	Project Specific Programs
Revenues						
Property taxes	\$ -	\$ 1,991,866	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-	4,515,572	-
Fines and forfeitures	-	-	-	-	-	125,138
Charge for services	1,317,068	-	-	-	-	79,292
Investment earnings	-	-	-	179	-	4,911
Intergovernmental	2,530,155	-	-	2,997,606	-	125,645
Other	-	-	-	4,000	-	170,062
Total revenues	3,847,223	1,991,866	-	3,001,785	4,515,572	505,048
Expenditures						
Current:						
General government	-	-	-	-	-	358,019
Public safety	-	-	-	37,036	-	133,614
Culture and recreation	-	2,002,944	3,900	-	287,548	25,082
Planning and community development	-	-	-	2,651,424	-	-
Transportation	3,868,203	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Capital outlay	-	-	19,261	274,175	-	64,823
Total expenditures	3,868,203	2,002,944	23,161	2,962,635	287,548	581,538
Excess (deficiency) of revenues expenditures	(20,980)	(11,078)	(23,161)	39,150	4,228,024	(76,490)
Other financing sources (uses)						
Premium on debt issued	-	-	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Transfers in	-	-	646,361	-	-	322,790
Transfers (out)	-	-	-	-	(8,325,607)	(727,449)
Total other financing sources (uses)	-	-	646,361	-	(8,325,607)	(404,659)
Net change in fund balances	(20,980)	(11,078)	623,200	39,150	(4,097,583)	(481,149)
Fund balances, beginning of year	91,890	-	-	(75,212)	4,921,580	1,834,852
Fund balances, end of year	\$ 70,910	\$ (11,078)	\$ 623,200	\$ (36,062)	\$ 823,997	\$ 1,353,703

Mary Moody Northern Endowment	Convention Center Funds	Seawall Parking Fund	2007 SHSP Grant	Homelessness Prevention and Rapid Rehousing Program	Lead-Based Paint Hazard Control	CDBG Entitlement Grant (ARRA)	CDBG Disaster Fund Housing
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	4,091,072	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	133,057	-	-	-	-	-
-	312	-	-	-	-	-	-
-	-	-	15,184	-	-	-	5,993,575
-	-	42	-	-	-	-	-
-	4,091,384	133,099	15,184	-	-	-	5,993,575
-	-	49,464	-	-	-	-	-
-	-	-	15,184	-	-	-	-
-	2,731,071	-	-	-	-	-	-
-	-	-	-	-	-	-	5,993,575
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	575,404	54,007	-	-	-	-	-
-	3,306,475	103,471	15,184	-	-	-	5,993,575
-	784,909	29,628	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	81,087	115,229	-	-	-	-	-
-	(322,790)	-	-	-	-	-	-
-	(241,703)	115,229	-	-	-	-	-
-	543,206	144,857	-	-	-	-	-
-	5,648,990	-	-	-	-	-	-
\$ -	\$ 6,192,196	\$ 144,857	\$ -	\$ -	\$ -	\$ -	\$ -

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013
(CONTINUED)**

	Neighborhood Stabilization Program (ARRA)	Texas Water Development Board Grant Fund	Drainage and Street Improvements	Sewer Improvements	General Obligation Bond 2001 Capital Projects	Island Transit Capital Projects
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-
Charge for services	-	-	-	-	-	-
Investment earnings	-	-	8,251	10,602	1,196	-
Intergovernmental	57,591	-	-	-	-	4,375,148
Other	-	-	-	-	-	-
Total revenues	<u>57,591</u>	<u>-</u>	<u>8,251</u>	<u>10,602</u>	<u>1,196</u>	<u>4,375,148</u>
Expenditures						
Current:						
General government	-	138,600	-	-	-	-
Public safety	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Planning and community development	57,591	-	-	-	-	-
Transportation	-	-	-	-	-	550,932
Debt service:						
Principal	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-
Bond issuance cost	-	-	-	-	-	-
Capital outlay	-	6,000	-	-	30,683	3,372,867
Total expenditures	<u>57,591</u>	<u>144,600</u>	<u>-</u>	<u>-</u>	<u>30,683</u>	<u>3,923,799</u>
Excess (deficiency) of revenues expenditures	-	(144,600)	8,251	10,602	(29,487)	451,349
Other financing sources (uses)						
Premium on debt issued	-	-	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-	-
Transfers in	-	144,600	-	-	-	-
Transfers (out)	-	-	(307,891)	(2,187,495)	-	-
Total other financing sources (uses)	<u>-</u>	<u>144,600</u>	<u>(307,891)</u>	<u>(2,187,495)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	(299,640)	(2,176,893)	(29,487)	451,349
Fund balances, beginning of year	-	-	2,151,984	3,080,614	317,989	(56,069)
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,852,344</u>	<u>\$ 903,721</u>	<u>\$ 288,502</u>	<u>\$ 395,280</u>

General Obligation Bond 2005 Capital Projects	IDC Capital Improvements	Debt Service Fund	Hotel Occupancy Tax Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 2,029,246	\$ -	\$ 4,021,112
-	-	-	1,407,408	10,014,052
-	-	-	-	125,138
-	-	-	-	1,529,417
12,095	29,540	13,148	507	80,741
-	-	3,146,550	-	19,241,454
-	-	-	-	174,104
<u>12,095</u>	<u>29,540</u>	<u>5,188,944</u>	<u>1,407,915</u>	<u>35,186,018</u>
-	-	-	-	546,083
-	-	-	-	185,834
-	-	-	-	5,050,545
-	-	-	-	8,702,590
-	-	-	-	4,419,135
-	-	6,173,351	875,000	7,048,351
-	-	1,627,770	831,010	2,458,780
-	-	221,224	628,030	849,254
<u>320,618</u>	<u>639,924</u>	<u>-</u>	<u>-</u>	<u>5,357,762</u>
<u>320,618</u>	<u>639,924</u>	<u>8,022,345</u>	<u>2,334,040</u>	<u>34,618,334</u>
(308,523)	(610,384)	(2,833,401)	(926,125)	567,684
-	-	845,695	854,865	1,700,560
-	-	13,600,000	27,565,000	41,165,000
-	-	(14,219,125)	(28,077,311)	(42,296,436)
-	8,325,607	2,880,564	-	12,516,238
-	-	-	-	(11,871,232)
-	<u>8,325,607</u>	<u>3,107,134</u>	<u>342,554</u>	<u>1,214,130</u>
(308,523)	7,715,223	273,733	(583,571)	1,781,814
<u>3,125,266</u>	<u>6,600,854</u>	<u>3,765,734</u>	<u>3,100,981</u>	<u>34,509,453</u>
<u>\$ 2,816,743</u>	<u>\$ 14,316,077</u>	<u>\$ 4,039,467</u>	<u>\$ 2,517,410</u>	<u>\$ 36,291,267</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
ISLAND TRANSIT
YEAR ENDED SEPTEMBER 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Intergovernmental - federal	\$ 1,210,000	\$ 785,217	\$ (424,783)
Intergovernmental - state	900,000	958,220	58,220
Intergovernmental - local	750,000	786,718	36,718
Farebox revenues	300,000	298,904	(1,096)
Charges for services	1,210,000	1,018,164	(191,836)
Other	15,000	-	(15,000)
Total revenues	<u>4,385,000</u>	<u>3,847,223</u>	<u>(537,777)</u>
Expenditures			
Current			
Transportation system			
Transit system			
Personnel services	1,608,721	1,465,902	142,819
Materials and supplies	35,900	26,441	9,459
Contractual services	858,586	717,118	141,468
Other charges	124,903	124,903	-
Total transportation system expenditures	<u>2,628,110</u>	<u>2,334,364</u>	<u>293,746</u>
Maintenance			
Personnel services	897,765	813,014	84,751
Materials and supplies	306,888	278,097	28,791
Contractual services	87,385	67,159	20,226
Total maintenance expenditures	<u>1,292,038</u>	<u>1,158,270</u>	<u>133,768</u>
Administrative services			
Personnel services	263,829	234,382	29,447
Materials and supplies	49,310	37,981	11,329
Contractual services	140,713	103,009	37,704
Other charges	1,000	197	803
Total administrative services	<u>454,852</u>	<u>375,569</u>	<u>79,283</u>
Total expenditures	<u>4,375,000</u>	<u>3,868,203</u>	<u>506,797</u>
Revenues over (under) expenditures	10,000	(20,980)	(30,980)
Other financing sources			
Sale of assets	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	<u>91,890</u>	<u>91,890</u>	<u>-</u>
Fund balance, end of year	<u>\$ 101,890</u>	<u>\$ 70,910</u>	<u>\$ (30,980)</u>

**CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
ROSENBERG LIBRARY
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Property taxes - current	\$ 1,949,209	\$ 1,944,873	\$ (4,336)
Property taxes - delinquent	53,735	46,993	(6,742)
Total revenues	<u>2,002,944</u>	<u>1,991,866</u>	<u>(11,078)</u>
Expenditures			
Current			
Payments to Rosenberg Library	<u>2,002,944</u>	<u>2,002,944</u>	<u>-</u>
Total expenditures	<u>2,002,944</u>	<u>2,002,944</u>	<u>-</u>
Revenues over (under) expenditures	-	(11,078)	(11,078)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ (11,078)</u>	<u>\$ (11,078)</u>

**CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive / (Negative)</u>
Revenues			
Property taxes	\$ 2,035,218	\$ 2,029,246	\$ (5,972)
Earnings on investments	21,000	13,148	(7,852)
Intergovernmental	<u>3,147,150</u>	<u>3,146,550</u>	<u>(600)</u>
Total revenues	5,203,368	5,188,944	(14,424)
Expenditures			
Principal retirement	5,263,141	6,173,351	(910,210)
Interest and fiscal agent fees	1,832,487	1,627,770	204,717
Cost of Issuance	<u>-</u>	<u>221,224</u>	<u>(221,224)</u>
Total expenditures	<u>7,095,628</u>	<u>8,022,345</u>	<u>(926,717)</u>
Revenues over (under) expenditures	<u>(1,892,260)</u>	<u>(2,833,401)</u>	<u>(941,141)</u>
Other financing sources			
Proceeds from issuance of debt	-	14,445,695	14,445,695
Payment to refunded bond escrow agent	-	(14,219,125)	(14,219,125)
Transfer in:			
Industrial Development Corporation	<u>1,966,294</u>	<u>2,880,564</u>	<u>914,270</u>
Total other financing sources	<u>1,966,294</u>	<u>3,107,134</u>	<u>1,140,840</u>
Revenues and other financing sources over (under) expenditures	74,034	273,733	199,699
Fund balance, beginning of year	<u>3,765,734</u>	<u>3,765,734</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 3,839,768</u></u>	<u><u>\$ 4,039,467</u></u>	<u><u>\$ 199,699</u></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, 2013**

ASSETS	Business-type Activities - Enterprise Funds			
	Sanitation	Drainage	Airport	Total
Current assets				
Cash and temporary investments	\$ 695,707	\$ 1,187,055	\$ 654,901	\$ 2,537,663
Accounts receivable, net of allowance for doubtful accounts	2,127,856	697,277	203,595	3,028,728
Due from other funds	168,554	226,450	765,461	1,160,465
Prepaid expenses	-	-	609	609
Restricted assets				
Cash and investments	158	2,229,502	-	2,229,660
Total current assets	<u>2,992,275</u>	<u>4,340,284</u>	<u>1,624,566</u>	<u>8,957,125</u>
Non-current assets				
Capital assets not being depreciated	39,832	2,550,150	5,139,852	7,729,834
Capital assets (net of depreciation)	2,300,097	4,394,899	12,723,810	19,418,806
Total non-current assets	<u>2,339,929</u>	<u>6,945,049</u>	<u>17,863,662</u>	<u>27,148,640</u>
Total assets	<u>5,332,204</u>	<u>11,285,333</u>	<u>19,488,228</u>	<u>36,105,765</u>
LIABILITIES AND NET POSITION				
Current liabilities				
Accounts payable and accrued expenses	239,934	473,304	9,543	722,781
Due to other governments	302,702	-	-	302,702
Unearned revenue	15,775	-	152,356	168,131
Long-term debt, current portion				
Compensated absences	35,000	10,500	6,500	52,000
Total current liabilities	<u>593,411</u>	<u>483,804</u>	<u>168,399</u>	<u>1,245,614</u>
Non-current liabilities				
Long-term debt, noncurrent portion				
Compensated absences	309,199	97,801	57,706	464,706
Total non-current liabilities	<u>309,199</u>	<u>97,801</u>	<u>57,706</u>	<u>464,706</u>
Total liabilities	<u>902,610</u>	<u>581,605</u>	<u>226,105</u>	<u>1,710,320</u>
Net position				
Net investment in capital assets	2,339,929	6,945,049	17,863,662	27,148,640
Restricted for debt service	158	-	-	158
Restricted for capital improvements	-	2,229,502	-	2,229,502
Unrestricted	2,089,507	1,529,177	1,398,461	5,017,145
Total net position	<u>\$ 4,429,594</u>	<u>\$ 10,703,728</u>	<u>\$ 19,262,123</u>	<u>\$ 34,395,445</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
Operating Revenues				
Charges for services	\$ 5,088,005	\$ 2,564,023	\$ 1,235,942	\$ 8,887,970
Miscellaneous	212,141	84,601	-	296,742
Total operating revenues	<u>5,300,146</u>	<u>2,648,624</u>	<u>1,235,942</u>	<u>9,184,712</u>
Operating Expenses				
Personnel services	2,050,753	1,074,094	381,843	3,506,690
Contractual services	1,598,705	368,421	133,217	2,100,343
Supplies and materials	50,488	43,519	92,267	186,274
Other expenses	145,943	95,647	198,251	439,841
Administrative charge	199,857	44,970	51,212	296,039
Depreciation	390,516	269,850	674,596	1,334,962
Total operating expenses	<u>4,436,262</u>	<u>1,896,501</u>	<u>1,531,386</u>	<u>7,864,149</u>
Operating income (loss)	<u>863,884</u>	<u>752,123</u>	<u>(295,444)</u>	<u>1,320,563</u>
Non-operating revenues (expenses)				
Intergovernmental revenue	-	-	25,777	25,777
Interest and investment revenue	2,278	15,072	2,624	19,974
Gain (loss) on disposal of capital assets	676	-	-	676
Interest expense	(5,222)	-	-	(5,222)
Amortization of bond issuance costs	(1,496)	-	-	(1,496)
Total non-operating revenues (expenses)	<u>(3,764)</u>	<u>15,072</u>	<u>28,401</u>	<u>39,709</u>
Income (loss) before contributions and transfers	860,120	767,195	(267,043)	1,360,272
Capital contributions	(72,669)	14,675	321,591	263,597
Transfers in	-	23,423	-	23,423
Transfers out	(200,037)	-	-	(200,037)
Change in net position	587,414	805,293	54,548	1,447,255
Net position, beginning of year	<u>3,842,180</u>	<u>9,898,435</u>	<u>19,207,575</u>	<u>32,948,190</u>
Net position, end of year	<u>\$ 4,429,594</u>	<u>\$ 10,703,728</u>	<u>\$ 19,262,123</u>	<u>\$ 34,395,445</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
OPERATING ACTIVITIES				
Cash received from customers	\$ 5,239,215	\$ 2,667,761	\$ 879,206	\$ 8,786,182
Cash payments to suppliers for goods and services	(1,622,249)	(199,951)	(450,199)	(2,272,399)
Cash payments to employees	(1,994,189)	(1,072,152)	(378,218)	(3,444,559)
Administrative service charge	(199,857)	(44,970)	(50,208)	(295,035)
Net cash provided by operating activities	1,422,920	1,350,688	581	2,774,189
NONCAPITAL FINANCING ACTIVITIES				
Interfund transfers in	-	23,423	-	23,423
Interfund transfers out	(200,037)	-	-	(200,037)
Net cash provided by (used in) noncapital financing activities	(200,037)	23,423	-	(176,614)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Payments for capital acquisitions (net of sales)	(632,478)	(1,756,895)	(327,461)	(2,716,834)
Principal paid on bonds	(115,000)	-	-	(115,000)
Interest paid on bonds	(17,067)	-	-	(17,067)
Principal paid on capital leases	(200,000)	-	-	(200,000)
Contributed capital	-	14,675	-	14,675
Net cash used in capital and related financing activities	(964,545)	(1,742,220)	(327,461)	(3,034,226)
INVESTING ACTIVITIES				
Interest on investments	2,278	15,072	2,624	19,974
Net cash provided by investing activities	2,278	15,072	2,624	19,974
Net increase (decrease) in equity in pooled cash and investments	260,616	(353,037)	(324,256)	(416,677)
CASH AND TEMPORARY INVESTMENTS, beginning of year	435,249	3,769,594	979,157	5,184,000
CASH AND TEMPORARY INVESTMENTS, end of year	<u>\$ 695,865</u>	<u>\$ 3,416,557</u>	<u>\$ 654,901</u>	<u>\$ 4,767,323</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
YEAR ENDED SEPTEMBER 30, 2013
(CONTINUED)**

	Enterprise Funds			
	Sanitation	Drainage	Airport	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 863,884	\$ 752,123	\$ (295,444)	\$ 1,320,563
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Amortization and depreciation expense	390,516	269,850	674,596	1,334,962
(Increase) decrease in accounts receivable	(63,681)	19,874	(62,859)	(106,666)
(Increase) decrease in inventory and prepaid	2,344	1,563	219	4,126
Increase (decrease) in salaries and benefits payable	10,401	3,218	1,164	14,783
Increase (decrease) in accounts payable	170,543	306,073	(996)	475,620
Increase (decrease) in deferred revenue	2,750	-	(318,560)	(315,810)
Increase (decrease) in compensated absences payable	46,163	(2,013)	2,461	46,611
Net cash provided by operating activities	\$ 1,422,920	\$ 1,350,688	\$ 581	\$ 2,774,189

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
WATER WORKS SYSTEM ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2013

	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	\$ 16,930,622	\$ 16,930,622	\$ 17,086,368	\$ -	\$ 17,086,368	\$ 155,746
Tap fees	284,000	284,000	361,321	-	361,321	77,321
Other	724,397	724,397	3,754,553	-	3,754,553	3,030,156
Total operating revenues	17,939,019	17,939,019	21,202,242	-	21,202,242	3,263,223
Operating expenses						
Personnel services	1,843,399	1,813,339	1,671,936	-	1,671,936	141,403
Materials and supplies	1,114,865	1,020,155	881,992	-	881,992	138,163
Contractual services	1,219,103	1,139,047	945,507	-	945,507	193,540
Other charges	438,390	451,215	471,708	-	471,708	(20,493)
Administrative service charge	628,335	628,335	628,335	-	628,335	-
Surface water contract	8,686,468	8,686,468	4,029,515	2,976,628	7,006,143	1,680,325
Depreciation	-	-	4,327,725	(4,327,725)	-	-
Total operating expenses	13,930,560	13,738,559	12,956,718	(1,351,097)	11,605,621	2,132,938
Operating income	4,008,459	4,200,460	8,245,524	1,351,097	9,596,621	5,396,161
Non-operating revenues (expenses)						
Interest earned	23,000	23,000	57,668	(22,405)	35,263	12,263
Interest expense	(1,081,407)	(1,081,407)	(1,064,903)	-	(1,064,903)	16,504
Principal expenditure	(1,581,838)	(1,581,838)	-	(1,581,838)	(1,581,838)	-
Capital outlay	-	(61,870)	-	(52,528)	(52,528)	9,342
Gain on disposal of capital asset	2,000	2,000	9,093	-	9,093	7,093
Amortization of bond issuance costs	49,373	49,373	(250,026)	-	(250,026)	(299,399)
Total non-operating revenues (expenses)	(2,588,872)	(2,650,742)	(1,248,168)	(1,656,771)	(2,904,939)	(254,197)
Income (loss) before operating transfers and capital contributions	1,419,587	1,549,718	6,997,356	(305,674)	6,691,682	5,141,964
Capital contributions	-	-	952,292	(952,292)	-	-
Operating transfer in (out)	(1,419,587)	(1,549,718)	(537,187)	(627,993)	(1,165,180)	384,538
Change in net position	-	-	7,412,461	(1,885,959)	5,526,502	5,526,502
Net position, beginning of year	61,382,845	61,382,845	61,382,845	-	61,382,845	-
Net position, end of year	\$ 61,382,845	\$ 61,382,845	\$ 68,795,306	\$ (1,885,959)	\$ 66,909,347	\$ 5,526,502

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
SEWER SYSTEM ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2013

	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	\$ 12,590,921	\$ 12,590,921	\$ 12,736,474	\$ -	\$ 12,736,474	\$ 145,553
Tap fees	42,000	42,000	135,126	-	135,126	93,126
Waste hauler fees	70,000	70,000	96,250	-	96,250	26,250
Other	1,000	1,000	36,630	-	36,630	35,630
Total operating revenues	12,703,921	12,703,921	13,004,480	-	13,004,480	300,559
Operating expenses						
Personnel services	4,375,538	3,949,573	3,751,752	-	3,751,752	197,821
Materials and supplies	1,642,051	1,741,856	1,664,392	-	1,664,392	77,464
Contractual services	1,656,627	1,704,310	1,511,235	-	1,511,235	193,075
Other charges	467,903	495,632	494,378	-	494,378	1,254
Administrative service charge	383,497	383,497	383,497	-	383,497	-
Depreciation	-	-	2,695,310	(2,695,310)	-	-
Total operating expenses	8,525,616	8,274,868	10,500,564	(2,695,310)	7,805,254	469,614
Operating income	4,178,305	4,429,053	2,503,916	2,695,310	5,199,226	770,173
Non-operating revenues (expenses)						
Interest earned	20,000	20,000	75,838	(53,295)	22,543	2,543
Interest expense	(1,168,376)	(1,168,376)	(1,196,850)	-	(1,196,850)	(28,474)
Principal expenditure	(2,127,542)	(2,127,542)	-	(2,127,542)	(2,127,542)	-
Insurance proceeds	-	-	-	-	-	-
Capital outlay	(30,000)	(287,188)	-	(122,793)	(122,793)	164,395
Gain on disposal of capital asset	-	-	10,833	-	10,833	10,833
Amortization of bond issuance costs	(37,618)	(48,178)	(54,734)	-	(54,734)	(6,556)
Total non-operating revenues (expenses)	(3,343,536)	(3,611,284)	(1,164,913)	(2,303,630)	(3,468,543)	142,741
Income before operating transfers and capital contributions	834,769	817,769	1,339,003	391,680	1,730,683	912,914
Capital contributions	-	-	23,000,406	(23,000,406)	-	-
Operating transfer in (out)	(834,769)	(817,769)	(378,841)	(1,210,121)	(1,588,962)	(771,193)
Change in net position	-	-	23,960,568	(23,818,847)	141,721	141,721
Net position, beginning of year	66,525,648	66,525,648	66,525,648	-	66,525,648	
Net position, end of year	\$ 66,525,648	\$ 66,525,648	\$ 90,486,216	\$ (23,818,847)	\$ 66,667,369	\$ 141,721

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
SANITATION SERVICES ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2013

	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	\$ 5,185,789	\$ 5,185,789	\$ 5,088,005	\$ -	\$ 5,088,005	\$ (97,784)
Other	1,500	1,500	212,141	-	212,141	210,641
Total operating revenues	5,187,289	5,187,289	5,300,146	-	5,300,146	112,857
Operating expenses						
Personnel services	2,109,171	2,074,801	2,050,753	-	2,050,753	24,048
Materials and supplies	65,081	61,356	50,488	-	50,488	10,868
Contractual services	1,765,199	1,742,122	1,598,705	-	1,598,705	143,417
Other charges	149,401	153,701	145,943	-	145,943	7,758
Administrative service charge	199,857	199,857	199,857	-	199,857	-
Depreciation	-	-	390,516	(390,516)	-	-
Total operating expenses	4,288,709	4,231,837	4,436,262	(390,516)	4,045,746	186,091
Operating income	898,580	955,452	863,884	390,516	1,254,400	298,948
Non-operating revenues (expenses)						
Interest earned	2,700	2,700	2,278	-	2,278	(422)
Interest expense	(10,065)	(10,065)	(5,222)	-	(5,222)	4,843
Principal expenditure	(249,697)	(249,697)	-	(249,697)	(249,697)	-
Capital outlay	(442,022)	(498,857)	-	(498,457)	(498,457)	400
Gain on disposal of capital asset	2,000	2,000	676	-	676	(1,324)
Amortization of bond issuance costs	(1,496)	(1,496)	(1,496)	-	(1,496)	-
Total non-operating revenues (expenses)	(698,580)	(755,415)	(3,764)	(748,154)	(751,918)	3,497
Income (loss) before operating transfers and capital contributions	200,000	200,037	860,120	(357,638)	502,482	302,445
Capital contributions	-	-	(72,669)	72,669	-	-
Operating transfer in (out)	(200,000)	(200,037)	(200,037)	-	(200,037)	-
Change in net position	-	-	587,414	(284,969)	302,445	302,445
Net position, beginning of year	3,842,180	3,842,180	3,842,180	-	3,842,180	-
Net position, end of year	\$ 3,842,180	\$ 3,842,180	\$ 4,429,594	\$ (284,969)	\$ 4,144,625	\$ 302,445

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
DRAINAGE UTILITY ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2013

	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	\$ 2,564,023	\$ -	\$ 2,564,023	\$ (91,977)
Other	48,000	48,000	84,601	-	84,601	36,601
Total operating revenues	2,704,000	2,704,000	2,648,624	-	2,648,624	(55,376)
Operating expenses						
Personnel services	1,333,622	1,333,622	1,074,094	-	1,074,094	259,528
Materials and supplies	93,107	88,752	43,519	-	43,519	45,233
Contractual services	393,459	393,714	368,421	-	368,421	25,293
Other charges	92,842	95,652	95,647	-	95,647	5
Administrative service charge	44,970	44,970	44,970	-	44,970	-
Depreciation	-	-	269,850	(269,850)	-	-
Total operating expenses	1,958,000	1,956,710	1,896,501	(269,850)	1,626,651	330,059
Operating income	746,000	747,290	752,123	269,850	1,021,973	274,683
Non-operating revenues (expenses)						
Interest earned	3,000	3,000	15,072	(11,113)	3,959	959
Capital outlay - vehicles, etc.	-	(145,940)	-	(145,940)	(145,940)	-
Gain on disposal of capital asset	1,000	1,000	-	-	-	(1,000)
Total non-operating revenues (expenses)	4,000	(141,940)	15,072	(157,053)	(141,981)	(41)
Income before operating transfers and capital contributions	750,000	605,350	767,195	112,797	879,992	274,642
Capital contributions	-	-	14,675	(14,675)	-	-
Operating transfer in (out)	(750,000)	(605,350)	23,423	(327,618)	(304,195)	445,805
Change in net position	-	-	805,293	(229,496)	575,797	720,447
Net position, beginning of year	9,898,435	9,898,435	9,898,435	-	9,898,435	-
Net position, end of year	<u>\$ 9,898,435</u>	<u>\$ 9,898,435</u>	<u>\$ 10,703,728</u>	<u>\$ (229,496)</u>	<u>\$ 10,474,232</u>	<u>\$ 720,447</u>

CITY OF GALVESTON, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL
AIRPORT ENTERPRISE FUND
YEAR ENDED SEPTEMBER 30, 2013

	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	\$ 62,912	\$ 62,912	\$ 61,631	\$ -	\$ 61,631	\$ (1,281)
Hangar rental	25,446	25,446	9,820	-	9,820	(15,626)
Terminal space rental	46,324	46,324	36,443	-	36,443	(9,881)
Land lease rental	749,463	749,463	757,661	-	757,661	8,198
Oil company receipts	42,808	42,808	22,569	-	22,569	(20,239)
Other	348,800	348,800	347,818	-	347,818	(982)
Total operating revenues	1,275,753	1,275,753	1,235,942	-	1,235,942	(39,811)
Operating expenses						
Personnel services	381,321	381,321	381,843	-	381,843	(522)
Materials and supplies	122,629	104,924	92,267	-	92,267	12,657
Contractual services	110,750	133,663	133,217	-	133,217	446
Other charges and bad debt expense	166,081	157,530	198,251	-	198,251	(40,721)
Administrative service charge	51,212	51,212	51,212	-	51,212	-
Depreciation	-	-	674,596	(674,596)	-	-
Total operating expenses	831,993	828,650	1,531,386	(674,596)	856,790	(28,140)
Operating income (loss)	443,760	447,103	(295,444)	674,596	379,152	(67,951)
Non-operating revenues (expenses)						
Intergovernmental revenue	50,000	50,000	25,777	-	25,777	(24,223)
Interest earned	2,300	2,300	2,624	-	2,624	324
Capital outlay - improvements	(348,800)	(348,800)	-	(347,800)	(347,800)	1,000
Total non-operating revenues (expenses)	(296,500)	(296,500)	28,401	(347,800)	(319,399)	(22,899)
Income (loss) before capital contributions	147,260	150,603	(267,043)	326,796	59,753	(90,850)
Capital contributions	-	-	321,591	(321,591)	-	-
Change in net position	147,260	150,603	54,548	5,205	59,753	(90,850)
Net position, beginning of year	<u>19,207,575</u>	<u>19,207,575</u>	<u>19,207,575</u>	<u>-</u>	<u>19,207,575</u>	
Net position, end of year	<u>\$ 19,354,835</u>	<u>\$ 19,358,178</u>	<u>\$ 19,262,123</u>	<u>\$ 5,205</u>	<u>\$ 19,267,328</u>	<u>\$ (90,850)</u>

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.

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2013**

ASSETS	Central Garage	Casualty and Liability Insurance	Central Service
Current assets			
Cash and temporary investments	\$ 1,713,138	\$ 1,068,418	\$ 650,105
Accounts receivable, net of allowance for doubtful accounts	62,863	-	-
Due from other funds	184,495	-	-
Inventories	185,783	-	2,290
Prepaid expenses	-	305,900	-
Restricted assets			
Cash and investments	-	-	275,099
Total current assets	<u>2,146,279</u>	<u>1,374,318</u>	<u>927,494</u>
Non-current assets			
Deferred charges	-	-	37,530
Capital assets (net of depreciation)	<u>113,916</u>	<u>22,584</u>	<u>5,644,315</u>
Total non-current assets	<u>113,916</u>	<u>22,584</u>	<u>5,681,845</u>
Total assets	<u>2,260,195</u>	<u>1,396,902</u>	<u>6,609,339</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses	133,213	69,239	195,798
Accrued interest payable	-	-	63,762
Long-term debt, current portion			
Claims and judgments	-	-	-
Notes payable	-	-	96,890
Bonds and certificates of obligation payable	-	-	97,200
Total current liabilities	<u>133,213</u>	<u>69,239</u>	<u>453,650</u>
Non-current liabilities			
Long-term debt, noncurrent portion			
Compensated absences	143,558	19,184	220,943
Claims and judgments	-	-	-
Contracts payable	-	-	-
Notes payable	-	-	936,533
Bonds and certification of obligation payable	-	-	2,984,782
Total non-current liabilities	<u>143,558</u>	<u>19,184</u>	<u>4,142,258</u>
Total liabilities	<u>276,771</u>	<u>88,423</u>	<u>4,595,908</u>
Net position			
Net investment in capital assets	113,916	22,584	2,599,863
Restricted for debt service	-	-	275,099
Unrestricted	<u>1,869,508</u>	<u>1,285,895</u>	<u>(861,531)</u>
Total net position	<u>\$ 1,983,424</u>	<u>\$ 1,308,479</u>	<u>\$ 2,013,431</u>

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

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 83,625	\$ 1,218,920	\$ 4,196,378	\$ 8,930,584
-	-	211,683	274,546
-	-	-	184,495
-	-	-	188,073
-	-	-	305,900
-	-	-	275,099
<u>83,625</u>	<u>1,218,920</u>	<u>4,408,061</u>	<u>10,158,697</u>
-	-	-	37,530
-	-	-	<u>5,780,815</u>
-	-	-	5,818,345
<u>83,625</u>	<u>1,218,920</u>	<u>4,408,061</u>	<u>15,977,042</u>
157	39,095	172,856	610,358
-	-	-	63,762
-	199,834	-	199,834
-	-	-	96,890
-	-	-	97,200
<u>157</u>	<u>238,929</u>	<u>172,856</u>	<u>1,068,044</u>
77,723	-	-	461,408
-	619,535	380,796	1,000,331
-	-	2,607,195	2,607,195
-	-	-	936,533
-	-	-	<u>2,984,782</u>
<u>77,723</u>	<u>619,535</u>	<u>2,987,991</u>	<u>7,990,249</u>
<u>77,880</u>	<u>858,464</u>	<u>3,160,847</u>	<u>9,058,293</u>
-	-	-	2,736,363
-	-	-	275,099
5,745	360,456	1,247,214	3,907,287
<u>\$ 5,745</u>	<u>\$ 360,456</u>	<u>\$ 1,247,214</u>	<u>\$ 6,918,749</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	Central Garage	Casualty and Liability Insurance	Central Service
Operating Revenues			
Charges for services	\$ 4,965,236	\$ 2,121,954	\$ 2,742,686
Miscellaneous	6,027	-	-
Total operating revenues	<u>4,971,263</u>	<u>2,121,954</u>	<u>2,742,686</u>
Operating Expenses			
Personnel services	1,057,227	139,494	1,046,347
Contractual services	337,714	34,223	618,691
Supplies and materials	3,088,082	2,086	374,851
Insurance claims and premiums	-	1,610,034	-
Other expenses	383,708	-	34,391
Depreciation	22,009	-	270,804
Total operating expenses	<u>4,888,740</u>	<u>1,785,837</u>	<u>2,345,084</u>
Operating income (loss)	<u>82,523</u>	<u>336,117</u>	<u>397,602</u>
Non-operating revenues (expenses)			
Interest and investment revenue	5,605	1,792	2,947
Insurance proceeds	69,157	-	-
Interest expense	-	-	(201,253)
Amortization of bond issuance costs	-	-	(2,724)
Total non-operating revenues (expenses)	<u>74,762</u>	<u>1,792</u>	<u>(201,030)</u>
Income (loss) before contributions and transfers	157,285	337,909	196,572
Transfers out	<u>(37,169)</u>	<u>-</u>	<u>(109,304)</u>
Change in net position	120,116	337,909	87,268
Net position, beginning of year	<u>1,863,308</u>	<u>970,570</u>	<u>1,926,163</u>
Net position, end of year	<u>\$ 1,983,424</u>	<u>\$ 1,308,479</u>	<u>\$ 2,013,431</u>

Construction Management	Workers Compensation Insurance	Health and Life Insurance	Total
\$ 98,847	\$ 717,983	\$ 6,159,883	\$ 16,806,589
-	-	-	6,027
<u>98,847</u>	<u>717,983</u>	<u>6,159,883</u>	<u>16,812,616</u>
45,553	-	-	2,288,621
34,938	-	-	1,025,566
-	-	-	3,465,019
-	120,309	5,570,564	7,300,907
10,296	-	357,357	785,752
-	-	-	292,813
<u>90,787</u>	<u>120,309</u>	<u>5,927,921</u>	<u>15,158,678</u>
<u>8,060</u>	<u>597,674</u>	<u>231,962</u>	<u>1,653,938</u>
95	4,177	14,774	29,390
-	-	-	69,157
-	-	-	(201,253)
-	-	-	(2,724)
<u>95</u>	<u>4,177</u>	<u>14,774</u>	<u>(105,430)</u>
8,155	601,851	246,736	1,548,508
-	-	-	(146,473)
<u>8,155</u>	<u>601,851</u>	<u>246,736</u>	<u>1,402,035</u>
<u>(2,410)</u>	<u>(241,395)</u>	<u>1,000,478</u>	<u>5,516,714</u>
<u>\$ 5,745</u>	<u>\$ 360,456</u>	<u>\$ 1,247,214</u>	<u>\$ 6,918,749</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Central Garage</u>	<u>Casualty and Liability Insurance</u>	<u>Central Service</u>	<u>Construction Management</u>	<u>Workers Compensation Insurance</u>	<u>Health and Life Insurance</u>	<u>Total</u>
OPERATING ACTIVITIES							
Receipts from customers and users	\$ 5,064,323	\$ 2,121,954	\$ 2,742,686	\$ 98,847	\$ 717,983	\$ 6,015,802	\$ 16,761,595
Disbursed for personnel services	(1,047,270)	(133,878)	(992,282)	(41,020)	-	-	(2,214,450)
Disbursed for goods and services	(3,791,726)	(1,577,549)	(1,069,948)	(45,234)	(574,280)	(5,407,284)	(12,466,021)
Net cash provided by operating activities	225,327	410,527	680,456	12,593	143,703	608,518	2,081,124
NONCAPITAL FINANCING ACTIVITIES							
Interfund transfers in	-	-	5,853	-	-	-	5,853
Interfund transfers out	(37,169)	-	(115,157)	-	-	-	(152,326)
Proceeds from insurance	69,157	-	-	-	-	-	69,157
Net cash provided by (used in) noncapital financing activities	31,988	-	(109,304)	-	-	-	(77,316)
CAPITAL AND RELATED FINANCING ACTIVITIES							
Payments for capital acquisitions (net of sales)	-	(22,584)	(396,294)	-	-	-	(418,878)
Principal payment on debt - bond	-	-	(93,600)	-	-	-	(93,600)
Principal payment on debt - capital leases	-	-	(92,994)	-	-	-	(92,994)
Interest payments on notes payable	-	-	(45,767)	-	-	-	(45,767)
Interest payments on revenue bonds	-	-	(157,241)	-	-	-	(157,241)
Net cash used in capital and related financing activities	-	(22,584)	(785,896)	-	-	-	(808,480)
INVESTING ACTIVITIES							
Interest received	5,605	1,792	2,947	95	4,177	14,774	29,390
Net cash provided by investing activities	5,605	1,792	2,947	95	4,177	14,774	29,390
Net increase (decrease) in equity in pooled cash and investments	262,920	389,735	(211,797)	12,688	147,880	623,292	1,224,718
CASH AND TEMPORARY INVESTMENTS, beginning of year	1,450,218	678,683	1,137,001	70,937	1,071,040	3,573,086	7,980,965
CASH AND TEMPORARY INVESTMENTS, end of year	<u>\$ 1,713,138</u>	<u>\$ 1,068,418</u>	<u>\$ 925,204</u>	<u>\$ 83,625</u>	<u>\$ 1,218,920</u>	<u>\$ 4,196,378</u>	<u>\$ 9,205,683</u>

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED SEPTEMBER 30, 2013
(CONTINUED)**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 82,523	\$ 336,117	\$ 397,602	\$ 8,060	\$ 597,674	\$ 231,962	\$ 1,653,938
Adjustments to reconcile operating income to net cash provided by operating activities							
Depreciation	22,009	-	270,804	-	-	-	292,813
Decrease in accounts receivable	93,060	-	-	-	-	(144,080)	(51,020)
Decrease in inventory	22,898	-	2,627	-	-	-	25,525
Decrease in prepaid expenses	-	36,376	-	-	-	-	36,376
Increase (decrease) in accounts payable	(5,120)	32,418	(44,642)	-	(453,971)	520,636	49,321
Increase (decrease) in salaries payable	4,548	-	5,323	(916)	-	-	8,955
Increase in compensated absences payable	5,409	5,616	48,742	5,449	-	-	65,216
Net cash provided by operating activities	<u>\$ 225,327</u>	<u>\$ 410,527</u>	<u>\$ 680,456</u>	<u>\$ 12,593</u>	<u>\$ 143,703</u>	<u>\$ 608,518</u>	<u>\$ 2,081,124</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, 2012.

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, 2012**

ASSETS	City of Galveston Employee's Retirement Plan for Police	City of Galveston Employee's Retirement Plan for Employees	Galveston Firefighters' Pension Fund	Total
Cash and temporary investments	\$ -	\$ -	\$ 1,574,536	\$ 1,574,536
Receivables				
Interest and dividends	63,620	19,414	17,371	100,405
Loans to participants	164,751		-	164,751
Total receivables	228,371	19,414	17,371	265,156
Investments				
Money market funds	301,885	1,144,241	-	1,446,126
U.S. Government agencies	2,249,183	-	-	2,249,183
Bonds	3,979,775	-	-	3,979,775
Common stocks	4,565,676	14,862,625	17,932,241	37,360,542
Mutual funds (equity funds)	9,042,021	8,615,597	6,226,646	23,884,264
Bond mutual funds	820,561	14,377,131	11,109,055	26,306,747
Total investments	20,959,101	38,999,594	35,267,942	95,226,637
Total Assets	21,187,472	39,019,008	36,859,849	97,066,329
LIABILITIES AND NET POSITION				
Accounts payable	6,194	23,848	20,543	50,585
Total liabilities	6,194	23,848	20,543	50,585
Net position				
Held in trust for benefits and other purposes	\$ 21,181,278	\$ 38,995,160	\$ 36,839,306	\$ 97,015,744

**CITY OF GALVESTON, TEXAS
COMBINING STATEMENT OF CHANGES IN
FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2012**

	<u>City of Galveston Employee's Retirement Plan for Police</u>	<u>City of Galveston Employee's Retirement Plan for Employees</u>	<u>Galveston Firefighters' Pension Fund</u>	<u>Total</u>
Additions				
Contributions:				
Employer	\$ 1,117,059	\$ 1,616,976	\$ 918,961	\$ 3,652,996
Plan members	1,153,530	1,077,982	918,961	3,150,473
Total contributions	2,270,589	2,694,958	1,837,922	6,803,469
Investment earnings:				
Net increase (decrease) in fair value of investments	1,173,205	1,807,892	2,967,447	5,948,544
Interest	368,995	5,188	806,143	1,180,326
Dividends	282,893	1,227,037	-	1,509,930
Investment activity expense	(153,868)	(274,947)	(188,378)	(617,193)
Total net investment earnings	1,671,225	2,765,170	3,585,212	8,021,607
Other income	-	360	1,461	1,821
Total additions	3,941,814	5,460,488	5,424,595	14,826,897
Deductions				
Benefits	4,066,072	3,811,100	2,817,338	10,694,510
Employee contribution refunds	-	(4,840)	78,387	73,547
Administrative	86,605	106,234	99,482	292,321
Total deductions	4,152,677	3,912,494	2,995,207	11,060,378
Change in net position	(210,863)	1,547,994	2,429,388	3,766,519
Net position, beginning of year	<u>21,392,141</u>	<u>37,447,166</u>	<u>34,409,918</u>	<u>93,249,225</u>
Net position, end of year	<u>\$ 21,181,278</u>	<u>\$ 38,995,160</u>	<u>\$ 36,839,306</u>	<u>\$ 97,015,744</u>

**CITY OF GALVESTON, TEXAS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
YEAR ENDED SEPTEMBER 30, 2013**

ASSETS	September 30, 2012	Additions	Deletions	September 30, 2013
Cash and temporary investments	\$ 701,543	\$ 439,788	\$ (597)	\$ 1,140,734
Total Assets	<u>\$ 701,543</u>	<u>\$ 439,788</u>	<u>\$ (597)</u>	<u>\$ 1,140,734</u>
LIABILITIES				
Accounts payable and other current liabilities	\$ 597	\$ -	\$ (597)	\$ -
Refunds payable and others	702,292	438,442	-	1,140,734
Total liabilities	<u>\$ 702,889</u>	<u>\$ 438,442</u>	<u>\$ (597)</u>	<u>\$ 1,140,734</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, 2013**

ASSETS	Park Board of Trustees	Galveston Island Redevelopment Authority	Campeche Shores - Public Improvement District No. 1	Beachside Village - Public Improvement District	Totals
Cash and equivalents	\$ 5,806,465	\$ 6,824,189	\$ -	\$ 600	\$ 12,631,254
Investments	2,518,581	-	-	-	2,518,581
Receivables - less allowance for uncollectibles	2,186,409	157,392	94,011	-	2,437,812
Due from other governments	-	31,930	-	-	31,930
Inventories	9,021	-	-	-	9,021
Prepaid items	263,436	-	-	-	263,436
Capital assets not being depreciated	1,576,547	-	-	-	1,576,547
Capital assets (net of accumulated depreciation)	334,722,479	-	-	-	334,722,479
Total assets	<u>347,082,938</u>	<u>7,013,511</u>	<u>94,011</u>	<u>600</u>	<u>354,191,060</u>
LIABILITIES AND NET POSITION					
Accounts payable and accrued expenses	1,749,512	2,013,730	-	6,431	3,769,673
Accrued interest payable	9,102	-	-	-	9,102
Long-term debt liabilities					
Due within one year	588,487	630,000	-	-	1,218,487
Due in more than one year	2,708,016	14,512,052	-	-	17,220,068
Total liabilities	<u>5,055,117</u>	<u>17,155,782</u>	<u>-</u>	<u>6,431</u>	<u>22,217,330</u>
Net position (deficit)					
Net investment in capital assets	333,558,036	-	-	-	333,558,036
Restricted					
Debt service	158,230	1,362,705	-	-	1,520,935
Unrestricted	8,311,555	(11,504,976)	94,011	(5,831)	(3,105,241)
Total net position (deficit)	<u>\$ 342,027,821</u>	<u>\$ (10,142,271)</u>	<u>\$ 94,011</u>	<u>\$ (5,831)</u>	<u>\$ 331,973,730</u>

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
GOVERNMENTAL ACTIVITIES
COMBINING STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2013**

<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	\$ 26,211,117	\$ 4,547,780	\$ 287,468
Galveston Island Redevelopments Authority	916,192	-	-
Campeche Shores - Public Improvement District No. 1	88,874	-	-
Beachside Village - Public Improvement District	75,573	-	-
Total governmental activities	<u>\$ 27,291,756</u>	<u>\$ 4,547,780</u>	<u>\$ 287,468</u>

GENERAL REVENUES

Taxes:

Property taxes

Hotel occupancy taxes

Unrestricted investment earnings

Capital asset contributions, net

Extraordinary item - loan forgiveness

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
\$ (21,375,869)	\$ -	\$ -	\$ -	\$ (21,375,869)
-	(916,192)	-	-	(916,192)
-	-	(88,874)	-	(88,874)
-	-	-	(75,573)	(75,573)
<u>(21,375,869)</u>	<u>(916,192)</u>	<u>(88,874)</u>	<u>(75,573)</u>	<u>(22,456,508)</u>
-	3,593,545	88,200	70,489	3,752,234
8,376,675	-	-	-	8,376,675
140,822	3,491	-	-	144,313
9,133,023	-	-	-	9,133,023
4,856,419	-	-	-	4,856,419
<u>22,506,939</u>	<u>3,597,036</u>	<u>88,200</u>	<u>70,489</u>	<u>26,262,664</u>
1,131,070	2,680,844	(674)	(5,084)	3,806,156
<u>340,896,751</u>	<u>(12,823,115)</u>	<u>94,685</u>	<u>(747)</u>	<u>328,167,574</u>
<u>\$ 342,027,821</u>	<u>\$ (10,142,271)</u>	<u>\$ 94,011</u>	<u>\$ (5,831)</u>	<u>\$ 331,973,730</u>

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
BUSINESS ACTIVITY TYPES
COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2012**

ASSETS	Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	Total
Cash and equivalents	\$ 17,755,099	\$ 225,750	\$ 78,107	\$ 18,058,956
Receivables - less allowance for uncollectibles	8,253,415	-	-	8,253,415
Internal balances	-	(85,348)	85,348	-
Prepays	703,300	-	-	703,300
Restricted assets				
Cash and temporary investments	22,339,688	-	-	22,339,688
Other assets	199,145	-	-	199,145
Net investments in direct financing and capital leases - noncurrent	2,655,282	-	-	2,655,282
Unamortized debt expense	811,166	-	-	811,166
Capital assets not being depreciated	29,884,954	44,138	805,188	30,734,280
Capital assets (net of accumulated depreciation)	97,355,005	-	-	97,355,005
Total assets	<u>179,957,054</u>	<u>184,540</u>	<u>968,643</u>	<u>181,110,237</u>
LIABILITIES AND NET POSITION				
Accounts payable and accrued expenses	4,045,296	13,236	39,308	4,097,840
Accrued interest	1,115,044	-	-	1,115,044
Due to primary government	187,302	-	-	187,302
Long-term liabilities				
Due within one year	4,268,611	-	-	4,268,611
Due in more than one year	54,405,274	-	-	54,405,274
Total liabilities	64,021,527	13,236	39,308	64,074,071
Net position				
Net investment in capital assets	92,456,023	-	-	92,456,023
Restricted for:				
Debt service	5,964,618	-	-	5,964,618
Unrestricted	17,514,886	171,304	929,335	18,615,525
Total net position	<u>\$ 115,935,527</u>	<u>\$ 171,304</u>	<u>\$ 929,335</u>	<u>\$ 117,036,166</u>

**CITY OF GALVESTON, TEXAS
DISCRETELY PRESENTED COMPONENT UNITS –
BUSINESS ACTIVITY TYPES
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Program Revenues				Net (Expense) and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Component Unit			Totals
					Board of Trustees of Galveston Wharves	Galveston Housing Finance Corporation	Galveston Property Finance Authority	
Component Unit								
Business-type Activities:								
Board of Trustees of Galveston Wharves	\$ 30,749,311	\$ 24,916,430	\$ -	\$ 11,154,694	\$ 5,321,813	\$ -	\$ -	\$ 5,321,813
Galveston Housing Finance Corporation	20,000	6,363	-	-	-	(13,637)	-	(13,637)
Galveston Property Finance Authority	87,375	-	-	-	-	-	(87,375)	(87,375)
Total governmental activities	<u>\$ 30,856,686</u>	<u>\$ 24,922,793</u>	<u>\$ -</u>	<u>\$ 11,154,694</u>	<u>5,321,813</u>	<u>(13,637)</u>	<u>(87,375)</u>	<u>5,220,801</u>
GENERAL REVENUES								
Other income					-	-	62,593	62,593
Unrestricted investment earnings					122,618	667	32	123,317
Extraordinary item - Insurance proceeds for casualty loss					17,749,975	-	-	17,749,975
Total general revenues and transfers					<u>17,872,593</u>	<u>667</u>	<u>62,625</u>	<u>17,935,885</u>
Change in net position					23,194,406	(12,970)	(24,750)	23,156,686
NET POSITION, beginning of year					<u>92,741,121</u>	<u>184,274</u>	<u>954,085</u>	<u>93,879,480</u>
NET POSITION, end of year					<u>\$ 115,935,527</u>	<u>\$ 171,304</u>	<u>\$ 929,335</u>	<u>\$ 117,036,166</u>

STATISTICAL SECTION
(Unaudited)

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									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities										
Invested in capital assets, net of related debt	\$ 23,872	\$ 29,356	\$ 25,631	\$ 37,327	\$ 49,273	\$ 49,607	\$ 98,300	\$ 98,510	\$ 90,856	\$ 102,988
Restricted	4,921	4,894	10,791	18,757	19,950	25,689	26,256	25,326	25,670	22,388
Unrestricted	7,845	8,012	11,081	5,912	6,113	18,853	26,157	10,861	31,737	33,857
Total governmental activities net position	<u>\$ 36,638</u>	<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>
Business-type activities										
Invested in capital assets, net of related debt	\$ 64,284	\$ 70,442	\$ 71,492	\$ 73,991	\$ 64,348	\$ 65,039	\$ 79,051	\$ 99,989	\$ 80,157	\$ 152,955
Restricted	6,367	3,301	9,502	10,327	11,053	7,173	10,949	11,886	11,920	25,630
Unrestricted	2,123	3,069	5,817	13,967	12,364	24,354	20,713	22,183	70,504	17,299
Total business-type activities net position	<u>\$ 72,774</u>	<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>\$ 195,884</u>
Primary government										
Invested in capital assets, net of related debt	\$ 88,156	\$ 99,798	\$ 97,123	\$ 111,318	\$ 113,621	\$ 114,646	\$ 177,351	\$ 198,499	\$ 171,013	\$ 255,943
Restricted	11,288	8,195	20,293	29,084	31,003	32,862	37,205	37,212	37,590	48,018
Unrestricted	9,968	11,081	16,898	19,879	18,477	43,207	46,870	33,044	102,241	51,156
Total primary government net position	<u>\$ 109,412</u>	<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>\$ 355,117</u>

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

	2004	2005	2006	2007
Expenses				
Governmental activities:				
General government	\$ 3,626	\$ 4,662	\$ 4,924	\$ 5,166
Public safety	20,638	24,110	24,876	27,040
Public works	4,997	4,332	5,113	5,990
Culture and recreation	1,419	5,211	7,025	8,258
Planning and community development	4,225	2,375	4,202	4,483
Transportation system	6,580	4,032	4,269	5,552
Interest on long-term debt	3,208	2,866	3,649	3,096
Total governmental activities expenses	<u>44,693</u>	<u>47,588</u>	<u>54,058</u>	<u>59,585</u>
Business-type activities:				
Waterworks	10,012	10,956	11,850	12,999
Sewer system	7,249	7,921	9,229	11,536
Sanitation	3,077	3,376	3,541	3,781
Drainage	637	1,085	1,342	1,312
Airport	934	933	1,128	1,201
Golf course	1,092	1,010	1,028	333
Total business-type activities expenses	<u>23,001</u>	<u>25,281</u>	<u>28,118</u>	<u>31,162</u>
Total primary government expenses	<u>67,694</u>	<u>72,869</u>	<u>82,176</u>	<u>90,747</u>
Program Revenues				
Governmental activities:				
Charges for services				
General government	1,056	1,254	1,322	1,400
Public safety	3,034	2,451	2,739	3,133
Public works	39	26	20	21
Culture and recreation	83	40	6	407
Planning and community development	2,208	2,273	2,231	1,620
Transportation system	643	522	698	939
Operating grants and contributions				
General government	-	-	-	-
Public safety	408	1,090	956	487
Public works	-	-	-	-
Culture and recreation	19	95	83	767
Planning and community development	2,086	1,559	2,199	2,021
Transportation system	2,485	2,295	2,396	2,455
Capital grants and contributions				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	116	-	9,557
Planning and community development	-	-	-	-
Transportation system	3,426	2,440	1,575	1,735
Total governmental activities program revenues	<u>15,487</u>	<u>14,161</u>	<u>14,225</u>	<u>24,542</u>
Business-type activities:				
Charges for services				
Waterworks	10,105	11,230	14,173	14,309
Sewer system	8,018	9,409	11,395	12,799
Sanitation	3,606	3,932	4,240	4,587
Drainage	780	1,816	2,710	2,800
Airport	853	875	937	1,071
Golf course	928	912	827	189
Capital grants and contributions				
Waterworks	-	-	-	-
Sewer system	-	-	-	-
Drainage	-	-	-	-
Airport	5,482	1,178	2,680	6,065
Total business-type activities program revenues	<u>29,772</u>	<u>29,352</u>	<u>36,962</u>	<u>41,820</u>
Total primary government program revenues	<u>45,259</u>	<u>43,513</u>	<u>51,187</u>	<u>66,362</u>
Net (Expense)/Revenues				
Governmental activities	(29,206)	(33,427)	(39,833)	(35,043)
Business-type activities	6,771	4,071	8,844	10,658
Total primary government net expense	<u>\$ (22,435)</u>	<u>\$ (29,356)</u>	<u>\$ (30,989)</u>	<u>\$ (24,385)</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 5,307	\$ 5,742	\$ 8,484	\$ 7,413	\$ 5,164	\$ 6,874
32,145	29,390	29,180	27,056	26,919	28,075
12,735	69,234	25,590	23,631	6,925	6,847
9,020	10,764	8,289	8,820	9,672	9,082
4,936	4,237	7,902	31,723	12,942	11,972
4,548	5,120	5,347	4,649	24,150	8,164
2,839	2,757	2,868	2,555	4,909	1,716
<u>71,530</u>	<u>127,244</u>	<u>87,660</u>	<u>105,847</u>	<u>90,681</u>	<u>72,730</u>
13,350	13,060	14,165	15,519	14,001	13,990
10,806	9,900	11,202	11,058	10,991	11,669
3,808	3,907	3,999	4,108	4,176	4,382
1,651	1,700	1,737	1,750	1,959	1,873
1,185	1,073	1,127	1,496	1,468	1,499
-	-	-	-	-	-
<u>30,800</u>	<u>29,640</u>	<u>32,230</u>	<u>33,931</u>	<u>32,594</u>	<u>33,412</u>
<u>102,330</u>	<u>156,884</u>	<u>119,890</u>	<u>139,778</u>	<u>123,275</u>	<u>106,142</u>
1,552	1,628	1,717	1,841	2,159	1,884
3,338	2,595	2,310	3,030	2,554	2,417
37	30	50	318	-	-
166	8	2	1	2	2
1,119	1,890	1,282	1,441	1,379	1,402
697	461	508	650	840	1,575
-	489	3,336	176	-	-
312	1,646	5,234	537	181	249
-	76,730	37,424	281	-	-
936	980	963	734	116	139
2,244	1,653	5,069	25,706	31,006	11,118
3,136	3,034	6,749	3,015	2,771	2,789
-	316	-	-	-	-
5,086	-	-	-	-	-
10,752	-	25,298	10,247	1,718	71
8,656	2	23	3	-	-
-	-	-	12,398	23,385	27,313
<u>1,501</u>	<u>448</u>	<u>2,934</u>	<u>1,392</u>	<u>3,525</u>	<u>3,858</u>
<u>39,532</u>	<u>91,910</u>	<u>92,899</u>	<u>61,770</u>	<u>69,636</u>	<u>52,818</u>
14,640	14,168	14,988	16,132	16,834	17,482
12,259	11,082	11,523	12,108	12,365	12,968
4,360	3,888	4,257	4,247	4,655	5,088
2,691	2,418	2,567	2,507	2,517	2,564
960	783	1,312	804	1,186	1,236
-	-	-	-	-	-
-	-	-	-	501	-
-	-	-	-	1,127	-
-	-	-	-	330	-
<u>1,925</u>	<u>2,253</u>	<u>11,964</u>	<u>2,700</u>	<u>2,413</u>	<u>26</u>
<u>36,835</u>	<u>34,592</u>	<u>46,611</u>	<u>38,498</u>	<u>41,927</u>	<u>39,363</u>
<u>76,367</u>	<u>126,502</u>	<u>139,510</u>	<u>100,268</u>	<u>111,563</u>	<u>92,181</u>
(31,998)	(35,334)	5,239	(44,077)	(21,045)	(19,912)
6,035	4,952	14,381	4,567	9,333	5,951
<u>\$ (25,963)</u>	<u>\$ (30,382)</u>	<u>\$ 19,620</u>	<u>\$ (39,510)</u>	<u>\$ (11,712)</u>	<u>\$ (13,962)</u>

(Continued)

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes, levied for				
general purposes	\$ 13,215	\$ 13,838	\$ 15,480	\$ 16,333
Sales and use taxes	13,689	14,425	16,850	17,498
Hotel occupancy taxes	2,966	3,418	4,122	4,619
Franchise taxes	4,841	4,880	5,149	5,375
Payments in lieu of taxes	568	596	655	737
Net loss on sale of asset	(72)	-	-	-
Unrestricted investment earnings	-	753	1,650	2,439
Miscellaneous	420	641	669	844
Capital contributions	550	-	-	-
Loss of assets due to Hurricane Ike	-	-	-	-
Impairment of capital assets due to Hurricane Ike	-	-	-	-
Insurance proceeds	-	-	-	-
Transfers	600	500	500	1,690
Total governmental activities	<u>36,777</u>	<u>39,051</u>	<u>45,075</u>	<u>49,535</u>
Business-type activities:				
Net (loss) gain on sale of asset	(125)	20	(271)	2,454
Unrestricted investment earnings	179	447	1,755	52
Miscellaneous	2	-	170	-
Impairment of capital assets due to Hurricane Ike	-	-	-	-
Insurance proceeds	-	-	-	-
Transfers	(600)	(500)	(500)	(1,690)
Total business-type activities	<u>(544)</u>	<u>(33)</u>	<u>1,154</u>	<u>816</u>
Total primary government	<u>36,233</u>	<u>39,018</u>	<u>46,229</u>	<u>50,351</u>
Change in Net Position				
Governmental activities	7,571	5,624	5,242	14,492
Business-type activities	6,227	4,038	9,998	11,474
Total primary government	<u>\$ 13,798</u>	<u>\$ 9,662</u>	<u>\$ 15,240</u>	<u>\$ 25,966</u>

Fiscal Year						
2008	2009	2010	2011	2012	2013	
\$ 18,640	\$ 19,718	\$ 18,270	\$ 20,087	\$ 21,489	\$ 21,988	
17,747	18,588	15,705	16,589	17,712	18,638	
4,958	3,742	4,058	4,722	5,507	5,500	
5,450	4,807	4,756	5,009	5,073	5,043	
126	120	120	120	119	125	
-	-	-	-	-	-	
1,483	219	115	89	122	179	
224	418	438	1,113	3,418	2,535	
-	-	-	-	-	-	
(2,022)	-	-	-	-	-	
-	-	-	-	-	-	
(1,867)	1,112	-	-	-	-	
-	4,863	7,170	-	-	-	
600	562	695	(18,863)	(18,830)	(23,124)	
<u>45,339</u>	<u>54,149</u>	<u>51,327</u>	<u>28,866</u>	<u>34,609</u>	<u>30,884</u>	
1,805	877	169	-	-	-	
136	28	106	155	132	153	
-	-	-	158	228	4,075	
(17,897)	-	(34)	-	-	-	
-	3,509	220	-	-	-	
(600)	(562)	(695)	18,863	18,830	23,124	
<u>(16,556)</u>	<u>3,852</u>	<u>(234)</u>	<u>19,176</u>	<u>19,191</u>	<u>27,352</u>	
<u>28,783</u>	<u>58,001</u>	<u>51,093</u>	<u>48,042</u>	<u>53,800</u>	<u>58,235</u>	
13,341	18,815	56,566	(15,211)	13,565	10,971	
(10,521)	8,804	14,147	23,743	28,524	33,303	
<u>\$ 2,820</u>	<u>\$ 27,619</u>	<u>\$ 70,713</u>	<u>\$ 8,532</u>	<u>\$ 42,088</u>	<u>\$ 44,274</u>	

(Concluded)

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Non-spendable										
Inventory	\$ -	\$ -	\$ -	\$ 8,255	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid items	92,751	200,997	206,920	190,081	86,688	100,407	101,738	88,521	49,626	47,206
Restricted										
Debt service	-	-	-	-	-	-	-	-	-	363,296
Other	-	-	-	-	-	-	-	-	-	-
Committed										
Emergency reserves	387,810	1,917,994	2,053,226	2,425,226	2,625,226	2,825,226	3,025,226	3,225,226	3,425,226	3,575,226
Other	-	-	-	-	-	-	-	363,296	-	-
Assigned	-	-	-	-	-	-	-	176,999	-	-
Unassigned	7,293,827	7,252,569	9,840,129	11,227,881	11,421,882	13,751,737	8,580,214	6,588,090	12,939,901	14,751,167
Total general fund	<u>\$ 7,774,388</u>	<u>\$ 9,371,560</u>	<u>\$ 12,100,275</u>	<u>\$ 13,851,443</u>	<u>\$ 14,133,796</u>	<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>
All Other Governmental Funds										
Non-spendable										
Inventory	\$ 133,983	\$ 216,159	\$ 255,735	\$ 311,042	\$ 363,026	\$ 363,212	\$ 193,611	\$ 151,858	\$ 148,976	\$ 162,672
Restricted										
Debt service	4,921,212	5,663,207	6,663,217	6,819,760	7,044,374	7,603,944	7,643,345	8,447,339	12,515,705	12,749,073
Beach preservation	-	-	-	-	-	-	-	-	4,921,580	968,854
Capital projects	7,992,863	7,359,277	14,555,199	16,204,348	14,130,090	14,662,428	16,854,667	29,207,678	15,276,707	21,195,867
Grants	-	-	-	-	-	-	-	-	8,782,571	8,775,316
Other	405,404	90,848	166,257	175,307	69,031	176,765	287,163	-	-	-
Committed										
Other	879,063	1,618,405	1,447,555	1,512,171	1,492,648	1,552,638	2,680,920	2,145,641	1,834,852	1,353,703
Assigned	1,355,023	442,606	849,133	465,327	(127,495)	33,210,416	30,831,813	-	-	-
Unassigned	-	-	-	-	-	-	-	(147,964)	(188,367)	(138,902)
Total all other governmental funds	<u>\$ 15,687,548</u>	<u>\$ 15,390,502</u>	<u>\$ 23,937,096</u>	<u>\$ 25,487,955</u>	<u>\$ 22,971,674</u>	<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>

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes										
Property taxes	\$ 13,186,960	\$ 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
Sales and use taxes	13,689,462	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
Franchise fees	4,841,443	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
Hotel occupancy	-	-	4,122,104	-	-	-	-	-	-	-
Licenses and permits	1,179,514	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
Fines and forfeitures	1,764,861	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
Charges for services	2,841,201	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
Investment earnings	395,202	682,679	1,523,724	2,234,647	1,378,287	414,544	103,811	77,639	103,988	149,833
Intergovernmental	8,421,167	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
Other	4,841,764	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
Payments in lieu of taxes	-	-	655,190	736,824	125,880	119,753	120,117	-	-	-
Total revenues	<u>51,161,574</u>	<u>52,980,556</u>	<u>58,785,120</u>	<u>62,451,877</u>	<u>72,970,875</u>	<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>
Expenditures										
General government	4,213,164	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
Public safety	20,297,811	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
Highways and roads	2,777,669	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
Culture and recreation	3,363,044	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
Planning and community development	4,394,758	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
Transportation	3,703,654	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
Capital outlay	28,812,375	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
Debt service										
Principal	2,403,386	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
Interest and fiscal charges	3,145,796	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
Total expenditures	<u>73,111,657</u>	<u>52,794,794</u>	<u>55,298,881</u>	<u>60,751,276</u>	<u>75,866,873</u>	<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>
Excess of revenues										
Over (under) expenditures	(21,950,083)	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
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)
Proceeds from issuance of debt	95,720	349,786	-	767,043	-	-	-	150,000	1,564,791	41,165,000
Proceeds from loan	-	-	-	-	-	22,500,000	-	-	-	-
Sales of assets	623,447	264,629	118,052	258,495	61,239	21,898	(3,808)	150,489	1,990,040	467,254
Capital contributions	-	-	-	-	-	316,072	-	-	-	-
Transfers in	533,036	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
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)
Total other financing sources (uses)	<u>1,252,203</u>	<u>1,114,415</u>	<u>7,789,071</u>	<u>1,601,422</u>	<u>662,070</u>	<u>23,454,416</u>	<u>691,007</u>	<u>1,422,314</u>	<u>6,868,432</u>	<u>2,275,495</u>
Extraordinary item - insurance proceeds to Hurricane Ike	-	-	-	-	-	4,909,735	7,170,024	-	-	-
Net change in fund balance	<u>\$(20,697,880)</u>	<u>\$ 1,300,177</u>	<u>\$ 11,275,310</u>	<u>\$ 3,302,023</u>	<u>\$(2,233,928)</u>	<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>
Debt service as a percentage of noncapital expenditures	14.2%	13.6%	15.8%	13.9%	11.2%	4.6%	40.3%	5.0%	6.9%	17.4%

Table 5
City of Galveston
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(accrual basis of accounting)
(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						
2004	2003	\$ 1,298,374,213	\$ 2,129,572,561	\$ 296,743,081	\$ 1,288,394,811	\$ 2,436,295,044	0.54170	\$ 3,724,887,715	65.41%	
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%	

* : 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
(accrual basis of accounting)
(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
2004	0.44240	0.05000	0.04930	0.54170	1.56000	0.19520	0.04200	0.62760	2.96650
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

Source: Galveston Central Appraisal District, 2012 Taxing Entities and Tax Rates

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

Taxpayer	2013			2004		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
CenterPoint Energy / Reliant Energy HL&P	\$ 40,778,190	1	0.90%	\$ 44,585,790	1	1.83%
Fertitta Hospitality, Inc.	28,380,190	2	0.63%	25,416,210	2	1.04%
Galveston Terminals, Inc.	24,831,240	3	0.55%	-	-	-
Galveston Island Water Park, L.P.	15,980,730	4	0.35%	-	-	-
Silverleaf Resorts, Inc.	14,824,635	5	0.33%	-	-	-
Halliburton Energy Services, Inc.	14,618,482	6	0.32%	-	-	-
Diamond Beach VP, LP	13,414,575	7	0.30%	-	-	-
Walmart Realty #504	13,015,320	8	0.29%	10,097,150	7	0.41%
Eighteen Seventy Strand Corp.	12,940,810	9	0.29%	9,205,240	9	0.38%
Island Hospitality Inc.	11,834,790	10	0.26%	-	-	-
Southwestern Bell	-	-	-	19,845,390	3	0.81%
Newpark Shipbuilding	-	-	-	13,324,280	5	0.55%
American National Insurance Co	-	-	-	13,725,270	4	0.56%
MBP Corporation	-	-	-	10,988,650	6	0.45%
Sealy & Smith Foundation	-	-	-	9,567,320	8	0.39%
Dawn on the Seawall Partnership	-	-	-	8,835,450	10	0.36%
Property taxpayers	<u>\$ 190,618,962</u>		<u>4.22%</u>	<u>\$ 165,590,750</u>		<u>6.78%</u>

Source: Galveston County Appraisal District

Total Taxable Assessed Value \$ 4,510,324,978

\$ 2,436,295,044

Table 8
City of Galveston
Property Tax Levies and Collections
Last Ten Fiscal Years
(accrual basis of accounting)
(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>
2004	2003	0.54170	\$ 13,168,877	\$ 12,608,244	95.7%	\$ 447,609	\$ 13,055,853	99.1%
2005	2004	0.54170	13,908,839	13,142,435	94.5%	547,588	13,690,023	98.4%
2006	2005	0.54170	15,753,999	15,104,332	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%

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
 (accrual basis of accounting)
 (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**				
2004	\$ 17,599	\$ 40,910	\$ 1,559	\$ 19,324	\$ 6,268	\$ 75,215	\$ 594	\$ 3,850	\$ 45,285	153,008	1.49%	\$ 2,642	
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	

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
 (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
2004	\$ 17,599,221	\$ 2,580,396	\$ 15,018,825	0.60%	262
2005	17,184,352	2,807,277	14,377,075	0.29%	248
2006	23,733,322	3,467,805	20,265,517	0.41%	354
2007	22,897,644	3,738,669	19,158,975	0.38%	328
2008	21,966,543	3,954,839	18,011,704	0.29%	304
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

1 Includes all long term general obligation debt

2 FY 2013 includes \$2,604,235 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
 (accrual basis of accounting)
 (unaudited)

Governmental Unit		Debt Outstanding	* Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes				
Galveston Independent School District	1	\$ 69,049,998	83.60%	\$ 57,725,798
Galveston County	2	298,963,000	18.30%	54,710,229
Subtotal, overlapping debt				112,436,027
City direct debt				70,940,912
Total direct and overlapping debt				\$ 183,376,939
Ratio of total direct and overlapping net debt to 2013 assessed valuation				4.15%
Direct and overlapping net debt per capita				\$ 3,785

Sources:

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

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
 (accrual basis of accounting)
 (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
2004	57,905	1,028,913,945	17,769	35.5	12.0	9,841	9.9%
2005	57,905	1,028,913,945	17,769	35.5	12.0	9,149	6.0%
2006	57,247	1,017,221,943	17,769	35.5	12.0	9,200	5.5%
2007	58,329	1,036,448,001	17,769	35.5	12.0	8,400	4.9%
2008	59,186	1,051,676,034	17,769	35.5	12.0	6,876	5.6%
2009	50,308	893,922,852	17,769	35.5	12.0	6,047	7.7%
2010	56,391	1,002,011,679	17,769	35.5	12.0	6,400	8.4%
2011	47,743	1,125,827,683	23,581	35.5	12.0	6,400	8.9%
2012	48,444	1,142,357,964	23,581	35.5	12.0	6,450	7.6%
2013	47,762	1,185,548,364	24,822	35.5	12.0	6,450	7.7%

Sources: 1 - United States Census Bureau
 2 - Galveston Chamber of Commerce
 3 - Texas Workforce Commission (Data for Galveston County)

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

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

<u>Employer</u>	2013			2004		
	<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	7,500	1	36.14%	9,000	1	30.19%
Galveston Independent School District	1,366	2	6.58%	1,361	3	4.57%
Landry's	1,300	3	6.26%	1,300	4	4.36%
American National Insurance Company	866	4	4.17%	1,600	2	5.37%
Galveston County (on Island only)	864	5	4.16%	460	9	1.54%
Moody Gardens	810	6	3.90%	922	5	3.09%
City of Galveston	722	7	3.48%	700	6	2.35%
Mitchell Family Corp	460	8	2.22%	-	-	-
Texas A&M University at Galveston	423	9	2.04%	397	10	1.33%
Galveston College	300	10	1.45%	543	8	1.82%
Schlitterbahn	-	-	-	566	7	1.90%
Total	14,611		70.40%	16,849		56.52%

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
 (accrual basis of accounting)
 (unaudited)

Function/Program	Full-time Equivalent Employees as of September 30									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government:										
City Secretary	3	3	3	3	3	4	3	3	3	3
Municipal Court	12	12	13	13	13	9	9	10	10	10
City Manager	4	4	4	4	4	4	3	5	5	4
City Auditor	-	-	-	-	1	1	-	1	1	2
Finance	17	17	16	17	16	20	18	13	13	14
Legal	4	5	6	5	5	5	5	5	5	6
Human Resources	4	4	4	3	4	4	5	4	3	3
Public Safety:										
Police	218	216	219	220	205	192	197	131	177	177
Fire	113	123	127	131	131	119	124	115	115	115
Emergency Management	1	2	2	1	1	2	1	1	1	2
Public Works:										
Streets and Traffic	49	50	50	50	51	44	45	31	31	36
Parks:	34	36	51	34	38	44	39	34	34	33
Planning and Community Development:	25	25	33	23	35	42	54	23	24	24
Waterworks:	45	43	39	38	34	36	39	32	32	35
Sewer System:	86	80	73	74	69	55	65	69	69	80
Drainage Utility:	25	25	23	22	16	16	7	23	23	26
Municipal Golf Course:	18	12	12	12	-	-	-	-	-	-
Sanitation:	46	57	55	55	43	39	39	45	45	45
Municipal Airport:	9	9	9	9	9	8	8	8	8	8
Central Service:	11	11	11	10	12	9	10	12	12	13
Central Garage:	22	22	22	23	22	20	19	22	22	22
Municipal Insurance:	3	2	2	2	2	2	-	2	2	2
Construction Management:	-	6	6	6	7	7	6	5	5	5
Island Transit:	52	64	65	65	59	48	52	52	52	52
Total City Employees:	801	828	845	820	780	730	748	646	692	717

Source: City Budget Office

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2004</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>
Police:										
Physical arrests	9,094	9,094	17,845	14,245	10,889	7,154	7,043	6,593	7,065	7,597
Parking violations	47,116	47,116	38,822	38,822	18,600	5,733	4,391	11,951	27,680	9,267
Traffic violations	43,435	43,435	21,084	21,084	32,804	31,072	25,499	40,676	15,328	28,765
Fire:										
Calls	7,657	7,657	7,299	7,751	7,852	7,024	6,382	8,645	6,681	6,311
Inspections	1,154	1,154	1,654	2,276	2,099	1,913	2,123	735	1,324	407
Water:										
Service connections	22,000	22,000	22,000	25,747	22,688	25,083	26,305	23,966	21,323	20,595
Average daily consumption (gallons)	13,648,765	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
Sewer:										
Average daily flow (gallons)	10,215,000	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
Maximum daily capacity of plants (gallons)	14,500,000	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

Source: Various City departments.

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

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2004</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>
Police										
Stations	3	3	2	3	1	1	3	4	1	2
Patrol units	58	58	58	63	60	63	51	67	55	60
Police officers	170	170	154	162	158	152	158	131	139	143
Fire										
Stations	6	6	6	6	6	6	6	6	6	6
Fire fighters	109	109	117	131	120	120	112	115	108	115
Highways and streets										
Streets (miles)	288	288	288	321	321	321	321	321	321	321
Street lights	3,812	3,812	3,812	4,199	4,212	4,236	4,257	4,444	4,365	4,377
Culture and recreation										
Parks acreage	277	277	277	277	128	50	50	50	50	168
Parks	16	16	16	16	10	14	14	14	14	14
Tennis courts	15	15	15	15	19	15	15	16	16	16
Community centers	1	1	1	1	2	2	2	2	2	2
Cemeteries	7	7	7	7	6	5	5	2	2	7
Athletic fields	28	28	28	28	20	22	22	11	11	12
Municipal golf course	1	1	1	1	-	-	-	-	-	-
Water										
Water mains (miles)	317	317	317	333	380	385	386	388	389	389
Fire hydrants	1,931	1,934	1,931	2,350	2,368	2,410	2,414	2,422	2,422	2,422
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	33,000,000	37,150,000	39,700,000
Sewer										
Treatment plants	4	4	4	4	5	4	4	4	4	4
Sanitary sewers (miles)	182	182	220	182	238	238	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	14,500,000	14,580,000	14,580,000	8,529,000	14,580,000	14,580,000	14,250,000

Source: Various City departments and Centerpoint Energy

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